بانک خاورمیانه
Middle East Bank

RECENT

ECONOMIC DEVELOPMENTS IN IRAN

A QUARTERLY REPORT

Summer 1405
2026Q3



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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 (October 2026) 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 second quarter of 1405" indicates the percentage change in oil revenues between the second quarter of 1404 and the second quarter of 1405.

- 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 half of 1405 that starts on March 21, 2026 and ends on September 22, 2026. The second quarter of 1405 (referred to as 1405Q2), summer of 1405, roughly corresponds to the third quarter of 2026 in the Gregorian Calendar (2026Q3).

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

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

1405Q2= 06/22/2026- 09/22/2026, roughly 2026Q3

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IRAN'S ECONOMY AT A GLANCE

	1403	1404Q1	1404Q2	1404Q3	1404Q4	1404	1405Q1	1405Q2
Labor Force Participation & Unemployment Rates (percent)								
Participation (15 Years and Over)	41.0	41.2	40.8	40.7	39.7	40.6	40.7	-
Unemployment (15 Years and Over)	7.6	7.3	7.4	7.8	7.6	7.5	9.1	-
Unemployment (Youth Aged 15-24)	20.1	19.7	19.0	21.5	21.2	20.3	23.4	-
Real Growth Rates of GDP and Its Subsectors at Constant 1400 Prices (percent)*								
Gross Domestic Product (GDP)	3.1	-2.4	0.3	2.5	-3.6	-0.7	-	-
Industries and Mining	2.4	-7.0	0.0	1.0	-6.7	-3.2	-	-
Oil	4.6	0.1	2.1	8.9	1.7	3.1	-	-
Agriculture	3.6	-4.1	-4.3	-3.9	-3.8	-4.2	-	-
Services	3.3	0.9	2.1	4.1	-2.2	1.2	-	-
Non-oil GDP	3.0	-2.6	0.1	2.0	-4.1	-1.1	-	-
Gross Fixed Capital Formation (at market prices)	*3.8*	*-13.9*	*-9.1*	*-13.8*	*-11.6*	*-11.9*	-	-
Oil (daily average - thousand barrels)								
Production**	3,286	3,283	3,240	3,224	3,146	3,223	2,534	-
Average Price Index Changes from the Same Period of Its Preceding Year (percent)								
Growth Rate of Consumer Price Index (1400=100)	35.8	40.6	42.0	48.2	59.8	48.3	75.9	84.1
Growth Rate of Producer Price Index (1400=100)	27.6	37.1	44.9	57.5	78.2	55.8	106.7	-
Balance of Payments (USD million)								
Oil Exports	65,841	15,214	15,520	13,316	13,391	57,442	-	-
Non-oil Exports	49,580	10,699	13,323	12,840	9,907	46,768	-	-
Imports of Goods	88,567	17,261	19,259	22,073	19,278	77,871	-	-
Goods Account (net)	26,854	8,652	9,585	4,083	4,019	26,339	-	-
Non-oil Goods Account (net)	-36,308	-6,260	-5,733	-8,811	-7,398	-28,202	-	-
Current Account	13,232	6,356	4,975	800	263	12,393	-	-
Capital Account	-20,714	-7,996	-4,954	-3,453	-3,221	-19,623	-	-
Change in Foreign Reserves	804	965	45	-895	-345	-231	-	-
Foreign Exchange Rates (USD/IRR daily average)								
Free Market (bill)	684,269	883,354	936,730	1,144,261	1,547,804	1,123,327	1,668,976	1,958,677
Secondary Market (remittance)***	507,183	691,774	697,147	710,858	1,253,321	834,780	1,434,290	1,547,487
Monetary and Credit Aggregates (end of period - IRR trillion)								
Monetary Base (M0)	13,594	14,444	16,124	18,258	21,959	21,959	-	-
CBI Claims on Banks	11,702	7,315	9,378	12,645	6,449	6,449	-	-
CBI Claims on Public Sector (net)	-3,546	-1,026	-551	-619	-3,066	-3,066	-	-
CBI Net Foreign Assets	31,886	33,591	34,552	36,342	61,418	61,418	-	-
Liquidity (M2)	101,660	110,588	124,087	135,345	155,812	155,812	-	-
Money (M1)	26,317	26,496	30,303	33,854	39,948	39,948	-	-
Sight Deposits	24,526	24,581	28,151	31,624	37,134	37,134	-	-
Non-sight Deposits (quasi-money)	75,342	84,092	93,784	101,490	115,864	115,864	-	-
M2 Money Multiplier	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	2,984,605	2,540,174	3,898,235	3,713,956	3,713,956	5,125,976	7,167,406
Financial Index	2,311,206	2,810,518	2,574,062	3,391,863	3,087,672	3,087,672	4,483,044	5,523,865
Industrial Index	2,589,606	2,804,554	2,354,195	3,716,400	3,568,387	3,568,387	4,884,799	6,967,524
Market Capitalization (IRR trillion)	120,583	132,174	114,313	165,792	160,815	160,815	212,982	290,322

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 the Central Bank of Iran
** 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 looks over recent developments in the Iranian economy, beginning with an assessment of major international economic developments in its initial section. The second section of the report, real sector, examines GDP growth on the basis of the data from the Statistical Center of Iran (SCI) in spring 1405 (hereafter referred to as 1405Q1). The same section covers oil production, exports, and prices during 1405Q2 and housing market developments in the first half of the year (hereafter referred to as 1405H1). The third section reviews the Iranian labor market indicators for 1405Q1.

The fourth section analyzes monthly, point-to-point, and annual consumer price index (CPI) inflation rates during 1405Q2, alongside producer price index (PPI) developments, using data from the Central Bank of Iran (CBI) and the SCI.

The fifth section examines Iran's foreign trade using international sources and unofficial reports, while the sixth section reviews daily USD/IRR exchange rate movements in the free market and Iran Center for Exchange of Currency and Gold (secondary market) during 1405Q2.

The seventh section assesses liquidity developments based on listed banks' financial data, alongside banking system deposits, balance of extended facilities and sectoral lending through the latest available reporting periods.

The eighth section reviews government fiscal performance, tax revenues, and government debt securities issuance in 1405H1. The ninth section covers capital market performance, including returns, market capitalization, trading value, and financing activities. Finally, the report concludes with an examination of urban and rural household income and expenditure in 1404, based on SCI data.

1. GLOBAL ECONOMIC DEVELOPMENTS

The dual mandate of the Federal Reserve, maximum employment and price stability, has made the report from the Bureau of Labor Statistics and developments in the CPI, key drivers of global markets. Data released by the Bureau showed that US nonfarm payroll employment grew by 29 thousand jobs in September 2026, missing analysts' expectations of around 90 thousand, with the unemployment rate rising slightly by 0.1 percentage point to 4.2 percent. Moreover, the annual CPI inflation rate registered 3.4 percent in August 2026, still far above the Fed's target. This gap, however, is partly attributable to rising energy prices driven by higher oil prices.

The Fed's decision to raise borrowing costs signals that it prioritizes reining in inflation over improving the labor market. However, the Fed's ultimate action in this regard - whether to raise the policy rate or leave it unchanged - depends heavily on future CPI changes. According to the Fed chair, the US labor market is in good shape, but the CPI inflation rate has been too high for too long, signaling that an interest rate hike is not ruled out. In addition to the Fed's action, the US administration stepped up pressure on European countries to release diesel from their strategic reserves to prevent a further rise in energy prices and slow the US headline inflation rate.

2. REAL SECTOR

The latest quarterly national accounts released by the SCI suggest that in 1405Q1, real GDP at basic prices (1400 base year) contracted by 10.1 percent from 1404Q1, while non-oil GDP declined by 4.6 percent. Real GDP at market prices also fell by 10.8 percent. These figures indicate that Iran's economic contraction, which resumed in 1404Q4, deepened considerably in 1405Q1, largely due to a severe contraction in the oil sector.

The performance of the Iranian economy in 1405Q1 was heavily affected by the lingering consequences of the 40-day war and subsequent restrictions on maritime trade, particularly their impact on oil exports and transportation. However, the contraction in non-oil sectors cannot be attributed solely to the 40-day war, as weak demand, heightened uncertainty, financing constraints, and energy shortages had already been weighing on economic growth.

The agriculture sector expanded by 2.3 percent in 1405Q1 from 1404Q1, following four consecutive quarters of contraction in 1404. This sector contributed only 0.1 percentage point to overall GDP growth in spring 1405. An examination of agriculture by its components reveals that farming, hunting, and forestry expanded by 2.6 percent, while fishing contracted by 1.6 percent. Nevertheless, given its relatively small share of real GDP (5.1 percent), this recovery in the agriculture sector was insufficient to offset declines elsewhere in the Iranian economy. At current prices, agriculture accounted for 6.4 percent of GDP in 1405Q1. Moreover, water scarcity continues to pose risks to sustained agricultural growth.

The industries and mining sector was the main driver of the economic contraction, with real value added falling by 14.7 percent, decreasing Iran's GDP growth rate by 8.4 percentage points in 1405Q1. Extraction of oil and natural gas, as a subcategory of industries and mining, alone contracted by 26.4 percent, accounting for negative 6.7 percentage points of overall GDP growth. The other subsectors of industries and mining collectively declined by 5.2 percent, contributing negative 1.6 percentage points to the GDP growth rate in 1405Q1.

The sharp contraction in oil production was consistent with disruptions to exports and rising oil inventories. According to Reuters[1] , Iran's exports of crude oil and gas condensate fell to approximately 209 thousand barrels per day in May 2026, compared with 1.3 million in April and nearly 1.9 million in March. Although shipping-tracking estimates are subject to uncertainty, these figures illustrate the substantial impact of the war and export restrictions on Iran's oil sector.

Among non-oil sectors, manufacturing contracted by 2.5 percent, construction by 6.4 percent, and other mines by 1.9 percent. Natural gas distribution recorded a particularly steep decline of 21.3 percent, contributing negative 0.8 percentage point to GDP growth, while electricity and water supply contracted by 5.4 percent. These developments suggest that disruptions extended beyond the oil sector, affecting industrial production, infrastructure, and supply chains.

Despite recording positive or near-zero growth rates in the first three quarters of 1404, the services sector contracted by 2.6 percent in 1404Q4. With a further 4.8 percent decline in 1405Q1, the services sector contributed negative 1.9 percentage points to the GDP growth rate. "Transportation, storage, and communications" suffered the steepest decline among the services subsectors, at 17.0 percent, accounting for negative 1.3 percentage points of overall growth. "Wholesale and retail trade, hotels, and restaurants" also contracted by 3.9 percent. Maritime restrictions, logistical disruptions, declining purchasing power, and precautionary spending behavior among households likely contributed to these declines.

By contrast, "financial intermediation" and "other public, social, and personal services" grew by 2.0 percent and 13.1 percent, respectively, although their expansions were insufficient to offset the broader downturn. Real estate and business services contracted by 0.5 percent, while public administration, education, health, and social work declined by 3.1 percent. Table 1 presents sectoral real growth rates and their contributions to GDP growth in 1404 and 1405Q1, based on SCI data at constant 1400 prices.

1. Reuters, "Iranian oil exports fall to lowest level in six years, data shows", June 4, 2026

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

	1404				1405	Share in Growth of 1405Q1
	Q1	Q2	Q3	Q4	Q1	
Agriculture	-2.7	-3.2	-2.9	-2.6	2.3	0.1
Industries and Mining (including oil)	-0.3	0.9	3.6	-1.9	-14.7	-8.4
Extraction of Oil and Natural Gas	0.8	2.8	6.1	-2.2	-26.4	-6.7
Industries and Mining (excluding oil)	-1.2	-0.7	1.8	-1.7	-5.2	-1.6
Services	0.3	1.1	2.5	-2.6	-4.8	-1.9
Non-oil GDP (at basic prices)	**-0.5**	**-0.2**	**1.7**	**-2.2**	**-4.6**	**-3.4**
GDP (at basic prices)	**-0.2**	**0.5**	**2.7**	**-2.2**	**-10.1**	**-10.1**

Source: Statistical Center of Iran

An examination of the demand side of the economy reveals that all major expenditure components weakened in 1405Q1. Real private and government consumption expenditures declined by 4.0 percent and 1.7 percent, respectively, contributing negative 1.7 and negative 0.2 percentage points to GDP growth at market prices. The decline in private consumption expenditures reflected weakened purchasing power, heightened uncertainty, and restricted access to goods and services.

Gross fixed capital formation contracted by 8.4 percent in 1405Q1, following a 1.9 percent decline in winter 1404. Investment in machinery and construction fell by 9.7 percent and 6.4 percent, respectively, with total gross fixed capital formation contributing negative 1.4 percentage points to GDP growth. Weak investment in machinery, coupled with declining imports and business uncertainty, raises concerns about future production capacity.

Exports of goods and services recorded the sharpest decline among components of the expenditure side of the Iranian economy, falling by 35.7 percent in real terms and contributing negative 9.3 percentage points to GDP growth in 1405Q1. Imports also contracted by 14.8 percent, with the US maritime blockade against Iran appearing to be a major contributing factor.

All in all, prolonged disruptions to oil exports, transportation, and trade could deepen and extend Iran's economic recession in the coming quarters. Table 2 presents GDP growth rates by expenditure component at constant 1400 prices on the basis of the SCI data.

Table 2. Real GDP Growth Rates by Expenditure Component at Constant 1400 Prices (percent)

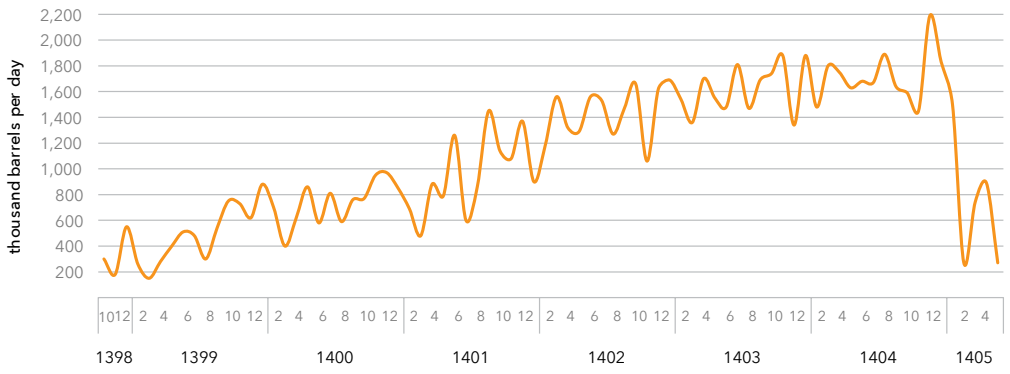
	1404				1405
	Q1	Q2	Q3	Q4	Q1
Private Consumption Expenditures	**-1.1**	**-1.4**	**2.1**	**-4.8**	**-4.0**
Government Consumption Expenditures	**1.4**	**1.4**	**1.4**	**1.4**	**-1.7**
Gross Fixed Capital Formation	**-2.1**	**-4.5**	**-2.1**	**-1.9**	**-8.4**
Machinery	-3.5	-6.7	-4.7	-7.7	-9.7
Construction	0.4	-1.7	2.8	3.5	-6.4
Net Exports of Goods and Services					
Exports of Goods and Services	-8.8	4.0	6.3	-3.6	-35.7
Imports of Goods and Services	-23.3	-16.7	-15.1	-35.0	-14.8
GDP at Market Prices	**-0.5**	**0.1**	**2.8**	**-2.6**	**-10.8**

Source: Statistical Center of Iran

2-1. Oil

In recent years, Iran has ceased publishing official data on its oil exports, leaving international sources and independent tanker-tracking agencies as the primary sources of information in that regard. While Iran had previously managed to circumvent some of the effects of financial and oil sanctions through its so-called shadow fleet and ship-to-ship transfers, the restrictions on tanker movements imposed in 1405Q2 significantly undermined these measures. As illustrated in Graph 1, Iran's crude oil and gas condensate exports declined sharply amid regional military tensions and disruptions to maritime shipping routes. According to tanker-tracking data cited by Reuters, Iranian oil exports stood at approximately 2.0 million barrels per day (mbpd) in March 2026, before falling substantially following the outbreak of war and the tightening of maritime restrictions.[2] A temporary easing of these restrictions in June 2026 allowed exports to rebound by 174 percent monthly rise to around 740 thousand barrels per day. However, the recovery proved short-lived. Renewed restrictions on shipping through the Strait of Hormuz from mid-July 2026 triggered another sharp decline. Estimates by Kpler[3] and Vortexa[4] indicate that Iran's crude oil and gas condensates loadings fell from approximately 890 thousand barrels per day in July to just 270 thousand barrels per day in August 2026. According to Reuters, the maritime restrictions imposed from mid-July effectively disrupted most Iranian crude oil shipments through the Strait of Hormuz for several weeks.

Graph 1. Exports of Crude Oil and Gas Condensates



Source: Kpler, Vortexa and Reuters
Note: Data in the above Graph are reported in Gregorian calendar months, which have been approximately converted to Iranian calendar months here.

Developments during summer 1405 in Iran marked a significant shift from the early stages of the 40-day war. In late 1404 and early 1405, disruptions to oil exports from other Persian Gulf producers, coupled with the continued passage of some Iranian tankers, had temporarily improved Iran's position in the oil market. However, this situation reversed during 1405Q2 as the maritime blockade directly constrained Iranian oil shipments, while other regional producers gradually restored a substantial share of their exports through alternative routes, ship-to-ship transfers, and new transportation arrangements. According to Kpler, Middle Eastern oil exports even exceeded pre-war levels on certain days in late September 2026, while Iranian exports remained severely restricted.[5]

The blockade also led to a gradual depletion of Iran's oil inventories held outside the restricted maritime zone. According to Kpler data cited by Reuters, Iran's floating oil storage outside the blockade area declined from approximately 105 million barrels before the restrictions were renewed on July 13 to around 80 million barrels in August 2026.[6] Kpler further estimated that approximately 40 million barrels of Iran's oil were stored aboard tankers off Malaysia and east Singapore, most of which had already been allocated to buyers.

2. Reuters, "Blockade succeeds where sanctions failed as Iran oil exports stall", September 1,2026

3. Kpler is a commodity intelligence platform that provides real-time data and market insights across various sectors, including global oil trade and tanker movements.

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

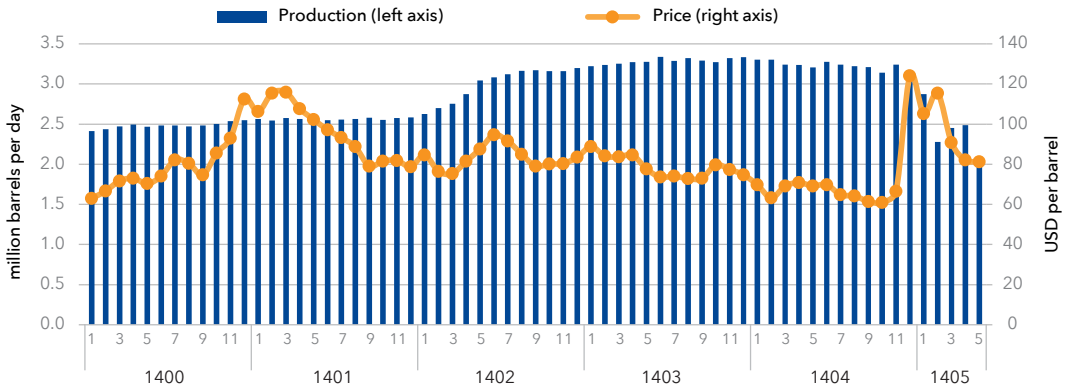
5. Reuters, "Middle East oil exports top pre-war levels in September, but tanker attacks increase", October 5, 2026

6. Reuters, "Iranian oil offers to Chinese buyers fall as US blockade bites, sources say", August 21, 2026.

The decline in Iranian oil supply to China also significantly altered pricing conditions. While Iranian crude had traditionally been sold at a discount to independent Chinese refiners, supply shortages from August 2026 onward pushed offer prices for some cargoes to a premium of around USD2 per barrel over Brent futures. This marked a departure from previous sanctions periods, when Iran typically offered deeper discounts to maintain its market share. Nevertheless, given the sharp contraction in export volumes, the modest improvement in prices was insufficient to offset the substantial loss of oil export revenues.

Official statistics on Iran's crude oil production have been largely unavailable since the reimposition of sanctions in 1397, making OPEC monthly reports, based on secondary sources, the primary source of data in this regard. According to the latest available figures, Iran's crude oil output declined from approximately 2.5 mbpd in June and July 2026 to around 2.1 mbpd in August, representing a 16.1 percent monthly decline and a 34.9 percent decrease compared with August 2025. The contraction in production cannot be attributed solely to capacity constraints or aging infrastructure. Severe disruptions to exports, coupled with the accumulation of unsold crude in floating and onshore storage facilities, increasingly forced producers to curtail output. Unlike previous sanctions, which primarily raised the costs of oil transactions and transportation, the maritime restrictions imposed in 1405Q2 directly affected production by physically constraining export shipments. The estimated annual decline of 1.1 mbpd in August 2026 illustrates how export bottlenecks translated into substantial production losses. Graph 2 illustrates changes in Iran's average daily crude oil production and the average price of Iranian Heavy crude oil from the beginning of 1400 through the second month of summer 1405.

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.

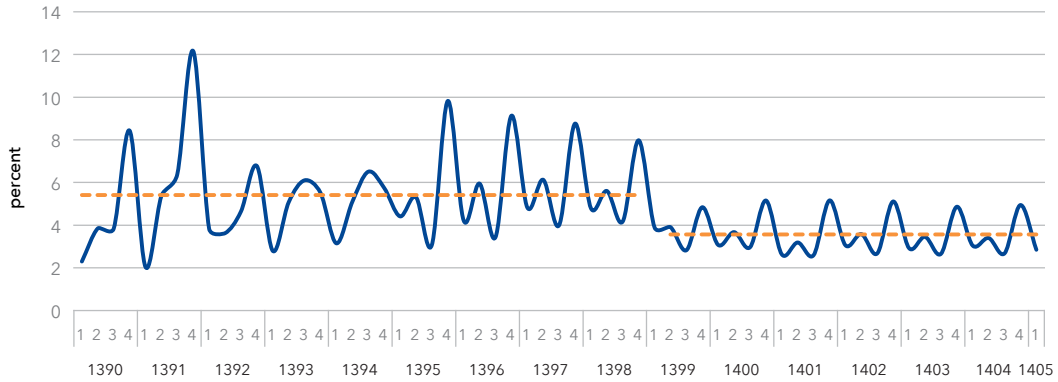
Oil prices were considerably volatile during 1405Q2, reflecting heightened geopolitical risks. According to OPEC, the average price of Iran's heavy crude oil declined from USD90.8 per barrel in June 2026 to USD82.1 in July and USD81.3 in August. Despite this decline, prices in July and August 2026 remained 15.9 percent and 17.4 percent higher than the prices in July and August 2025, respectively. Oil prices initially declined in early summer 1405 following a temporary easing of regional tensions and a partial recovery in oil exports after the signing of the memorandum of understanding between Iran and the USA. However, renewed maritime restrictions from mid-July 2026 revived concerns over supply disruptions, keeping upward pressure on prices through September. By the end of that month, November Brent futures settled at USD103.5 per barrel, while the more actively traded December contract stood at around USD98.0.[7] Elevated shipping and tanker insurance costs, coupled with persistent uncertainty surrounding transit through the Strait of Hormuz, kept oil prices relatively high despite the recovery of exports from some regional producers.

7. Reuters, "Oil prices rise by about 1$/bbl on stalled US-Iran talks and tight fuel markets", September 30, 2026.

2-2. Housing

The share of construction sector in GDP at current prices has declined considerably in recent years. Its average contribution during spring 1390 to winter 1398 that had stood at 5.41 percent, fell to 3.57 percent during spring 1399 to spring 1405, representing a 1.85 percentage points decline. The persistence of this downward trend suggests a structural weakening of the construction sector position in the Iranian economy, rather than a temporary decline driven by short-term fluctuations. Graph 3 illustrates the share of construction in GDP at current prices.

Graph 3. Share of Construction in GDP at Current Prices



Source: Statistical Center of Iran

The latest data on the national accounts in the SCI books indicate a further deterioration in construction activity in Iran. The real value added of this sector contracted by 6.4 percent in 1405Q1 from that of 1404Q1. This sector had expanded modestly by 0.4 percent in 1404Q1 and by 1.4 percent in 1404 as a whole. The sharp reversal in 1405Q1, combined with the sector's persistent decline in its share of GDP, suggests that the construction downturn reflects underlying weaknesses in investment and production rather than merely temporary disruptions associated with the 40-day war against Iran.

One of the main drivers of the slowdown in construction activity has been the sharp increase in construction costs. According to the latest SCI data, the price index of construction materials for residential units in Tehran (1402=100) reached 336.4 in spring 1405, rising by 20.7 percent from 1404Q4 and 106.8 percent from 1404Q1. This indicates that the price of construction materials more than doubled within a year. The annual inflation rate of construction materials - in the year ending at the end of 1405Q1 - accelerated to 80.0 percent, up 18.2 percentage points from the average annual rate in its preceding quarter. Among various construction materials, wood products recorded the highest price increase at 208.9 percent, while machinery rental costs registered the lowest increase at 28.3 percent in 1405Q1 from the same period in 1404.

Despite the sharp increase in the price of construction materials in 1405Q1, market reports suggest that price pressures eased somewhat during 1405Q2. According to some unofficial sources, monthly price increases for domestically produced construction materials largely subsided by the second month of summer 1405, while prices of some widely used materials, including steel and cement, declined by approximately 5.0 to 10.0 percent from their mid-spring levels. Nevertheless, this modest correction provided limited relief to overall construction costs. The estimated cost of constructing a standard residential building in Tehran remained between IRR400 million and IRR700 million per square meter, depending on construction quality and materials, approximately 80 to 90 percent higher than a year earlier. The easing of price of construction materials during 1405Q2 largely reflected a slowdown in cost increases rather than a meaningful reduction in overall construction costs.

Meanwhile, financing constraints remained a major obstacle to construction activity. Although the ceiling on construction loans for private developers in Tehran increased by 20.0 percent to IRR6.0 billion in 1405, this adjustment was far below the inflation rate of construction materials. Consequently, in late second month of 1405Q2, the authorities raised the ceiling on individual housing purchase and construction loans financed through entitlement certificates to IRR10.0 billion.

Despite these adjustments, extended facilities to the housing and construction sector have weakened considerably. The sector's share of total bank lending that had increased to 2.6 percent in 1401 following the approval of the Housing Supply Boost Act, declined to approximately 1.2 percent in 1404. Moreover, the nominal value of the extended facilities to the sector fell by 3.0 percent in 1404, indicating a substantial contraction in financing in real terms.

On the demand side, Tehran housing market remained subdued throughout much of 1405, characterized by weak transaction volumes and considerable price volatility. With the Central Bank of Iran having suspended the regular publication of housing market report, asking-price and available transaction records have become important alternative indicators of market developments. On the basis of some unofficial sources, in the second month of 1405, the average asking price of residential units in Tehran rose by 21.5 percent from its previous month to IRR1.99 billion per square meter. However, the average transaction price stood at approximately IRR1.57 billion, reflecting a substantial gap of nearly 27.0 percent between asking and transaction prices. Fewer than two thousand residential units were sold during that month, highlighting persistently weak effective demand. Heightened inflation expectations, disruptions to alternative asset markets during wartime, and rising construction costs contributed to the increase in asking prices.

Price pressures moderated somewhat in the last month of 1405Q1, i.e., the average asking price increased by just 2.5 percent to IRR2.04 billion per square meter. Meanwhile, the number of transactions declined by approximately 10.0 percent to 1,800. Nevertheless, housing prices remained highly sensitive to political developments, with temporary increases in geopolitical tensions triggering sharp fluctuations in asking prices. Tehran housing market remained weak during the first two months of 1405Q2, although some signs of recovery emerged in the second month of that quarter. According to some unofficial sources, housing transactions increased by approximately 30.0 percent in the second month of 1405Q2 compared to the its preceding month. Nevertheless, despite this substantial rise, the number of transactions in that month remained far below that of the boom eras. In the same month, the average asking price rose by 3.2 percent to IRR2.108 billion per square meter from its previous month, while the average transaction price reached approximately IRR1.92 billion.

Tehran housing market activity strengthened further in the final month of 1405Q2, with approximately 2,300 residential units sold, the highest monthly volume since the beginning of 1405. Unofficial sources suggest that in the last month of summer, the number of transactions increased by 76.0 percent from its previous month. Moreover, the average asking price stood at IRR2.22 billion per square meter, up 5.3 percent and 117.6 percent from its previous month and the same month in its preceding year, respectively.

In contrast to the sharp increase in property prices, rental inflation remained considerably below CPI inflation during 1405Q2. According to the SCI, the point-to-point housing rent inflation rate stood at 31.8 percent and 32.8 percent, respectively, in the second and third months of 1405Q2, far below the point-to-point inflation rates of 89.0 percent and 89.8 percent in the corresponding months. Annual rental inflation in the same months remained broadly stable at approximately 32.0 percent, substantially below the corresponding CPI inflation rates of around 70 percent. This divergence partly reflects the predominantly annual nature of rental contracts, which delays the transmission of inflationary shocks to rents. Nevertheless, slower rental inflation does not necessarily imply an easing of housing affordability pressures, particularly given the considerable erosion of households' purchasing power.

Moreover, Tehran's rental market showed that in the final month of 1405Q2, the rise in rents accelerated. According to unofficial sources, in the last month of 1405Q2, average asking rents increased by 5.4 percent compared to its preceding month and by 42.0 percent from the same month in 1404, while actual transaction rents rose by 4.0 percent compared with the preceding month.

3. LABOR MARKET

The latest report published by the SCI on the Iranian labor market suggests that in 1405Q1, the unemployment rate of the population aged 15 and above stood at 9.1 percent, 1.8 and 1.5 percentage points above the corresponding rates in 1404Q1 and 1404Q4, respectively. In the same quarter, the labor force participation rate fell to 40.7 percent from 41.2 percent in 1404Q1, potentially indicating that some individuals became discouraged from seeking employment or that the number of retirees increased. Furthermore, the rate of underemployment (working less than 44 hours a week) stood at 8.5 percent in 1405Q1, 1.9 percentage points above its level in 1404Q1.

In spring 1405, the major labor market indices deteriorated compared with the same quarter of 1404. The employment ratio (the ratio of employed population to the total working-age population) and the unemployment rate of the population with higher education also exhibited unfavorable developments. Examining these two indices together points to a more pronounced deterioration in labor market conditions than is suggested by the rise in the unemployment rate alone. In fact, various factors adversely affected the Iranian labor market in 1405Q1, in terms of both the quantity and quality of employment. Specifically, heightened economic uncertainty, postponed investments, and disruption to trade flows - largely stemming from the 40-day war - altogether weakened labor market conditions, reducing new job opportunities and contributing to the decline in labor force participation.

In 1405Q1, the unemployment rate among males registered 7.5 percent, while that among females reached 16.7 percent, indicating increases of 1.5 and 3.0 percentage points, respectively, from 1404Q1. During the period under review, the employed population declined by 450.3 thousand, comprising 263.0 thousand males and 187.3 thousand females. Accordingly, the employment ratio among males and females reached 62.7 percent and 11.4 percent, respectively, 1.6 and 0.7 percentage points below their corresponding rates in 1404Q1. Consequently, the overall employment ratio reached 37.0 percent in 1405Q1, representing a decline of 1.2 percentage points from 1404Q1.

Of the 2.5 million unemployed population in 1405Q1, 1.6 million were aged 18 to 35. Accordingly, the unemployment rate among individuals in this age group registered 17.5 percent in that quarter, indicating 3.0 percentage points rise from 1404Q1. In the same quarter, 876.9 thousand individuals with higher education were unemployed, corresponding to an unemployment rate of 11.6 percent among this group. An examination of the population with higher education by gender reveals that the unemployment rate stood at 8.3 percent among males and 18.8 percent among females in 1405Q1, both up 1.2 percentage points from their corresponding rates in 1404Q1. In spring 1405, approximately 35.6 percent of the total unemployed population of the country had higher education, indicating a decline of 4.4 percentage points from 1404Q1. In the same quarter, males and females, respectively, accounted for 49.0 percent and 51.0 percent of the 876.9 thousand unemployed individuals with higher education.

In 1405Q1, compared to the same quarter of the preceding year, 828.0 thousand individuals, including 404.0 thousand males and 424.0 thousand females, were added to the total working-age population. Over the same period, only 32.1 thousand individuals were added to the active population, mainly due to a decline of 57.6 thousand in the female active population compared to 1404Q1. Meanwhile, 89.7 thousand individuals were added to the male active population. Accordingly, of the total working-age population in 1405Q1, 40.7 percent were economically active, down 0.5 percentage point from 1404Q1. This low participation rate is mainly attributed to the low participation rate among females, as only 4.6 million of the 33.4 million females aged 15 and above were able and willing to work (employed and unemployed) in 1405Q1. In other words, the female participation rate in that quarter registered only 13.7 percent. Out of the 4.6 million females who were willing to work (active females), only 3.8 million were employed.

In 1405Q1, out of 24.7 million employed individuals, 53.8 percent were employed in the services sector, 31.0 percent in the industry sector, and the remaining 15.1 percent in the agriculture sector. The population employed in the industry sector declined by 629 thousand, while that in the services and agriculture sectors grew by 181 thousand in total. In 1405Q1, the share of the industry sector fell by 2.0 percentage points compared to 1404Q1, while the shares of the services and agriculture sectors rose by 1.4 and 0.6 percentage points, respectively.

In spring 1405, 2.1 million of the employed population (8.5 percent) were underemployed - up 1.9 percentage points from the underemployment rate in 1404Q1. In fact, they worked less than 44 hours a week despite their willingness to work more. This increase may indicate that part of the labor market adjustment to disruptions caused by the 40-day war occurred through reduced working hours and increased underemployment rather than solely through reductions in the number of employed persons. Table 3 presents the major labor market indices for 1404Q1 and 1405Q1.

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

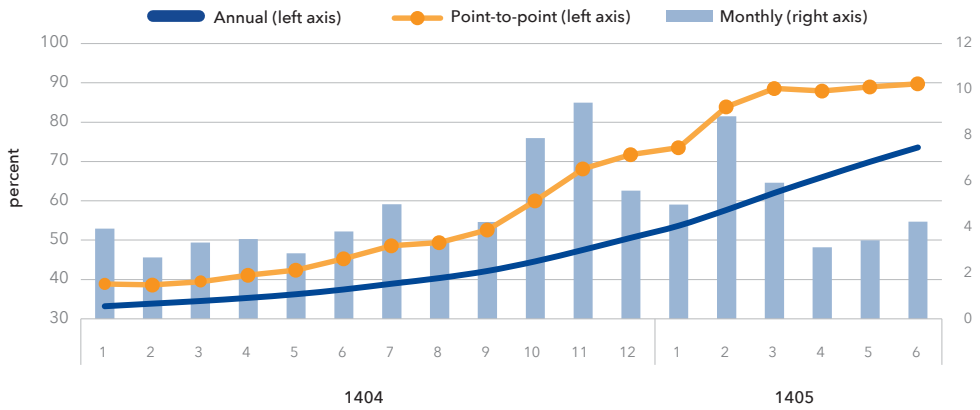
		1404Q1			1405Q1		
		Total	Male	Female	Total	Male	Female
Labor Force Participation	Rate (percent)	41.2	68.4	14.0	40.7	67.8	13.7
	Number (million)	27.1	22.5	4.6	27.1	22.6	4.6
Employment	Rate (percent)	38.2	64.3	12.1	37.0	62.7	11.4
	Number (million)	25.1	21.1	4.0	24.7	20.9	3.8
Unemployment	Rate (percent)	7.3	6.0	13.7	9.1	7.5	16.7
	Number (million)	2.0	1.3	0.6	2.5	1.7	0.8
Unemployment of Population Aged 18 to 35	Rate (percent)	14.5	12.1	23.9	17.5	14.6	28.6
	Number (million)	1.3	0.9	0.5	1.6	1.0	0.5
Unemployment of Population with Higher Education	Rate (percent)	10.4	7.1	17.6	11.6	8.3	18.8
	Number (million)	0.8	0.4	0.4	0.9	0.4	0.4
Share of Underemployment (percent)		6.6	7.1	3.9	8.5	9.1	5.2
Population Aged 15 and Over (million)		65.8	32.9	33.0	66.7	33.3	33.4

Source: Statistical Center of Iran

4. PRICES AND INFLATION

Based on the SCI, the upward path of the CPI inflation rate in 1405Q1 extended to 1405Q2. This rate, which had registered 53.7 percent in the initial month of 1405, closed the summer at 73.6 percent. The annual CPI inflation rate at the end of 1405Q2 surged by 11.6 percentage points from that of its preceding quarter. Moreover, the upward path of the point-to-point CPI inflation rate that had speeded up in spring, slowed and became relatively stable in summer. This rate registered 87.9 percent and 89.8 percent in the first and the last month of 1405Q2, respectively. The CBI report also presents a similar account regarding the CPI inflation rates, despite its figures differing from the SCI's. Graph 4 presents CPI inflation rates from the beginning of 1404 to the end of 1405Q2 based on the SCI data.

Graph 4. CPI Inflation Rates



Source: Statistical Center of Iran

If the point-to-point CPI inflation rate maintains its stable trend, a slowdown in the annual CPI inflation rate in upcoming months seems plausible. From a monthly perspective, the monthly CPI inflation rate registered 3.1 percent, 3.4 percent and 4.2 percent in the three consecutive months of summer, below those in the corresponding months of spring.

According to the CBI, the upward path of the annual CPI inflation rate continued in 1405Q2. Subsequently, this rate registered 61.4 percent, 65.1 percent and 68.4 percent in the three months of that quarter, respectively. The same report suggests point-to-point CPI inflation rates of 84.0 percent, 84.4 percent and 83.8 percent for the three consecutive months of summer. The highest monthly rise in consumer prices at 3.9 percent was experienced in the last month of 1405Q2. All in all, notwithstanding similar trends, the annual and point-to-point CPI inflation rates in the CBI report are slightly below the corresponding rates in the SCI report.

The increase in CPI inflation rates in 1405H1 is attributable to various factors including the exchange rate unification in the early winter 1404, developments in monetary aggregates (mainly the rise in the share of money in M2), a rise in transaction costs due to the naval blockade, inflation expectations emanating from macroeconomics conditions and finally disruption of trade flows. The monthly developments of M2 as a major monetary aggregate indicate that it has been continuously rising since the beginning of 1403.

Despite the lack of data on monetary aggregates for 1405H1, changes in the balance of deposits and extended facilities in the first four months of 1405 suggest a further increase in monthly M2 growth in the initial months of 1405. The undesirable state of the domestic economy and the uncertainties emanating from the tensions between Iran and the West have altogether left the CBI with little choice but to leave banks more room to extend loans, aimed at protecting the domestic economy. However, in response to the upward trend in the CPI inflation rates, the CBI took contractionary measures from the second month of the year. The deceleration in the point-to-point inflation rate in summer 1405 could be a consequence of these CBI measures.

An examination of CPI developments by the twelve main groups of the consumption basket of goods and services - reported by the SCI - reveals that in the last month of 1405Q2, "Tobacco" experienced the highest point-to-point and annual inflation rates at 162.7 percent and 124.8 percent, respectively. In the same period, the lowest point-to-point and annual CPI inflation rates, at 37.9 percent and 35.9 percent, respectively, were attributed to "Housing, Water, Electricity, Gas and Other Fuels". As for monthly CPI changes, at the end of 1405Q2, "Communication" with 14.7 percent and "Foods and Beverages" with 2.3 percent, experienced the highest and lowest monthly price rises, respectively. "Foods and Beverages", as the second-largest group of the consumption basket by weight, maintained its three-digit point-to-point inflation rates that had started from the second month of 1404Q4, signaling high inflationary pressure on Iranian households in meeting their basic needs, especially among low-income groups. The CBI reports the inflation rates for the twelve groups of the consumption basket only on a monthly basis. Accordingly, the CBI report indicates that in the last month of 1405Q2, the highest monthly inflation rate, at 18.6 percent, was recorded for "Communication", while the lowest monthly inflation rate, at 1.3 percent, belonged to "Tobacco". Table 4 presents the inflation rates of the twelve main groups of the consumption basket of goods and services in the last month of 1405Q2 based on the SCI classification.

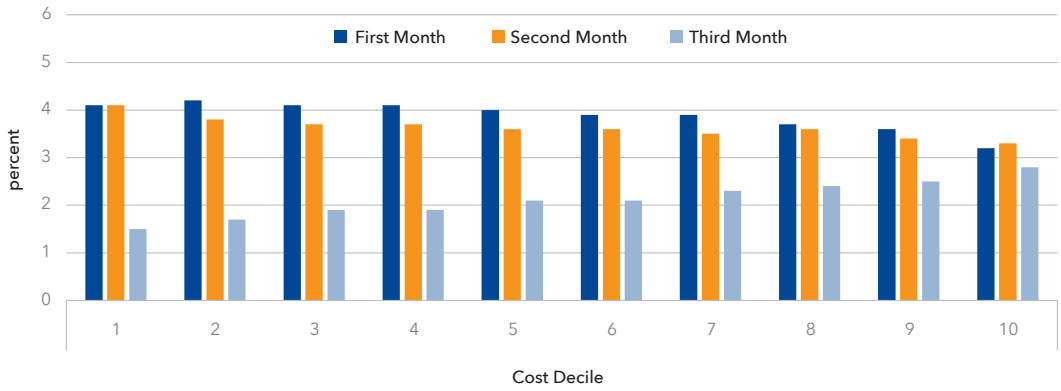
Table 4. Inflation Rates of the Consumption Basket of Goods and Services at the End of 1405Q2 (percent; base year: 1400)

Group	Base Year Weight	Inflation Rate		
		Monthly	Point-to-point	Annual
Overall	**100.00**	**4.2**	**89.8**	**73.6**
Housing, Water, Electricity, Gas and Other Fuels	36.11	3.6	37.9	35.9
Foods and Beverages	28.82	2.3	121.1	108.5
Transport	8.93	7.9	115.2	78.4
Health	6.68	5.2	93.8	68.8
Clothing and Footwear	4.52	6.3	96.9	66.8
Other Goods and Services	4.42	8.5	104.9	87.4
Household Equipment	4.40	6.0	124.6	86.1
Communication	2.41	14.7	122.7	69.6
Restaurants and Hotels	1.35	5.6	112.6	77.4
Education	0.88	6.3	49.7	46.8
Recreation and Culture	0.87	9.6	107.8	72.9
Tobacco	0.62	3.3	162.7	124.8

Source: Statistical Center of Iran

According to the SCI report on CPI by various cost deciles, in the first two months of 1405Q2, the highest monthly inflation rates in "Foods, Beverages and Tobacco" have been experienced by the bottom cost deciles, while in the last month of the same quarter by the top cost deciles. In Graph 5, the monthly inflation rates of "Foods, Beverages and Tobacco" by cost decile in 1405Q2 are depicted.

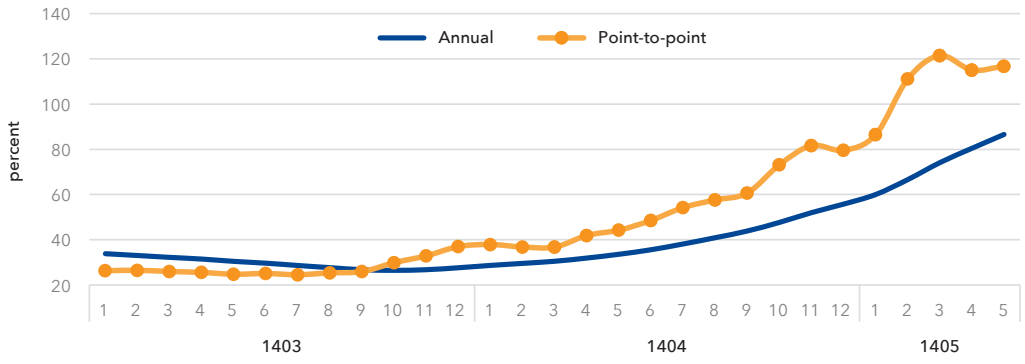
Graph 5. Monthly Inflation Rate in Foods, Beverages and Tobacco by Cost Decile During 1405Q2 (1400=100)



Source: Statistical Center of Iran

The latest report of the SCI on PPI covers data up to the end of 1405Q1 and that of the CBI on the same index covers data up to the end of the second month of 1405Q2. 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. CBI data suggest that the PPI inflation rate, as a leading indicator of the CPI inflation rate, maintained its upward trend that had started in the 11th month of 1403. The annual PPI inflation rate, which registered 28.6 percent in the first month of 1404, rose steadily to 55.8 percent in the last month of that year and surged to 86.6 percent in the fifth month of 1405. As for the point-to-point PPI inflation rate, it started to rise after a period of decline in 1404Q1 and reached a high of 81.6 percent in the second month of 1404Q4. After a slight fall in the last month of 1404, that rate reversed course and finally rose to 116.8 percent in the fifth month of 1405. Furthermore, the SCI reported an annual PPI inflation rate of 67.5 percent at the end of 1405Q1. Notwithstanding the difference between the PPI inflation rates of the two issuing authorities, they have followed similar trends. Graph 6 depicts the developments in the annual and point-to-point PPI inflation rates from the beginning of 1403 to the end of the fifth month of 1405 on the basis of the CBI report.

Graph 6. Annual and Point-to-point PPI Inflation Rates (1400=100)



Source: Central Bank of Iran

5. BALANCE OF PAYMENTS

The CBI and the Islamic Republic of Iran Customs Administration (IRICA) had yet to publish data on Iran's balance of payments and international trade for the year 1405. Hence, in this section, data from various unofficial sources, domestic and international, were used in our analysis. The April 2026 World Economic Outlook, published by the International Monetary Fund (IMF), forecasted a weak outlook for Iran's current account, a USD5.4 billion deficit, approximately 1.8 percent of the country's GDP in 2026. In its April 2026 regional report, the same organization suggested that the magnitude of disruption in Iran's trade flows as a result of the war and naval blockade of Iran was so great that it offset the positive impact of the rise in oil prices on Iran's current account. Note that in the IMF report, it was assumed that the war would last for a short time and that by mid-2026, Iran's trade flows and economic activities would return to their normal levels. Given that trade limitations were in place longer than the IMF expected, actual outcomes could be worse than the IMF forecast.

The 40-day war, coupled with the naval blockade of Iran, resulted in a decline in oil exports. Hence, the resulting decline in oil export proceeds - a major source of Iran's foreign revenues - is referred to as the main driver of the current account deficit. In 1405Q2, the fall in Iran's oil exports was so severe that even the rise in oil prices could not prevent Iran's foreign proceeds from falling.

Over the first five months of 1405, Iran's non-oil trade declined substantially, particularly imports, according to some unofficial sources. For instance, some domestic news agencies reported that during the same period, Iran's imports fell in both weight and value (the product of price and volume). Based on Tasnim News Agency, goods imports amounted to 12.5 million tons in weight and USD16.8 billion in value, down 16.0 percent and 25.0 percent, respectively, from the corresponding levels in the first five months of 1404. The larger decline in value of goods imports than their weight suggests that the average unit value of imported goods decreased during the period under discussion, potentially reflecting a shift in the composition of imports toward lower-priced goods. Given that capital goods and intermediate goods account for approximately 80 percent of Iran's imports, the 25.0 percent decline in imports value during the first five months of 1405 was not necessarily driven by a decline in imports of final goods. In other words, this 25.0 percent decline could also reflect a reduction in imports of raw materials, equipment, machinery, and other intermediate and capital goods, potentially contributing to a slowdown in economic activity in subsequent months.

Note that part of the decline in the value of imports was attributable to the fall in gold imports. As the repatriation of export proceeds through conventional foreign exchange channels - especially in USD - was severely restricted due to sanctions, exporters had increasingly relied on gold imports as an alternative means of bringing their foreign earnings back into the country in recent years. However, the use of this mechanism appears to have declined sharply in 1405. On the basis of Tasnim News Agency, gold imports, which had reached 13 tons, valued at USD1.256 billion, during the first five months of 1404, fell to only one ton valued at USD97 million during the first five months of 1405, representing a 92.3 percent decline in both weight and value. During the period under review, notwithstanding the CBI's claim regarding the rationing of foreign exchange for imports of highly prioritized goods, the value of passenger car imports surged by 65.0 percent.

The trade statistics of the major trading parties of Iran also reflect the developments in Iran's international trade. For instance, on the basis of some official Chinese trade statistics, during the first eight months of 2026, the total value of goods traded between China and Iran amounted to USD3.0 billion, down 56.2 percent from the corresponding period of 2025. During the period under discussion, the value of China's exports of goods destined for Iran fell by 51.1 percent to USD2.2 billion. Moreover, the value of Iran's goods exports to China reached USD746 million in the first eight months of 2026, representing a 66.6 percent decline from the corresponding level in the first eight months of 2025. These figures, however, largely reflect the non-oil trade between Iran and China over the period under discussion.

According to some domestic and international sources, Iran's trade with the European Union declined substantially. The total value of trade between Iran and the European Union amounted to EUR952 million in 2026H1, down 26.0 percent from the corresponding level in 2025H1. The value of the European Union's exports destined for Iran fell to EUR754 million in 2026H1 from EUR1.025 billion in 2025H1. During the same period, the value of Iran's exports to the European Union declined from EUR262 million in 2025H1 to EUR198 million in 2026H1.

The developments in trade and financial relations between Iran and the UAE are also highly significant. In addition to its substantial share in Iran's imports, the UAE has served as a major trade corridor for Iran's international trade and a pivotal intermediary for Iran's international financial settlements. According to Reuters, as a result of heightened tensions in the Middle East, the UAE suspended all trade, commercial exchanges and financial transactions with Iran in August 2026, until further notice. On the basis of the same source, the UAE, as one of Iran's major trading partners, accounted for 30 percent of Iran's imports in 2024. Following these restrictions, in September 2026, the Central Bank of the UAE prohibited all branches of Bank Melli Iran operating in that country from conducting financial transactions to and from Iran. Such restrictions on trade and financial interactions with the UAE could increase Iran's international transaction costs.

The naval blockade of Iran led to changes in Iran's international trade routes, which in turn altered domestic freight transport patterns. For instance, some trade flows that had previously passed through maritime routes shifted to road transport. In this regard, some domestic and international sources, including IRICA and the Associated Press, reported that the number of freight trucks at western border crossings had sharply increased. However, due to inadequate road transport infrastructure, longer transit times and increased waiting times for freight trucks have contributed to higher trade transaction costs. Similarly, part of Iran's imports has been routed through its northern ports on the Caspian Sea. Reports of increased cargo traffic through these ports support this observation. Note that the naval blockade has not resulted in a complete disruption of Iran's trade flows, as some goods trade has been redirected through its northern ports and western land borders. Notwithstanding this fact, these alternative routes have insufficient capacity and infrastructure to fully replace Iran's southern ports, particularly in the short term.

Amid the 40-day war against Iran, some neighboring countries reportedly expanded their trade with Iran. For instance, during the first five months of 2026, the value of Oman's re-exports to Iran reached OMR172.8 million, making Iran, Oman's second-largest re-export destination during that period. Of this figure, OMR83.5 million was attributed to foods and beverages and OMR31.6 million to electrical machinery and equipment. The aforementioned figures relate to the period preceding the reimposition of the strict naval blockade of Iran.

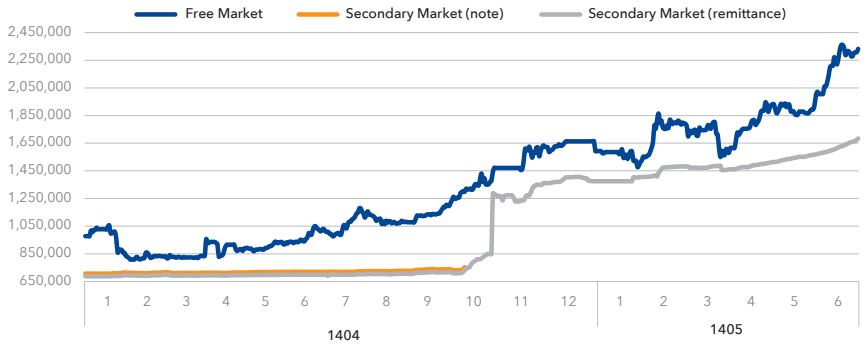
The consequences of the 40-day war and the new shipping patterns could have affected the services account of Iran's BOP. However, as the CBI had yet to publish detailed BOP data, the net change in this component of the BOP could not be determined. More precisely, an increase in transportation and insurance costs could have raised Iran's expenditures on foreign transportation and insurance services, while the severe decline in maritime transport could have reduced the volume of maritime services purchased from foreign providers. Yet, the magnitude and net effect of these opposing developments could not be clearly identified.

As for the capital account, heightened uncertainty, trade and financial restrictions and reduced access to foreign resources could exacerbate the capital account deficit. Conversely, the decline in exports could reduce the amount of export proceeds retained abroad, potentially mitigating one source of capital outflows.

6. FOREIGN EXCHANGE MARKET

The Iranian free FX market was highly volatile during 1405Q2. The air of optimism in the aftermath of signing the memorandum of understanding between Iran and the US in late spring, which helped the FX market to calm down, soon evaporated. As the memorandum was frequently violated and the naval blockade was prolonged, Iran's trade flows were disrupted and the Iranian Rial severely depreciated. The price of USD banknote in the free market, which had closed 1405Q1 at IRR1.596 million, rose to IRR2.332 million at the end of 1405Q2, indicating a 46.1 percent rise over the quarter. In 1405Q2, that price averaged 1.959 million, up 109 percent and 17.4 percent from its averages in 1404Q2 and 1405Q1, respectively. Graph 7 depicts the developments of the price of USD against the Iranian Rial in 1404 and 1405H1 across various markets.

Graph 7. USD/IRR Exchange Rates in Various Markets*



Source: Gold, Coin and Currency Information Network
* In the final days of 1404Q3, the price of USD banknotes in the secondary market was raised to a level close to the free-market rate. Two weeks after this increase, the exchange rate unification policy was implemented and US banknote and remittance prices in the secondary market converged.

In the final days of 1405Q1, the free-market USD price fell and closed that quarter at around IRR1.600 million in response to the signing of the memorandum of agreement between Iran and the US. The lifting of some sanctions, the release of part of Iran's frozen funds and the lifting of the naval blockade of Iran as key provisions of the memorandum helped rein in further depreciation of Rial. However, this situation only lasted for less than a week. The violation of the memorandum ended up in military maneuvers in the southern part of the country and uncertainty once again gripped Iran's economy. Subsequently, the Rial's depreciation intensified and the USD price surpassed IRR2 million due to the imposition of new sanctions against Iran once the memorandum expired after its 60-day deadline. Eventually, the USD/IRR exchange rate closed the summer at 2.332 million. The severe fall in oil exports as a major source of Iran's foreign exchange earnings should also be considered as another factor in the depreciation of Rial in the period under review. Table 5 presents the quarterly developments of the price of USD banknote in the free market in 1404 and the first two quarters of 1405. The figures in the last column suggest that in the summer of this year the free FX market experienced the highest volatility among the quarters under review.

Table 5. Nominal Price of USD Banknote 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
1405Q2	1,958,677	2,359,750	1,580,000	204,725	0.10

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

Unlike the free market, the USD/IRR remittance exchange rate at Iran Center for Exchange of Currency and Gold (secondary market) slightly rose from 1.457 million at the end of spring to 1.684 million at the end of summer, indicating a 15.5 percent rise between these two points, far below the 46.1 percent growth rate of the free-market USD price over the same period. Given the difference between the two aforementioned growth rates, the gap between the free-market and the secondary-market USD prices, which had narrowed to 7.5 percent on the day of signing the memorandum of understanding between Iran and the US, widened again to above 40 percent in mid-summer and eventually reached 38.5 percent at the end of that quarter. 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 would entail eliminating that gap - calls for reaching a robust and durable agreement between Iran and the US, the lifting of sanctions, the normalization of Iran's trade flows and the release of Iran's foreign assets.

7. MONEY MARKET

7-1. Monetary Aggregates

As the CBI had yet to publish data on monetary aggregates for the year 1405 at the time of preparing this report, in order to prevent unnecessary repetition of previously reported data, the latest available information from various sources was used in this section. According to the CBI governor, the annual growth rate of M2 slowed in the second and third months of 1405Q2, registering 54.4 percent and 51.6 percent, respectively. Accordingly, M2 reached approximately IRR188,100 trillion at the end of summer 1405.

The monthly growth rate of M2 in 1404 stood above the corresponding rates in the preceding year, on average, and even reached approximately 7 percent in the last month of 1404, mainly due to the CBI's accommodative approach towards the banks regarding facility extension, aimed at stimulating economic activity. Given the lack of CBI data on M2, the data on the balance of facilities extended by 13 listed Iranian banks (in TSE) have been used as a proxy. The data suggest that the monthly growth rate of outstanding loans by the listed banks, which had reached its high of 6.7 percent in the second month of 1405, reversed course thereafter, declining steadily to below 2 percent by the end of summer. Given the slowdown in the annual M2 growth rate at the end of 1405Q2, it can be inferred that the CBI has tightened its macroprudential policy by lowering the cap on the monthly expansion of banks' balance sheets. An increase in the overdraft rate and an upward adjustment of the interest rate corridor are other tools available to the CBI in this regard.

As for the M2 components, data on the balance of deposits of the 13 listed banks indicate a rise in the M1 to Quasi-money ratio. Given the fixed nominal interest rates and the continuous rise in the CPI inflation rate, the real interest rates have become increasingly negative, which has discouraged people from holding time deposits. Additionally, as some banks waive early withdrawal penalties on long-term deposits, such deposits effectively function like sight deposits, potentially increasing the M1 to Quasi-money ratio. The sharp depreciation of the Rial, the rise in gold prices and the higher returns on other types of investments are additional factors that have encouraged people to shift their funds from time deposits to alternative investments.

Regarding developments in the Monetary Base in 1405H1, no data were published. However, given the sharp decline in oil exports caused by the naval blockade, a decline in the CBI's net foreign reserves in USD terms seems plausible. However, the increase in the official USD/IRR exchange rate is likely to offset this effect on the monetary base. Moreover, the cost of financing the war and reconstructing industrial facilities damaged during the conflict could have contributed to an increase in the net CBI claims on the public sector as another element of M0.

7-2. Balance of Deposits and Extended Facilities

At the end of 1405Q1, the balance of extended facilities by banks and non-bank credit institutions stood at IRR176,946.5 trillion, up 54.6 percent from IRR114,434.5 trillion at the end of 1404Q1. The balance of deposits also grew by 65.1 percent to IRR245,916.2 trillion over the same period. Accordingly, the ratio of extended facilities to deposits less the legal reserves (balances) reached 78.0 percent at the end of 1405Q1, down 5.8 percentage points from its level at the end of 1404Q1. The balances of extended facilities and deposits at banks at the end of 1405Q1 are presented in Table 6.

Table 6. Balances of Extended Facilities and Deposits in IRR and Foreign Currencies (end of period-IRR trillion)

	03/1404	03/1405	Percentage Change
Extended Facilities	114,434.5	176,946.5	54.6
Deposits	148,960.5	245,916.2	65.1
Deposits Less Required Reserves	136,425.6	226,933.5	66.3
Ratio of Extended Facilities to Deposits Less Required Reserves (percent)	83.8	78.0	-

Source: Central Bank of Iran

7-3. Extended Facilities

During the first four months of 1405, IRR40,522.5 trillion facilities were extended to various sectors of the economy by the banking system, indicating a 69.1 percent rise compared to the same period of the preceding year. Of the total facilities extended during the period under discussion, 76.7 percent, equivalent to IRR31,067.5 trillion, was extended to businesses (individuals and legal entities), while the remaining 23.3 percent at IRR9,455.0 trillion was extended to final consumers (households). An examination of facilities extended to various sectors of the economy reveals that during the four-month period under discussion, the Industries and Mining sector accounted for the highest share at 42.5 percent in total facilities extended to the businesses, followed by the Services sector at 34.0 percent. Among various types of extended facilities, in the same period, 85.3 percent of the facilities extended to businesses and 65.4 percent of the total extended facilities were allocated to Working Capital. The extended facilities by type of recipients in the first four months of 1405 are shown in Table 7.

Table 7. Extended Facilities by Type of Recipients in the First Four Months of 1405 (IRR trillion–percent)

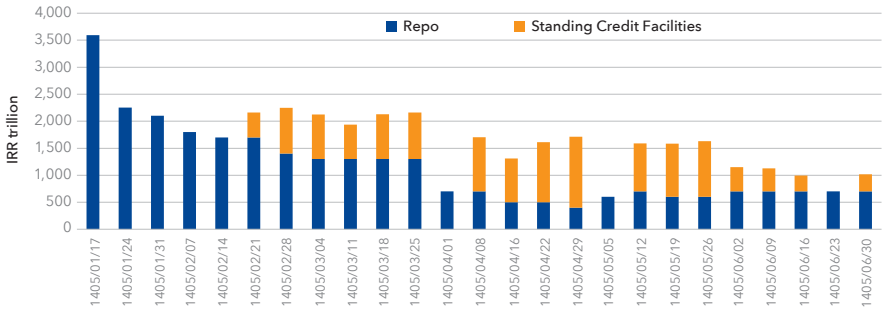
	Sector of the Economy	Amount	Share in Businesses
Businesses	Agriculture	1,692.2	5.4
	Industries and Mining	13,215.1	42.5
	Housing and Construction	929.8	3.0
	Commerce	4,674.3	15.0
	Services	10,553.4	34.0
	Miscellaneous	2.8	0.0
			Share in Total
	All Sectors	**31,067.5**	**76.7**
Final Consumers (households)		**9,455.0**	**23.3**
Total		**40,522.5**	**100.0**

Source: Central Bank of Iran

7-4. Monetary Policy Analysis

In order to manage banks' liquidity needs, the CBI primarily employs two instruments (in addition to overdrafts): repurchase agreements (repos), typically with a one-week maturity, and standing credit facilities with a one-day maturity. The borrowing rate for the latter is 24 percent, while the rate for the former is generally lower. The weekly reports published by the CBI on the implementation of monetary policy indicate that during 1405H1, the CBI conducted 25 rounds of repo auctions. However, despite banks' substantial liquidity demand, the amount of funds allocated through this method declined following the first auction of summer. The weekly auction reports reveal that in the first auction held in 1405Q2, the CBI accepted only 17 percent of the banks' liquidity requests, far below the acceptance rate recorded in preceding auctions. Meanwhile, from the last week of 02/1405 to the last week of 05/1405, banks' financing through standing credit facilities increased at the expense of repurchase agreements (with longer maturities). The data on the implementation of monetary policy during the final month of summer indicate that in the five consecutive auctions held in that period, only 17.5 percent of the banks' orders were accepted on average. Furthermore, the monetary authority notably reduced financing provided to banks through standing credit facilities, suggesting a contractionary monetary policy stance by the CBI. The balance of liquidity provided through repo and standing credit facilities, which stood at IRR3,592 trillion in the first auction of 1405, declined to IRR1,016 trillion by the last auction of 1405Q2. In addition, unofficial sources suggest that the CBI claims on the Public Sector increased sharply in 1405H1, resulting in a substantial injection of liquidity into the banking system. Consequently, given the abundance of liquidity in the interbank market, the CBI might have limited its open market operations to offset part of the inflationary impact of the increase in its claims on the Public Sector. Under such circumstances, the banks might have been left with little choice but to raise funds through the interbank market. It is noteworthy that in the last two auctions held in the last month of summer, the CBI conducted outright purchases of Government Debt Securities (totaling IRR215.8 trillion) which are generally considered as an expansionary monetary policy measure. These CBI operations could be attributed to the sharp decline in the CBI's holdings of Government Debt Securities. The balance of the Open Market Operations (OMO) in 1405H1 is presented in Graph 8.

Graph 8. Balance of CBI Open Market Operations*



Source: CBI
* The figure for the standing credit facilities is its balance on the auction day

8. GOVERNMENT FISCAL PERFORMANCE

As most official sources had yet to publish data on the government fiscal performance, in 1405H1, data from unofficial sources were used in this section to estimate the realized levels of general sources and uses of budget. The only official data available on fiscal performance in 1405 related to tax revenues, the disposal of state-owned companies and the issuance of government debt securities. Based on unofficial sources, the actual general sources were estimated at IRR25,621.0 trillion and the actual general uses at IRR29,517.2 trillion in 1405H1, representing realization rates of 81.6 percent and 94.0 percent, respectively. The 12.4-percentage-point difference between these estimated realization rates indicated an overall budget deficit of IRR3,896.2 trillion, which may have been financed through the treasury revolving fund with the CBI.

During 1405H1, actual general revenues of the government (tax revenues, customs duties and other revenues) were estimated at IRR14,487.6 trillion, accounting for 73.3 percent of the legislated figure for this period in 1405 Budget Law (1405 Law for short). In 1405H1, tax revenues from imports were estimated at IRR827.4 trillion, representing a realization rate of only 29.9 percent, mainly due to the naval blockade of Iran and disruptions to international trade corridors which reduced the imports level.[8] As for other revenues, a 100-percent realization rate was assumed in the six-month period under discussion.

Applying the realization rate for government current expenditures in 1404H1 to the approved amount for 1405H1 and adding the additional expenditures arising from the deficit in the Targeted Subsidies Plan balance and higher unemployment insurance payments, government current expenditures were estimated at IRR25,523 trillion in 1405H1, representing a realization rate of 106.1 percent for this period. Accordingly, the operating balance deficit was estimated at IRR11,035.4 trillion in 1405H1, up 157.0 percent from the approved amount. This substantial gap between the estimated operating deficit and the approved amount in 1405 Law may be partly attributed to a decline in general government revenues amid the 40-day war and naval blockade of Iran, which disrupted economic activity. Consequently, a portion of current expenditures, originally expected to be covered by general government revenues, had to be financed through the disposal of non-financial and financial assets.

In 1405H1, the estimated proceeds from the disposal of non-financial assets accounted for 96.5 percent of the approved amount at IRR1,330.8 trillion. In the same period, Iran's average daily oil exports of 640 thousand barrels was estimated on the basis of Tanker Trackers website.[9] Moreover, OPEC reported the average price of Iran's crude oil in 1405H1 at USD94.9 per barrel. Accordingly, the government's 34.0 percent share of oil export proceeds in the six-month period under review was estimated at USD3.8 billion. Assuming a 100 percent realization rate for proceeds from net exports of natural gas in 1405H1, the actual proceeds from this source of government revenues were estimated at USD400 million. Overall, the government foreign proceeds from these sources were estimated at USD4.2 billion in 1405H1. Applying the USD/IRR exchange rate of 1,490.9 thousand for conversion, the estimated proceeds from exports of crude oil and net exports of natural gas totaled IRR6,274 trillion in the six-month period under review.

8. For estimating the figure of tax on imports, the allocated foreign currencies for imports were considered USD18 billion (USD5.5 billion for imports of essential goods and USD12.5 billion for imports of other goods), the USD/IRR exchange rate for conversion that amount to IRR was assumed to be 1,490.9 thousand, and tariff rates of 1 percent and 4 percent were applied to imports of essential goods and other goods, respectively.

9. 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 Automatic Identification System (AIS) information to produce its analyses and reports on maritime exports.

Assuming full realization of the proceeds from domestic sales of oil and gas condensates during the period and adding them to the aforementioned IRR6,274 trillion, total government oil revenues were estimated at IRR6,343 trillion in 1405H1. Notably, compared with the previously applied USD/IRR conversion rate of 285 thousand, the higher rate of 1,490.9 thousand generated an estimated additional IRR5,074 trillion in nominal rial proceeds from foreign-currency revenues. These additional resources were earmarked to finance electronic food vouchers for final consumers and were excluded from general government oil revenues and instead included in the sources of the Targeted Subsidies Plan. Moreover, proceeds from disposal of government properties were also assumed to be completely realized in 1405H1 at IRR62.1 trillion. In contrast, in the same period, IRR2,140 trillion was reported by Fars News Agency for actual acquisition of non-financial assets, accounting for 52.3 percent of the approved amount. Accordingly, the net disposal of non-financial assets was estimated to record an IRR809.2 trillion deficit in 1405H1. The 40-day war together with the naval blockade of Iran severely restricted the country's oil exports and access to foreign proceeds. Consequently, the estimated average daily volume of oil exports in 1405H1 was 38.8 percent below the approved amount for that period. However, higher oil prices partly offset the adverse effects of the shortfall in oil exports.

The net disposal of financial assets was a key source of financing the operating balance deficit in 1405H1. In the same period, proceeds from the disposal of financial assets were estimated at IRR9,802.5 trillion, accounting for 95.6 percent of the approved amount. Based on data on government debt securities auctions conducted by the CBI, as well as the issuance of IRR1,150.0 trillion Islamic Treasury Securities, it was estimated that IRR4,017 trillion of the budget deficit was financed through the issuance of government debt securities, equivalent to 78.0 percent of the amount approved for that period. Since the Islamic Treasury Bills and Bonds are zero-coupon[10] securities, an average discount rate of 40 percent was assumed to estimate the proceeds from their issuance. Additionally, according to the Iranian Privatization Organization, proceeds from the disposal of state-owned companies in 1405H1 reached IRR91.5 trillion, representing 36.6 percent of the approved amount for this period. Moreover, the government's borrowing from NDF, equivalent to 31 percentage points of the Fund's share in petrodollars, stood at IRR5,678 trillion in 1405H1, accounting for 22.2 percent of the estimated total general revenues in this six-month period. Overall, total acquisition of financial assets in 1405H1 was estimated at IRR1,854 trillion. Accordingly, the net disposal of financial assets in 1405H1 was estimated at IRR7,948.4 trillion, accounting for 31.0 percent of the realized general sources in that period. The estimated and realized figures for the government's fiscal performance in 1405H1 are shown in Table 8.

10. A zero-coupon bond is an investment in debt that does not pay interest but instead trades at a deep price discount.

Table 8. Estimated Government Fiscal Performance in 1405H1 (IRR trillion-percent)

	1405 Law	Approved for 1405H1	Realized/ Estimated in 1405H1	Realization Rate in 1405H1	Share in Actual General Sources or Uses in 1405H1
Sources	**62,781.3**	**31,390.6**	**25,621.0**	**81.6**	**100.0**
General Revenues	**39,509.9**	**19,755.0**	**14,487.6**	**73.3**	**56.5**
Tax Revenues and Customs Duties	33,726.8	16,863.4	11,596.1	68.8	45.3
Tax Revenues	28,200.1	14,100.0	10,768.6	76.4	42.0
Corporations Tax	12,639.7	6,319.8	4,575.1	72.4	17.9
Income Tax	4,709.0	2,354.5	1,572.9	66.8	6.1
Wealth Tax	1,086.3	543.2	365.8	67.4	1.4
Goods and Services Tax	9,765.1	4,882.6	4,254.8	87.1	16.6
Customs Duties	5,526.7	2,763.4	827.4	29.9	3.2
Other Revenues	5,783.1	2,891.6	2,891.6	100.0	11.3
Disposal of Non-financial Assets	**2,758.0**	**1,379.0**	**1,330.8**	**96.5**	**5.2**
Receipts from Oil Exports	2,494.8	1,247.4	1,074.1	96.1	4.2
Receipts from Exports of Natural Gas			125.2		0.5
Receipts from Domestic Sales of Oil and Gas Condensates	139.0	69.5	69.5	100.0	0.3
Disposal of Properties	124.1	62.1	62.1	100.0	0.2
Disposal of Financial Assets	**20,513.4**	**10,256.7**	**9,802.5**	**95.6**	**38.3**
Sales of Islamic Debt Securities	10,300.0	5,150.0	4,016.6	78.0	15.7
Disposal of State-owned Companies	500.6	250.3	91.5	36.6	0.4
Use of National Development Fund	9,678.9	4,839.5	5,677.5	117.3	22.2
Other	33.9	16.9	16.9	100.0	0.1
Uses	**62,781.3**	**31,390.6**	**29,517.2**	**94.0**	**100.0**
Current Expenditures	**48,097.0**	**24,048.5**	**25,523.0**	**106.1**	**86.5**
Acquisition of Non-financial Assets	**8,186.6**	**4,093.3**	**2,140.0**	**52.3**	**7.3**
Acquisition of Financial Assets	**6,497.7**	**3,248.8**	**1,854.2**	**57.1**	**6.3**
Operating Balance	**-8,587.1**	**-4,293.5**	**-11,035.4**	**257.0**	**-**
Net Disposal of Non-financial Assets	**-5,428.6**	**-2,714.3**	**-809.2**	**29.8**	**-**
Net Disposal of Financial Assets	**14,015.7**	**7,007.8**	**7,948.4**	**113.4**	**-**
Budget Balance	**-14,015.7**	**-7,007.8**	**-11,844.6**	**169.0**	**-**
Overall Budget Balance	**0.0**	**0.0**	**-3,896.2**	**-**	**-**

Source: 1405 Budget Law; Ministry of Economic Affairs and Finance; Iranian National Tax Administration; IRI Parliament Research Center; Central Bank of Iran; research calculations

In 1405 Law, IRR28,200.1 trillion was set as the target for tax revenues (excluding customs duties), of which, 34.6 percent was attributed to indirect taxes (tax on goods and services) and the remaining 65.4 percent to direct taxes (corporate tax, income tax and wealth tax). Hence, the targeted figure for 1405H1 is half of the aforementioned approved figure at IRR14,100.0 trillion. According to data from the Iranian National Tax Administration (INTA), 76.4 percent of the targeted tax revenues for 1405H1 was realized during that period. In the same period, actual direct tax revenues accounted for 70.7 percent of the corresponding approved amount. Among the components of direct taxes, actual corporate tax revenues accounted for 72.4 percent of the approved amount for 1405H1 at IRR4,575.1 trillion, up 42.8 percent from the corresponding figure in 1404H1. Of the actual corporate tax revenues, 88.5 percent, equivalent to IRR4,048.3 trillion, was attributed to tax on non-public legal entities. In 1405H1, the actual advance tax payments by public legal entities increased by 21.8 percent compared to 1404H1, accounting for 92.7 percent of the approved amount and constituting 5.7 percent of the corporate tax revenues in total. During the six-month period under review, actual corporate tax revenues from state-owned companies stood at IRR224.2 trillion, accounting for 58.2 percent of the approved amount and 4.9 percent of total corporate tax revenues. In 1405H1, 67.4 percent of the approved amount for wealth tax revenues was realized at IRR365.8 trillion, up 98.2 percent from the actual level in 1404H1. In the same period, tax revenues from goodwill transfers recorded the highest realization rate of 131.6 percent among subcategories of wealth tax with 15.6 percent share of total wealth tax revenues. In 1405H1, 123.3 percent of the tax revenues from transfer of properties was realized. This source of budget, which increased by 94.9 percent from 1404H1, accounted for 27.5 percent of the actual wealth tax revenues. Actual tax revenues from share transfers accounted for 66.3 percent of the approved amount in 1405H1 at IRR102.1 trillion, up 119.4 percent from its actual level in 1404H1.

In 1405H1, 66.8 percent of the approved amount for income tax was realized at IRR1,572.9 trillion, up 37.2 percent from the actual level in 1404H1. Tax on properties, a subcategory of income tax, experienced the highest realization rate of 108.4 percent in its category in 1405H1, registering IRR117.6 trillion. This budget source accounted for 7.5 percent of the actual income tax during the period under discussion. The actual tax on salary of public sector employees that constituted 20.8 percent of income tax, recorded a 99.7 percent rate of realization in 1405H1. Moreover, as for tax on employees of private sector, 80.6 percent of the approved amount was realized at IRR782.5 trillion, up 54.2 percent from that of 1404H1. This source of budget accounted for 49.7 percent of the actual income tax in 1405H1. The weakest performance among subcategories of income tax was attributed to tax on professions at 36.5 percent realization rate, mainly due to slowdown in economic activities during the war. Actual tax on professions fell by 4.6 percent compared to the actual level of 1404H1, accounting for 21.8 percent of the actual income tax in 1405H1.

In 1405H1, 87.1 percent of the tax revenues from goods and services was realized at IRR4,254.8 trillion, 81.2 percent above the actual level of 1404H1. The value-added tax[11], with an 85.9 percent realization rate stood at IRR2,336.1 trillion in 1405H1, accounting for 54.9 percent of the revenues from tax on goods and services. Growth in tax revenues across nearly all tax categories was driven primarily by inflation and rising prices rather than stronger economic activity. Despite the recession, the government's fiscal needs prevented tax cuts that could have supported economic recovery. Consequently, households and businesses faced both the inflation tax and higher nominal tax liabilities. Table 9 presents the government performance in tax revenues in 1405H1.

Table 9. Performance of Tax Revenues (IRR trillion-percent)

	Realized in 1404H1	Approved for 1405H1	Realized in 1405H1	1405H1 to 1404H1 Change in Realized	1405H1 Realization Rate	Share in Realized Tax Revenues in 1405H1
Tax Revenues	**6,883.5**	**14,100.0**	**10,768.6**	**56.4**	**76.4**	**100.0**
Direct Tax	**4,535.3**	**9,217.5**	**6,513.8**	**43.6**	**70.7**	**60.5**
Corporate Tax	3,204.2	6,319.8	4,575.1	42.8	72.4	42.5
Income Tax	1,146.5	2,354.5	1,572.9	37.2	66.8	14.6
Wealth Tax	184.6	543.2	365.8	98.2	67.4	3.4
Indirect Tax (on Goods and Services Only)	**2,348.2**	**4,882.6**	**4,254.8**	**81.2**	**87.1**	**39.5**

Source: 1405 Budget Law; Iranian National Tax Administration; research calculations

11. four percentage points out of the 10-percent value-added tax rate

In 1405 Law, IRR10,300.0 trillion was allocated for the issuance of government debt securities. Accordingly, the CBI in cooperation with the Ministry of Economic Affairs and Finance began conducting weekly auctions of government debt securities in the money and capital markets in the final month of 1405Q1.

By the end of 1405H1, 16 rounds of auctions had been conducted and government debt securities with a total face value of IRR4,500.0 trillion had been issued. Of this supply of government debt securities, IRR433.7 trillion was demanded by banks and non-bank credit institutions, of which IRR394.9 trillion (91.1 percent) was approved by the Ministry of Economic Affairs and Finance. Moreover, IRR2,931.7 trillion of the auctioned government debt securities were sold in the capital market. Hence, in 1405H1 the sold Government Debt Securities through auctions reached IRR3,326.6 trillion to stand 40.0 percent above that of 1404H1. Note that IRR984.3 trillion of the total face value of issued debt securities (IRR4,500.0 trillion) is considered price discount as interest payment. Moreover, IRR189.2 trillion unsold debt securities in 1405H1 were planned to be auctioned in the remainder of the year 1405.

According to the Treasury, banks and non-bank credit institutions purchased IRR1,214.7 trillion in government debt securities in 1405H1, a figure different from what was reported by the CBI for purchases through its auction channel. A comparison of the figures reported by these two authorities suggests that banks and non-bank credit institutions purchased an additional IRR819.8 trillion in government debt securities through the capital market rather than directly through the CBI's auction channel. Hence, banks and non-bank credit institutions accounted for 36.5 percent of total government debt securities purchases through these auctions in 1405H1. Table 10 presents the details of government debt securities auctions conducted by the CBI in 1404H1 and 1405H1.

Table 10. Government Debt Securities Auctions Held by the CBI (IRR trillion-percent)

Month	1404					1405							
	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 Money Market	Point-to-point Growth of Trades in Capital Market	Point-to-point Growth of Total Trades
03	750.0	402.1	402.1	0.0	402.1	1,658.7	37.0	6.0	758.7	764.7	-98.5	-	90.2
04	1,785.4	565.2	565.2	174.2	739.4	1,887.6	90.1	82.3	500.3	582.6	-85.4	187.2	-21.2
05	1,695.9	213.5	213.5	576.9	790.4	2,614.8	302.1	302.1	644.9	947.0	41.5	11.8	19.8
06	1,325.6	22.8	18.8	425.1	443.9	2,235.4	4.5	4.5	1,027.8	1,032.3	-76.1	141.8	132.6
Total	**5,556.9**	**1,203.6**	**1,199.6**	**1,176.2**	**2,375.8**	**8,396.5**	**433.7**	**394.9**	**2,931.7**	**3,326.6**	**-67.1**	**149.3**	**40.0**

Source: Central Bank of Iran

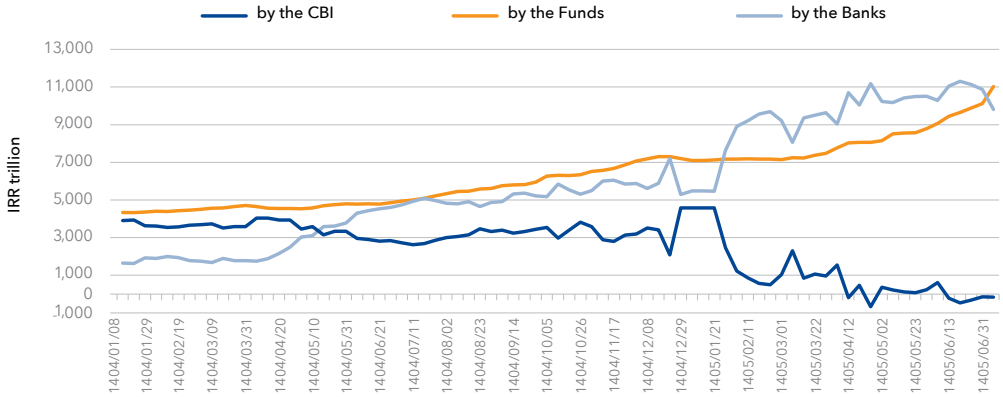
In addition to the auctions, the government also can issue debt securities through two other distinct methods: first, by selling Murabaha Debt Securities in the capital market through an underwriter, and second, by transferring Islamic Treasury Bonds to government creditors in settlement of outstanding debts. In 1405H1, IRR1,150.0 trillion Islamic Treasury Bonds were disposed through the second method, but no securities were issued through the first method during the period under review. Accordingly, total Issuance of Government Debt Securities registered IRR5,650.0 trillion in 1405H1, indicating an 88.3 percent rise from the same period of its preceding year. In other words, the Government increased debt securities issuance at a rate slightly above the CPI inflation rate to finance its widening budget deficit, which is itself a major driver of inflation in Iran.

Since mid-summer 1400, the Over-the-Counter (OTC) market has published data on debt securities transactions in both the primary and secondary markets, disaggregated by market participant (the government, the CBI, banks, investment funds, etc.). Accordingly, between mid-summer 1400 and the end of 1405H1, the cumulative net purchases of government debt securities by the CBI and investment funds reached negative IRR155.0 trillion and positive IRR11,025.9 trillion, respectively. As the CBI is prohibited from purchasing government debt securities in the primary market, its reported net purchases reflect secondary-market transactions. It should be noted that the CBI's cumulative net sales does not indicate a negative holding of these securities on its balance sheet, as the available data covered only the period from mid-summer 1400 to the end of 1405H1.

Banks, which were mainly net sellers of government debt securities from mid-summer 1400 to the end of that year (with cumulative net sales of IRR556.3 trillion across the primary and secondary markets), subsequently became net buyers.

The net purchases of government debt securities by banks in the primary and secondary markets totaled IRR4,324.8 trillion during 1405H1. By the end of 1405H1, banks' cumulative net purchases of government debt securities since mid-summer 1400 had reached approximately IRR9,803.0 trillion. The banking system's increased purchases of government debt securities in 1405H1 can be attributed to rising yields on these securities, while other money market rates remained relatively stable. Meanwhile, the CBI pursued a contractionary policy by limiting reserve injections through open market operations and reducing its cumulative net purchases of government securities in the secondary market. Consequently, banks shifted their asset portfolios toward government debt securities, reflecting a crowding-out effect that further constrained private sector financing amid the economic recession. Graph 9 shows the cumulative net purchases of government debt securities (since mid-summer 1400) by market participant through the end of 1405H1.

Graph 9. Cumulative Net Purchases of Government Debt Securities by Market Participant



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

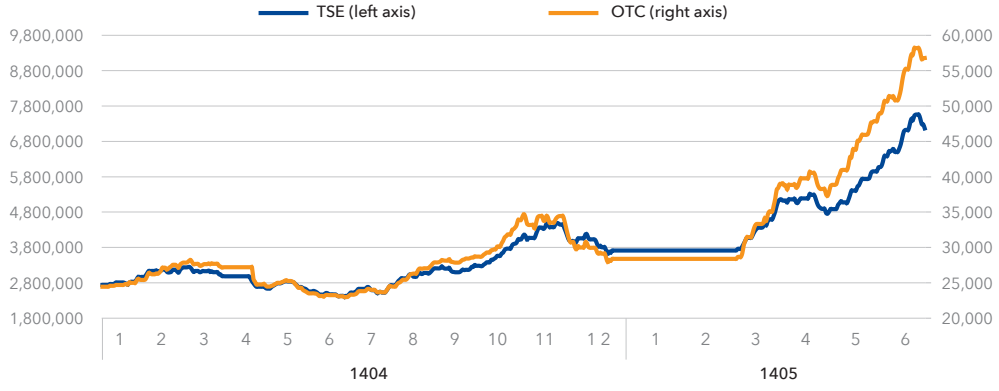
9. CAPITAL MARKET

9-1. Return

The Iranian capital market was substantially attractive to investors in 1405H1. Following the resumption of trading activities in the capital market in the late second month of spring 1405, and contrary to expectations, the TSE and OTC Overall Indices rose by 38.0 percent and 36.6 percent, respectively, by the end of 1405Q1 compared with their levels at the end of 1404. Moreover, buy-order queues for some stocks were observed during 1405H1.

In 1405Q2, the signing of a memorandum of understanding between Iran and the USA, along with increased sales and nominal revenues of listed companies in the aftermath of the War - partly reflecting higher prices amid rising CPI inflation - was among the major factors supporting the Iranian capital market in that quarter. The underperformance of stocks relative to the CPI inflation rate and returns in certain parallel markets over preceding periods has become a key factor attracting the attention of capital market traders. In other words, as many listed companies could benefit from higher product prices and exchange rates, upward movements in these variables may have strengthened investors' expectations regarding the companies' future nominal profitability. In addition, increased demand from individual investors in the stock market and stock funds contributed to the capital market rally in 1405H1. On the last trading day of 1405Q2, the price-to-earnings (P/E) ratio stood at 8.25, the highest level since the second month of 1402. Even though the rise in this ratio may signal increasing valuation risks in the capital market, it remained below its peak of 40, recorded in the fourth month of 1399 - during a period of strong stock market growth. However, in 1405H1, the Iranian economy faced more challenging economic conditions than in 1399. At the end of 1405Q2, the TSE and OTC Overall Indices rose by 39.8 percent and 46.5 percent, respectively, from their levels at the end of 1405Q1. Graph 10 depicts the daily developments of TSE and OTC Overall Indices from the beginning of 1404 to the end of summer 1405.

Graph 10. TSE and OTC Overall Indices



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

Over the year ending on the last day of 1405Q2, among the various investment alternatives shown in Table 11, the TSE Index ranked first with a return of 182.2 percent, in contrast to its relatively weak performance compared with other investment alternatives in previous years. On a quarterly basis, Bitcoin recorded the highest return of 82.6 percent among the investment alternatives considered in Table 11 during 1405Q2. Overall, on both annual and quarterly bases, only fixed-income mutual funds generated returns below the corresponding CPI inflation rates.

Table 11. Quarterly and Annual Returns of Various Investment Types (in IRR) at the End of 1405Q2 (percent)

	Quarterly Return (End of 1405Q2 to End of 1405Q1)	Annual Return (End of 1405Q2 to End of 1404Q2)
Bitcoin	82.6	100.8
Gold Funds (average)	49.2	149.8
18-Karat Gold	48.1	155.7
OTC Overall Index	46.5	139.8
USD in the Free Market	46.1	124.2
Gold Coin	45.0	135.8
TSE Overall Index	39.8	182.2
Point-to-point CPI Inflation Rate	11.2	89.8
Fixed-Income Mutual Funds (weighted average)	8.6	37.1

Source: http://new.tse.ir, Statistical Center of Iran, https://www.tsetmc.com and Gold, Coin, and Currency Information Network

9-2. Market Capitalization

According to the Securities and Exchange Organization of Iran, the total market capitalization of the Iranian capital market (TSE, OTC, and Iran Mercantile Exchange) reached IRR290,322 trillion at the end of 1405Q2, up 154.0 percent from its level at the end of 1404Q2. Note that this figure is subject to double-counting, as overlaps between different segments of the capital market, such as those between the stock market and exchange-traded funds (ETFs), were not eliminated. During the period under discussion, the highest annual growth rate in market capitalization was recorded by ETFs, at 201.2 percent, while the lowest was recorded by the debt market, at 51.5 percent. The notable annual growth rate in the market capitalization of ETFs at the end of 1405Q2 was largely attributable to the 254 percent increase in the market capitalization of commodity funds listed on the Iran Mercantile Exchange (mainly gold and saffron funds). In 1405Q2, stock funds listed on the TSE and OTC recorded annual increases in market capitalization of 161 percent and 190 percent, respectively. The substantial growth in the market capitalization of commodity funds resulted in an increase in their share of total ETF market capitalization. From 1400 to 1402, commodity funds accounted for an average of 10 percent of total ETF market capitalization. This share rose to 31 percent at the end of 1404Q2 and to 39 percent at the end of 1405Q2, exceeding the corresponding shares of ETFs listed on the TSE (30 percent) and OTC (31 percent).

At the end of 1405Q2, the market capitalization of the stock market had increased by 163.5 percent compared with its level at the end of 1404Q2. However, this increase could not be attributed solely to higher share prices of listed companies. Part of this notable growth was attributable to the listing of 35 new companies through initial public offerings (IPOs). Table 12 compares the market capitalization of the Iranian capital market at the end of 1404Q2 with that at the end of 1405Q2.

Table 12. Market Capitalization of the Iranian Capital Market by Various Types (IRR trillion)

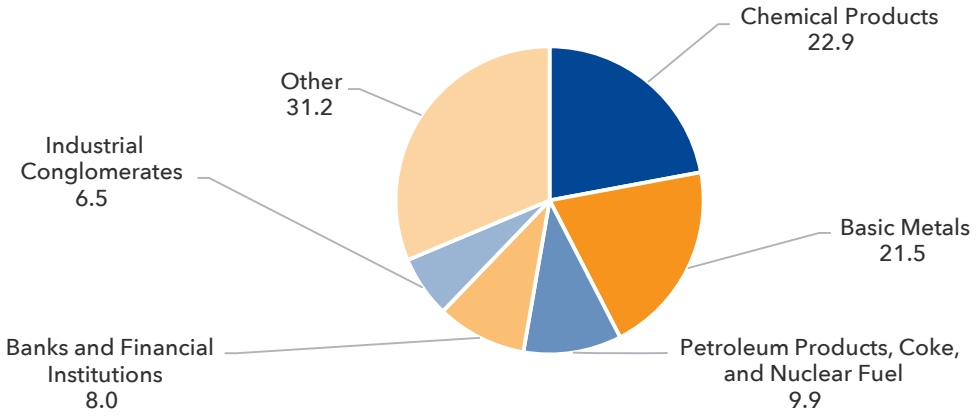
Market	End of 1404Q2	End of 1405Q2	Percentage Change
Shares	93,547	246,528	163.5
Debt Securities	12,531	18,991	51.5
Exchange-traded Funds*	8,235	24,803	201.2
Total	**114,313**	**290,322**	**154.0**

Source: Securities and Exchange Organization of Iran

* Including commodity funds of Iran Mercantile Exchange

At the end of 1405Q2, the Chemicals industry - mainly comprising petrochemical producers - accounted for 22.9 percent of total stock market capitalization, making it the largest listed industry, followed by the Basic Metals industry at 21.5 percent, the Petroleum Products, Coke, and Nuclear Fuel industry at 9.9 percent, and Banks and Credit Institutions at 8.0 percent. Graph 11 illustrates the top five industries in the stock market by market capitalization.

Graph 11. Top Five Industries by Share in Market Capitalization at the End of 1405Q2 (percent)



Source: Securities and Exchange Organization of Iran

9-3. Value of Transactions

The total value of transactions in the Iranian capital market (including ETFs listed on Iran Mercantile Exchange) amounted to IRR293,829 trillion in 1405H1, up 21.0 percent from the corresponding period of 1404. This low growth rate, which was below the corresponding CPI inflation rate, was largely attributable to the suspension of trading activities during the first two months of 1405Q1. For the same reason, the annual growth rate in the value of transactions was higher in 1405Q2, at 69.4 percent, although it remained below the corresponding CPI inflation rate.

Among the various segments of the Iranian capital market, during 1405H1, the highest increase in the value of transactions was recorded in the stock market, at 165.1 percent, while the debt market recorded the largest decline, at 1.7 percent. The contraction in the value of debt market transactions was mainly attributed to the CBI's contractionary monetary policy. Despite accounting for only 6.5 percent of the total market capitalization of the Iranian capital market at the end of 1405H1, the debt market accounted for approximately 69.6 percent of the total value of transactions during the same period. Given that most debt securities were traded on the OTC market, debt securities transactions accounted for 87.0 percent of the total value of OTC transactions in 1405H1.

In 1405H1, banks and credit institutions ranked first among listed industries in terms of share trading value, with transactions totaling IRR1,477.8 trillion - 787 percent higher than the corresponding figure in 1404H1. Table 13 presents the transaction values for various types of securities in the Iranian capital market in 1404H1 and 1405H1.

Table 13. Value of Transactions in the Iranian Capital Market

Market	1404H1		1405H1		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	8,759	3.6	23,217	7.9	165.1
Debt Securities	207,976	85.7	204,496	69.6	-1.7
Exchange-traded Funds*	26,001	10.7	66,115	22.5	154.3
Total	**242,735**	**100.0**	**293,829**	**100.0**	**21.0**

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

9-4. Finance

According to the Securities and Exchange Organization of Iran, a total of IRR8,581 trillion was raised through the TSE and OTC markets (including debt securities issuance) during 1405H1, up 89.2 percent from the corresponding period of 1404. Of this amount, 17.3 percent came from capital increases (through shareholders' due claims and cash contributions or accumulated reserves and retained earnings), 78.8 percent from the issuance of debt securities, 2.0 percent from crowdfunding, and only 1.9 percent from initial public offerings (IPOs). In 1405H1, 42.7 percent of total capital increases were financed through shareholders' due claims and cash contributions, and the remaining 57.3 percent through accumulated reserves and retained earnings. An examination of funds raised through debt securities issuance in the same period reveals that 86.1 percent was attributable to government debt securities and the remaining 13.9 percent to corporate and municipal bonds. Accordingly, 67.9 percent of the total IRR8,581 trillion raised through the TSE and OTC markets in 1405H1, equivalent to IRR5,825 trillion, represented government financing through the issuance of debt securities, above the corresponding share of 65.3 percent in 1404H1.

Given that domestic businesses received IRR33,692 trillion in bank loans during 1405H1, the share of the Iranian capital market in total reported financing during the period under review stood at 20.3 percent, up from 11.4 percent in 1404H1. Excluding government debt securities, the capital market's share of total reported financing falls to only 7.6 percent, although this remains above the 4.2 percent recorded in 1404H1. Accordingly, in 1405H1, the Iranian capital market accounted for a larger share of reported financing, suggesting an increase in its relative importance as a financing channel. Table 14 presents a detailed breakdown of financing through the TSE and OTC markets in 1404H1 and 1405H1.

Table 14. Various Types of Finance in TSE and OTC

Type of Finance	1404H1		1405H1		Percentage Change in Value of Transactions
	Value (IRR trillion)	Share in Total (percent)	Value (IRR trillion)	Share in Total (percent)	
Issuance of Debt Securities	3,475	76.6	6,764	78.8	94.6
Capital Increase (except for asset revaluation and stock premium)	988	21.8	1,485	17.3	50.3
Crowdfunding	64	1.4	169	2.0	163.0
Initial Public Offering	9	0.2	164	1.9	1,742.5
Total	**4,536**	**100.0**	**8,581**	**100.0**	**89.2**

Source: Securities and Exchange Organization of Iran

10. OTHER DEVELOPMENTS

According to the SCI's Household Income and Expenditure Survey, food, housing, fuel, and lighting accounted for an average of 70.0 percent of total urban household expenditures in 1404, up 2.7 percentage points from the preceding year. Of this total, housing, fuel, and lighting represented 41.7 percent of urban household expenditures, while food and tobacco accounted for 28.3 percent.

A higher share of food and housing expenditures in household budgets may signal a decline in household welfare. Calculating the corresponding share for rural households in Iran, they were slightly better off than their urban counterparts in 1404. Housing, fuel, and lighting accounted for 22.4 percent of total rural household expenditures, while food expenditures represented 41.7 percent. Together, these two categories absorbed 64.1 percent of rural household budgets, up 2.9 percentage points from 1403. This share is exceptionally high compared with many countries worldwide, as it typically does not exceed 50 percent in advanced economies. Notably, housing accounted for only 31.2 percent of total urban household expenditures in Iran in 1388. Following the sharp increases in food and housing prices in 1405, particularly in the aftermath of the 40-day war, the combined share of these essential expenditures is expected to rise even further in the current year, leaving Iranian households with increasingly limited financial resources to meet their other needs.

On the other hand, income distribution improved marginally in 1404, with the national Gini coefficient declining from 0.387 in 1403 to 0.385. This modest improvement was primarily driven by urban households, while income inequality among rural households increased over the same period. Nevertheless, rural household income expanded by 47.5 percent annually in 1404, outpacing the 41.2 percent increase recorded for urban households.

In 1404, approximately 70.7 percent of urban households lived in owner-occupied housing, while 22.8 percent lived in rented accommodation and the remaining 6.5 percent had other housing arrangements. In rural areas, however, the home ownership rate exceeded 90 percent.

One of the notable findings of Iran's Household Income and Expenditure Survey is the substantial contribution of non-employment income relative to wages and salaries and self-employment income. In 1404, approximately 53.9 percent of urban household income came from sources other than employment, representing an increase of 1.0 percentage point compared with the preceding year. In most other countries, employment income generally accounts for a larger share of household income than non-employment income. In Iran, however, persistently high inflation has contributed to a situation in which a substantial proportion of household expenditures is financed through non-employment income. Apart from government transfers and subsidies, non-employment income may include returns on investment assets, whose values - unlike wages and salaries - often increase at a faster pace than the general price level. However, households in lower-income deciles typically have limited access to such assets and are therefore largely excluded from the potential income and wealth gains associated with their appreciation.

KEY POINTS

- In 1405Q1, the Iranian economy experienced one of its sharpest contractions in recent years, with real GDP declining by 10.1 percent and non-oil GDP by 4.6 percent. This downturn was driven primarily by a 26.4 percent contraction in extraction of oil and natural gas, which accounted for approximately two-thirds of the overall decline in output. On the demand side, exports of goods and services plunged by 35.7 percent, while private consumption expenditures and gross fixed capital formation fell by 4.0 percent and 8.4 percent, respectively. The IMF projected Iran's economic growth at negative 7.6 percent in 2026.

- Iran's exports of crude oil and gas condensates fell sharply from approximately 2 mbpd in March 2026 to around 270 thousand barrels per day in August. Prolonged export restrictions and declining offshore oil inventories outside the blockade zone eventually forced production cuts. Crude oil output fell by 399 thousand barrels per day in August 2026 to 2.1 mbpd, down 34.9 percent compared to August 2025.

- The construction sector contracted by 6.4 percent in real terms in 1405Q1, while in Tehran, the price index of construction materials surged by 106.8 percent compared to 1404Q1, reflecting persistent cost pressures. Despite a rebound in Tehran's housing transactions to approximately 2,300 units in the last month of 1405Q2 and an increase in the average asking price to IRR2.22 billion per square meter, transaction volumes remained subdued amid weak housing demand.

- In 1405Q1, the unemployment rate among people aged 15 and above rose by 1.8 percentage points to 9.1 percent from 1404Q1.

- The annual CPI inflation rate continued to accelerate during 1405Q2, although the point-to-point CPI inflation rate remained relatively stable across the three months of that quarter.

- The ongoing maritime blockade, severe disruptions to trade through Iran's southern ports, collapsing oil exports, and political tensions surrounding the Iran–USA conflict were major factors behind the Rial depreciation in 1405H1. During 1405Q2, the free-market USD/IRR exchange rate recorded its highest volatility since the beginning of 1404.

- The IMF forecast a current account deficit of USD5.4 billion for Iran in 2026, equivalent to 1.8 percent of GDP, reversing Iran's recent history of surpluses in its current account. Alongside the collapse in oil exports, weaker non-oil trade further intensified external pressures, with non-oil trade between Iran and China declining by approximately 56.2 percent in the first eight months of 2026.

- The CBI's tighter provision of liquidity to banks since the second month of 1405, alongside potentially stricter controls over credit growth, likely contributed to the mild slowdown in annual liquidity growth rate during the final two months of 1405Q2.

- Estimates indicate that realized general uses of government budget exceeded realized general sources by approximately 12.4 percentage points in terms of their respective realization rates in 1405H1, resulting in an overall budget deficit of IRR3,896.2 trillion. With current expenditures reaching 106.1 percent of their approved amount and general revenues realization rate standing at 73.3 percent, the operating budget deficit was estimated at IRR11,035 trillion in 1405H1. Accordingly, the Government relied heavily on debt securities issuance and borrowing from the NDF to finance these shortfalls. Government debt securities sold through CBI auctions totaled IRR3,326.6 trillion in 1405H1, up 40.0 percent from 1404H1. From mid-summer 1400 through the end of summer 1405, the CBI recorded net cumulative sales of IRR155 trillion in government debt securities, while investment funds and banks were net purchasers of IRR11,026 trillion and IRR9,803 trillion, respectively.

- The Iranian capital market recorded substantial gains during 1405Q2, with the TSE and OTC Overall Indices rising by 39.8 percent and 46.5 percent, respectively, compared with

the end of 1405Q1. Supported by 35 initial public offerings and strong equity market performance, total market capitalization of the Iranian capital market at the end of 1405Q2 reached IRR290,322 trillion, up 154.0 percent from that of the end of 1404Q2. Banks and credit institutions ranked first among the major industries represented in the stock market in terms of value of transactions during 1405H1, recording IRR1,477.8 trillion, an increase of 787 percent from 1404H1.

- In 1404, Iranian urban households allocated 70.0 percent of their total expenditure to food, housing, fuel, and electricity, an increase of 2.7 percentage points from the preceding year. Due to rising prices, this share is expected to rise further in 1405, reflecting mounting pressure on household budgets.

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