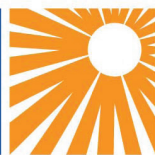


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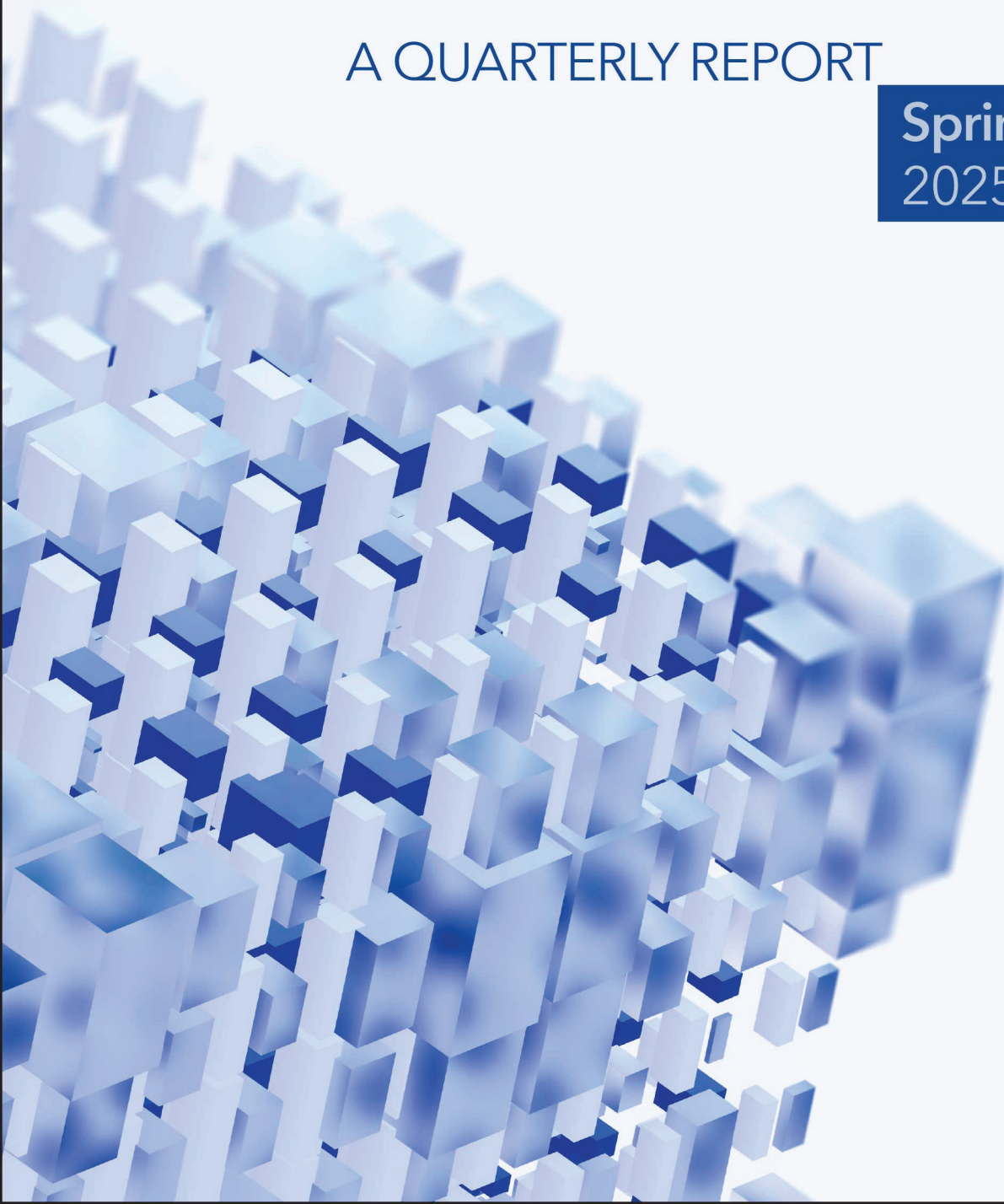


RECENT

ECONOMIC DEVELOPMENTS IN IRAN

A QUARTERLY REPORT

Spring 1404
2025Q2





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Disclaimer

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 (July 2025) and have been taken from the referenced sources. While every effort has been made to keep them up-to-date and correct, no representations or warranties of any kind, express or implied, are made about their completeness, accuracy, reliability or suitability for any purpose. Your use of this Report does not entail any responsibility or obligation by Middle East Bank or any entity or person associated with it.

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NOTE:

- In this Report the growth rate of a variable means the percentage change of that variable during the period under review, or at the point under discussion, compared to the similar period or point in the preceding year. As such, “the growth rate of oil revenues in the first quarter of 1404” indicates the percentage change in oil revenues between the first quarter of 1403 and the first quarter of 1404.
- Iran follows the Persian Calendar, a solar calendar in which years start on the first day of spring and end on the last day of winter. The four quarters of the year correspond exactly to the four seasons. This report covers the year 1403 that starts on March 20, 2024 and ends on March 20, 2025 as well as the first quarter of 1404 that starts on March 21, 2025 and ends on June 21, 2025. The first quarter of 1404 (referred to as 1404Q1), spring of 1404, roughly corresponds to the second quarter of 2025 in the Gregorian Calendar (2025Q2).

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

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

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

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

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

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

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IRAN'S ECONOMY AT A GLANCE

	1402Q4	1402	1403Q1	1403Q2	1403Q3	1403Q4	1403	1404Q1
Labor Force Participation & Unemployment Rates (percent)								
Participation (15 Years and Over)	40.8	41.3	41.2	41.7	41.2	40.1	41.0	41.2
Unemployment (15 Years and Over)	8.6	8.1	7.7	7.5	7.2	7.8	7.6	7.3
Unemployment (Youth Aged 15-24)	22.5	21.2	20.0	19.4	20.2	21.0	20.1	19.7
Real Growth Rates of GDP and Its Subsectors at Constant 1400 Prices (percent)								
Gross Domestic Product (GDP)	5.8	5.0	2.9	2.6	3.9	3.2	3.1	-
Industries and Mining	7.1	5.1	2.7	0.9	4.0	2.0	2.4	-
Oil	14.1	18.8	7.5	6.1	0.1	4.6	4.6	-
Agriculture	0.2	0.8	3.0	3.6	4.1	2.8	3.6	-
Services	3.9	4.0	2.2	2.8	4.4	3.9	3.3	-
Non-oil GDP	-	4.0	2.5	2.3	3.9	3.1	3.0	-
Gross Fixed Capital Formation (at market prices)	13.3	6.3	2.2	3.6	4.4	4.5	3.8	-
Oil (daily average - thousand barrels)								
Production*	3,173	3,004	3,237	3,296	3,301	3,311	3,286	3,283
Point-to-point Inflation Rates (percent)								
Growth Rate of Consumer Price Index (1400=100)	35.4	40.7	31.3	31.7	31.8	34.8	32.5	39.0
Growth Rate of Producer Price Index (1395=100)	36.6	38.4	30.8	27.9	30.3	38.4	31.7	-
Balance of Payments (USD million)								
Oil Exports	14,482	56,796	18,028	15,878	16,165	-	-	-
Non-oil Exports	11,945	43,723	11,519	11,332	13,208	-	-	-
Imports of Goods	20,393	79,442	18,089	21,771	20,882	-	-	-
Goods Account (net)	6,033	21,077	11,458	5,439	8,491	-	-	-
Non-oil Goods Account (net)	-7,118	-33,215	-6,300	-9,945	-7,161	-	-	-
Current Account	2,687	8,964	8,491	2,427	5,236	-	-	-
Capital Account	-1,519	-20,457	-7,937	-4,478	-1,631	-	-	-
Change in Foreign Reserves	-1,337	-112	1,312	201	-801	-	-	-
Foreign Exchange Rates (USD/IRR daily average)								
Free Market (bill)	554,401	514,999	611,620	593,642	675,159	862,096	684,269	883,354
Secondary Market (remittance)**	396,295	382,158	414,654	444,904	504,877	669,470	507,183	691,774
Monetary and Credit Aggregates (end of period - IRR trillion)								
Monetary Base (M0)	10,921	10,921	11,130	11,542	12,165	13,594	13,594	-
CBI Claims on Banks	7,714	7,714	6,685	5,859	8,225	11,702	11,702	-
CBI Claims on Public Sector (net)	-1,787	-1,787	-635	-879	-1,438	-3,690	-3,690	-
CBI Net Foreign Assets	18,537	18,537	19,084	21,704	26,278	31,886	31,886	-
Liquidity (M2)	78,775	78,775	83,540	90,705	96,036	101,660	101,660	-
Money (M1)	19,146	19,146	20,537	22,351	23,443	26,317	26,317	-
Sight Deposits	17,678	17,678	19,101	20,908	21,952	24,526	24,526	-
Non-sight Deposits (quasi-money)	59,628	59,628	63,003	68,355	72,593	75,342	75,342	-
M2 Money Multiplier	7.21	7.21	7.51	7.86	7.89	7.48	7.48	-
Government Budget and Fiscal Position (IRR trillion)								
The data in this section is not available								
Tehran Stock Exchange (end of period)								
Overall Index (TEDPIX)	2,195,092	2,195,092	2,043,980	2,097,005	2,210,217	2,710,088	2,710,088	2,984,605
Financial Index	1,917,728	1,917,728	1,795,664	2,664,767	1,949,564	2,311,206	2,311,206	2,810,518
Industrial Index	2,089,989	2,089,989	1,944,126	1,996,195	2,101,115	2,589,606	2,589,606	2,804,554
Market Capitalization (IRR trillion)	79,408	79,408	73,477	71,954	88,683	89,552	89,552	98,543

Source: Various reports of Central Bank of the Islamic Republic of Iran (CBI), Statistical Centre of Iran (SCI) and Tehran Stock Exchange (TSE); Gold, Coin, and Currency Information Network

* According to OPEC reports from secondary sources

** From the beginning of the 11th month of 1403, all foreign exchange transactions in the secondary market were carried out in its newly added subdivision at higher rates.

INTRODUCTION

This quarterly Report investigates the Iranian economy by its various sectors and opens with reviewing the highlights of the most recent reports of the World Bank and the International Monetary Fund (IMF) on the global economy as well as the Iranian Economy. The Report proceeds with going over the real sector of the economy including GDP developments with its growth rate in 1403 and the developments of production and price of Iran's crude oil in spring 1404.

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

In the fifth chapter, the developments of the Balance of Payments in the first 3 quarters of 1403 and the changes in the customs imports and exports in 1404Q1 are investigated. The daily developments of the US Dollar price in the domestic free market and the secondary market are explored in 1404Q1 in chapter 6. In the succeeding chapter, the monetary and credit aggregates are analyzed by Monetary Base (M0), Money (M1), Quasi-money, and Liquidity (M2) in 1403. A summary of assets and liabilities of the banking system, the balances of deposits and extended facilities, and the data on extended facilities by various sectors of the economy for 1404Q1 are presented in the same chapter.

Chapter 8 of the Report presents Government fiscal performance in 1404Q1. As for the capital market, the developments of the rate of return, market capitalization, value of transactions, and finally the methods of finance by the listed companies by the end of 1404Q1 are discussed in chapter 9. The Report proceeds with an early examination of the costs associated with the 12-day War between Iran and Israel in the last chapter and finally concludes with the key points.

1. GLOBAL ECONOMIC DEVELOPMENTS

The most recent Global Economic Prospects of the World Bank¹ suggests that the world economy is entering a new critical era after getting through previous global issues like COVID-19 pandemic. Among the new headwinds faced by the world economy, trade tensions and heightened policy uncertainties are of high importance. Under such circumstances, the forecasted global growth rate of this international institution for 2025 has been revised down in its new report relative to its previous one². One of the highlights of the World Bank report of June 2025 is the tariff war between China and the USA. Precisely speaking, the tariffs levied by the USA on imports from China, China's retaliation, and eventually the partial rollback of both parties, altogether had notable impacts on forecasts for China's economic growth rate for 2025. In line with these developments, the World Bank has projected China's economic growth rate to slow to 4.5 percent, 4.0 percent, and 3.9 percent, respectively, in 2025, 2026, and

2027. Taking into consideration the close trade relations between Iran and China, the weaker outlook for China's economic growth rate would inevitably affect Iran's economic growth rate prospect. The revised forecasts of Iran's economic growth rate for 2025 in the World Bank report of June 2025 clearly proves this claim. Iran's GDP growth rate in 2025 that was projected 2.7 percent in the previous report of the World Bank is downgraded to negative 0.5 percent in its report of June 2025.

Contrary to the World Bank, the IMF has upgraded its forecasts for the global economic growth rate in its World Economic Outlook of July 2025 compared to its previous issue³. In its newly issued report, the GDP growth rate of Iran for 2025 is projected 0.6 percent, up 0.3 percentage point from the projected figure of its pervious issue. Moreover, 1.1 percent GDP growth rate is projected for the Iranian economy for 2026.

1. June 2025
2. January 2025
3. April 2025

2. REAL SECTOR

On the basis of the latest report of the CBI on the national accounts, the Iranian economy has expanded by 3.2 percent in winter 1403 and by 3.1 percent in the year 1403 as a whole. The CBI report suggests that in 1403, all the sectors of the Iranian economy have expanded. Moreover, the SCI has also reported 2.9 percent and 3.0 percent economic growth rates, respectively, for 1403Q4 and the year 1403 as a whole. Note that both of the issuing authorities use the year 1400 as the base year for their calculations, but they categorize economic sectors differently.

The CBI report suggests that much of the GDP growth rate in 1403Q4 and the year 1403 is attributed to the Services sector contributions, respectively, by 2.0 and 1.6 percentage points. Note that in 1403, the Oil sector has contributed to the GDP growth rate by only 0.4 percentage point, far below its 1.3 percentage points contribution in 1402. Regarding the SCI report, the Industries and Mining sector has served as the main driver of the GDP growth rates of 1403Q4 and the year 1403. Precisely speaking, that sector of the economy has formed 1.6 percentage points of the 2.9 percent GDP growth rate in 1403Q4 and 1.7 percentage points of the 3.0 percent GDP growth rate in 1403 as a whole. Contrary to the CBI that considers the Oil sector as a main sector of the economy, the corresponding group in the SCI categorization under the title of Extraction of Oil and Natural Gas, is itself a subsector of Industries and Mining sector. This subsector has enjoyed the highest growth rate of 6.2 percent in both 1403Q4 and the year 1403 as a whole among other subsectors of Industries and Mining and has contributed to the GDP growth rate by 0.7 percentage point in the aforementioned periods. All in all, the Non-oil GDP growth rate in 1403 is estimated 3.0 percent by the CBI and 2.1 percent by the SCI.

The Industries and Mining sector expanded by 2.0 percent in 1403Q4 and 2.4 percent in the year 1403 as a whole, the CBI report suggests. All of the subsectors of Industries and Mining experienced positive growth rates in 1403 with Construction with the highest growth rate of 3.4 percent and Water Supply, Sewerage, Waste Management, and Remediation Activities with the lowest growth rate of 1.7 percent. Among other subsectors of Industries and Mining, the Extractions of Mines experienced positive growth rates in the first 3 quarters of

1403 and in the year 1403 as a whole, except 0.9 percent contraction in 1403Q4.

According to the SCI books, the Industries and Mining Sector has expanded by 2.7 percent in 1403Q4 and 3.4 percent in 1403 as a whole, far different from the corresponding rates of the CBI report. Much of the difference between these figures, however, roots in the various categorization of economic sectors that was explained in the previous paragraphs. The SCI data suggest that, respectively, 1.1 and 1.4 percentage points of the 2.7 percent and 3.4 percent expansions of Industries and Mining sector in 1403Q4 and the year 1403 were owed to Extraction of Oil and Natural Gas. In the CBI report, around 0.4 percent point of the GDP growth rate of 1403 is attributed to the Oil sector, while the share of corresponding sector in the SCI is around 0.7 percentage point. The Industries and Mining sector is referred to as the largest sector of the economy with 50.4 percent share in GDP at current prices in 1403 on the basis of the SCI report, but according to the CBI, the Services sector with 51.5 percent share in GDP at current prices has been considered as the largest sector of the Iranian economy in the same year.

On the basis of the CBI report, the Services sector expanded by 3.9 percent in 1403Q4 and by 3.3 percent in the year 1403 as a whole. Among the subsectors of Services, in 1403, Art, Entertainment, and Recreation enjoyed the highest expansion of 20.4 percent, while the lowest growth rate was attributed to Public Administration and Defence, Compulsory Social Security at 0.3 percent. The latter subgroup even contracted by 1.8 percent in 1403Q4. Moreover, the Information and Communication subgroup grew by 13.5 percent in 1403. The 2.8 percent expansion of the Wholesale and Retail Trade, Repair of Motor Vehicles/Cycles subgroup in 1403 contributed to the annual GDP growth rate by 0.4 percent, thanks to its notable share in the Iranian economy. Regarding the developments of the Services sector in the SCI report, 3.1 percent and 2.5 percent growth rates for that sector, respectively, in 1403Q4 and the year 1403 have been reported. Among the subsectors of Services based on the SCI categorization, Financial Intermediation enjoyed the highest expansion of 10.2 percent, while Social, Personal, and Household Services (categorized as other services activities) contracted by 1.5 percent.

Recent Economic Developments in Iran A Quarterly Report

The CBI reported 2.8 percent and 3.6 percent expansion for the Agriculture sector in 1403Q4 and the year 1403, respectively, while the SCI reported the corresponding rates of 2.5 percent and 3.2 percent for the same sector. The expansion of Agriculture sector is attributed to the 14.8 percent, 8.4 percent, and 3.8 percent growth rates of Farming products, Horticulture products, and Livestock products in 1403. The SCI breaks down the same sector

to 2 subsectors of Agriculture as well as Fishing. In this regard, the SCI reported 2.7 percent and 3.2 percent expansion in the former group, respectively, in 1403Q4 and the year 1403 as a whole at constant prices, and as for the latter, 1.7 percent and 3.2 percent expansions for the same periods. Table 1 presents GDP growth rate by major sectors of the Iranian economy in 1402 and 1403 on the basis of the CBI report.

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

	1402	1403				Total	Share in Growth of 1403
	Total	Q1	Q2	Q3	Q4		
Agriculture	0.8	3.0	3.6	4.1	2.8	3.6	0.4
Oil and Gas	18.8	7.5	6.1	0.1	4.6	4.6	0.4
Industries and Mining	5.1	2.7	0.9	4.0	2.0	2.4	0.8
Services	4.0	2.2	2.8	4.4	3.9	3.9	1.6
Non-oil GDP (at basic prices)	4.0	2.5	2.3	4.2	3.1	3.0	-
GDP (at basic prices)	5.0	2.9	2.6	3.9	3.2	3.1	3.1

Source: Central Bank of Iran

As for the demand side of the economy, the data released by both issuing authorities - the CBI and the SCI - are notably different. For instance, the CBI data suggests 3.8 percent and 3.5 percent expansion in Private Sector Consumption Expenditures at constant prices, respectively, in 1403Q4 and the year 1403 in total, while the corresponding figures in the SCI report are negative 0.2 percent and negative 0.1 percent for the same periods. The CBI estimated that the improvement in the Private Consumption that had started from winter 1399 onwards, also extended throughout the year 1403 - a claim that totally contradicts the SCI report that indicated a pause in Private Consumption expansion and subsequently a downturn in that regard in 1403. Regarding the Government Consumption Expenditures,

both issuing authorities reported 3.8 percent expansion in the year 1403 as a whole.

The difference between the data issued by the CBI and the SCI does not come to an end here and could be also observed in Gross Fixed Capital Formation. For instance, the CBI reported 4.5 percent and 3.8 percent expansion in Gross Fixed Capital Formation, respectively, in 1403Q4 and the year 1403 at constant prices, while the corresponding figures in the SCI report stood far below those of the CBI at 0.1 percent and 0.8 percent. Higher expansion of Capital Formation in Machinery than in Construction in 1403Q4 and the year 1403 is the only common point of CBI and SCI report regarding Gross Fixed Capital Formation. Table 2 presents the GDP growth rates from the expenditure side.

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

	1402	1403				Total
	Total	Q1	Q2	Q3	Q4	
Private Consumption Expenditures	1.6	1.5	2.5	6.3	3.8	3.5
Government Consumption Expenditures	-0.6	-2.8	5.0	8.5	4.1	3.8
Gross Fixed Capital Formation	6.3	2.2	3.6	4.4	4.5	3.8
Machinery	6.2	0.1	4.8	6.4	5.4	4.7
Construction	7.0	4.2	2.4	1.6	3.7	3.0
Other	-4.4	-1.6	4.7	7.3	3.8	3.5
Net Exports of Goods and Services						
Exports of Goods and Services	13.2	11.2	4.1	5.9	4.3	6.0
Imports of Goods and Services	1.5	0.8	3.4	-2.6	9.2	2.7
GDP at Market Prices	5.3	3.9	3.5	4.2	3.1	3.7

Source: Central Bank of Iran

2-1. Oil

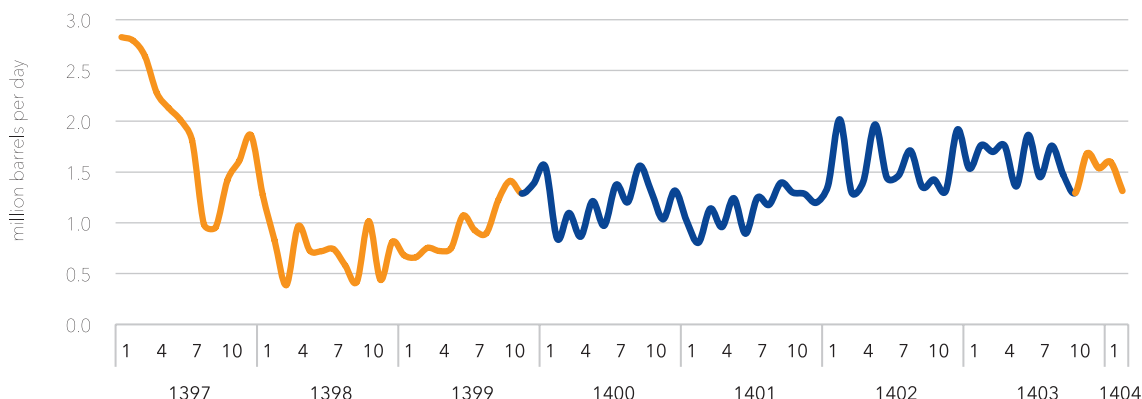
In recent years no data on the Iranian oil exports have been officially published and any information in that regard is obtained unofficially through international or independent sources. Tanker Trackers website is one of that sources that estimated the average exports of crude oil and gas condensates of Iran, respectively, 1.6 million barrels per day (mbpd) and 1.7 mbpd for April and May 2025 (roughly corresponding to the 1st and 2nd month of 1404). Although these estimates are above those of the new US sanctions era - especially between 1398 to 1400 - they indicate 4.1 percent expansion compared to April 2024, while 25.5 percent contraction compared to May 2024, which could be attributed to the political relations between Iran and the USA.

Iran's Oil exports plummeted in the aftermath of the USA unilateral withdrawal from the JCPOA⁴ in the early 1397 and reached below one mbpd at the end of 1398. In the year 1399, due to the COVID-19 pandemic and subsequently the sever fall in global oil demand, Iran's

exports of crude oil remained at low levels. However, after inauguration of Biden in the second half of 1399 (1399H2), Iran's exports of crude oil gradually increased. Although the sanctions on the Iranian economy were not lifted officially in 1399, Iran's exports of crude oil and gas condensates stood above its levels in its preceding years. Iran's exports of crude oil and gas condensates rose to 1.6 mbpd on average in 1402 compared to 982 thousand barrels per day in 1399.

Note that Iran's efforts for circumvention of sanctions in recent years have made tracking of Iran's oil exports harder for international institutions. For instance, in accordance with Tanker Trackers report, Iran's has unofficially carried out much of its oil exports via a network of vessels to China, UAE, as well as Syria in 2024. Note that much of Iran's oil is exported with price discounts by a network of unofficial dealers, especially to China. Graph 1 depicts the developments of Iran's exports of crude oil from 1397 to the second month of 1404.

Graph 1. Iran's Exports of Crude Oil and Gas Condensates*



Source: TankerTrackers.com

* The orange areas of the Graph cover Trump's Administration and its blue area covers Biden's Administration.

Note: The Tanker Trackers statistics is based on Gregorian calendar months and their conversion to Persian calendar months is only approximate.

Iran's exports of crude oil and gas condensates that registered 1.9 mbpd on average in September 2024 fell by 30.6 percent to 1.3 mbpd in January 2025, which could be attributed to the imposition of sanctions in the late days of Biden's Administration. Despite the reelection of Trump, it seems that the limitations imposed by his new administration on Iran's exports of crude oil to China have not been that effective from the date he took office till the end of Feb 2025. Moreover, the ongoing nuclear talks and China's carving for Iran's cheaper crude oil could be

considered as the factors that prevented Iran's oil exports from severe fall.

In addition, Kpler⁵ also issues statistics on Iran's oil exports, albeit far different from that of Tanker Trackers. For instance, the former source suggests 25.9 percent point-to-point expansion for Iran's daily exports of crude oil for May 2025, while the latter suggests 25.5 percent point-to-point contraction for Iran's daily exports of oil and gas condensates for the same period. Table 3 presents Iran's exports of crude oil in various months of 2025 based on Kpler.

4. The nuclear deal between Iran and P5+1 known as the Joint Comprehensive Plan of Action

5. Kpler is a leading subscription-based data and analytics platform, providing intelligence tools for trade to help businesses trade smarter.

Table 3. Iran's Exports of Crude Oil in Various Months of 2025

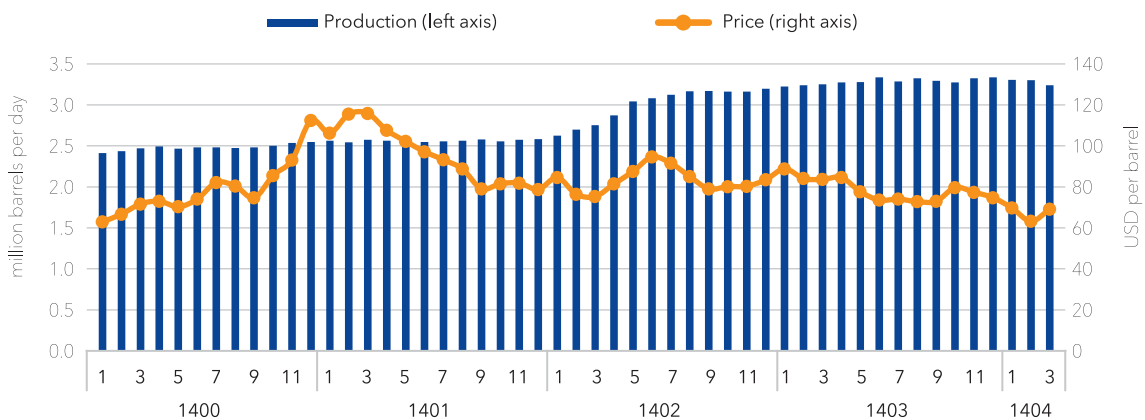
	Exports of Crude Oil (barrels per day on average)	Point-to-point Percentage Change
January	1,483,370	7.1
February	1,706,420	15.3
March	1,699,520	2.4
April	1,684,470	9.4
May	1,836,880	25.9

Source: CNBC based on Kpler statistics

The heightened tensions between Iran and Israel, remarkably the military conflicts between the two parties exerted high risk on Iran's exports of crude oil. Under such circumstances, Iran's oil infrastructure would be under threats of military strikes. Furthermore, some buyers of Iran's crude oil such as China might avoid direct purchase of oil from Iran and tend to buy that via various intermediaries. Also, the fear of military attack on Iran's oil facilities as well as energy transmission has resulted in higher costs of insurance and shipping, translating to decline in exports proceeds. The aforementioned factors, altogether could result in fall in Iran's exports and subsequently its foreign proceeds, even if the production level is technically maintained. From a foreign policy point of view, either the nuclear talks fail or pause, lack of diplomatic ways would result in further dependence of Iran on unofficial channels of oil exports that entails higher costs and uncertainty, lower transparency of transactions, lower bargaining power of Iran in global markets, and volatile oil exports proceeds. In addition, the possible trigger of snapback mechanism would also lead to decline in purchase of oil from Iran.

As the official issuance of data on the Iranian oil production has been ceased from 1397, just after the imposition of new sanctions, the OPEC data from the secondary sources is the most reliable source in that regard. On the basis of the OPEC reports, the Iranian oil production in June 2025 (roughly corresponding to the last month of 1404Q1) totaled 3.2 mbpd, down 0.3 percent from that of June 2024. Note that there is no room for further rise in the country's oil production, i.e., due to the worn-out infrastructure of the Iranian Oil sector, no expansion in production seems achievable. In recent months, the global oil prices have been affected by various factors including China's demand, supply cut by the OPEC Plus, geopolitical tensions in the Middle East, risks emanating from Iran-Israel conflicts, and finally likelihood of disruption in oil transportation via Strait of Hormuz. Notwithstanding the aforementioned factors, price of Iran's heavy crude oil (excluding price discounts) not only did not rise, but also fell by 17.4 percent to USD69.1 per barrel in June 2025, from June 2024. Graph 2 depicts the average daily production as well as average price of Iran's crude oil from the beginning of 1400 to the end of the 1404Q1.

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



Source: OPEC monthly reports, production level based on the secondary sources

Note: OPEC statistics are based on Gregorian calendar months and their conversion to Persian calendar months is only approximate.

The US Energy Information Administration (EIA) estimated USD51 billion for Iran's proceeds from exports of crude oil and gas condensates in 2018. However, after reimposition of the US sanctions as well as expiration of temporary exemptions in 2019, the EIA estimated USD5 billion only for these sorts of proceeds in that year. The same institution suggests that from 2021 onwards, due to the higher global oil prices as well as more hidden exports of oil, Iran's petrodollars started to rise and registered USD42 billion in 2023 and USD43 billion in 2024. Note that the EIA estimates solely include Iran's exports of crude oil and gas condensates, hence, other petroleum liquids are not included.

The EIA report based on Vortexa⁶ data indicated that in recent years, China has become the major buyer of

Iran's crude oil, i.e., Iran's exports of crude oil and gas condensates to China that had registered 597 thousand barrels per day on average in 2018 has grown to 1.4 mbpd in 2024 in expense of lower exports to other trade parties of Iran. Precisely speaking, due to international sanctions, much of Iran's trade parties have been left with no choice but to stop their oil purchase from Iran. Currently, in addition to China, UAE is another Iran's trade party that purchases negligible volume of Iran's crude oil. Despite the fact that the Oil sector serves as a pivotal driver of the Iranian economy, the future of that sector highly depends on the international political developments as well as the global energy market. All in all, given the current conditions, concurrent fall in volume and price of Iran's exports oil seems plausible in coming months.

6. Advanced cargo tracking for oil & gas trades

3. LABOR MARKET

The latest report of the SCI on the Iranian labor market suggests that in 1404Q1, the unemployment rate of the population aged 15 and above has diminished by 0.4 and 0.5 percentage points, respectively, compared to 1403Q1 and 1403Q4 to 7.3 percent. Moreover, in 1404Q1, the rate of underemployment (working less than 44 hours a week) has dropped by 1.3 percentage points from 1403Q1 to 6.6 percent. Moreover, other indices of the labor market including employment ratio as well as unemployment rate of population with higher education have improved in 1404Q1 compared to the same quarter of 1403. As for the economic participation rate, in 1404Q1, it has remained the same as that of 1403Q1 but has increased by 1.1 percentage points compared to 1403Q4.

In 1404Q1, the unemployment rate of males registered 6.0 percent and that of females registered 13.7 percent, respectively, 0.2 and 1.3 percentage points below those in 1403Q1. During the period under review, about 377.0 thousand individuals were added to the employed population, i.e., the number of males rose by 340.3 thousand and that of females by 36.7 thousand only. Subsequently, the employment ratio of males at working age registered 64.3 percent in 1404Q1, up 0.3 percentage point compared to 1403Q1. As for females, the same ratio remained unchanged at 12.1 percent in the same period. All in all, in 1404Q1, the employment ratio rose by 0.2 percentage point compared to 1403Q1 to 38.2 percent.

Out of the 2.0 million unemployed population in 1404Q1, 1.3 million aged 18 to 35. Accordingly, the unemployment rate for this age group registered 14.5 percent in that quarter, indicating 0.5 percentage point fall from 1403Q1. In the same quarter, 793.3 thousand individuals with higher education were unemployed, translating to 10.4 percent unemployment rate in this group, and by gender, 7.1 percent among males and 17.6 percent among females, respectively, 0.7 and 2.4 percentage

points below those of 1403Q1. In 1404Q1, around 40.0 percent of the total unemployed population of the country had higher education, indicating 3.0 percentage points fall from 1403Q1. In the same quarter, males and females, respectively, constituted 46.5 percent and 53.5 percent of the 793.3 thousand unemployed population with higher education. Subsequently, in 1404Q1, share of highly-educated individuals in total employed population fell to 27.1 percent, down 0.5 percentage point from that of 1403Q1.

In 1404Q1 and compared to the same quarter of its preceding year, 794.6 thousand individuals including 385.7 thousand males and 408.9 thousand females were added to the total working age population compared to 1403Q1. In the same period, 310.4 thousand individuals were added to the male active population, while that of females fell by 26.5 thousand, causing the total active population to rise by 283.8 thousand and to account for 35.7 percent of the added number to the population at working age. This low rate of participation is mainly attributed to the female population of the country, in a sense that out of the 33.0 million females aged 15 and above, only 4.6 million were able and willing to work in 1404Q1. In other words, the female participation rate in that quarter registered 14.0 percent only and out of the 4.6 females that were willing to work, only 4.0 million were successful in finding a job.

In 1404Q1, out of 25.1 million employed population, 52.4 percent participated in the Services Sector, 33.0 percent in the Industry Sector, and the remaining 14.6 percent in the Agriculture Sector. In the same quarter, 1.7 million of the employed population (6.6 percent) were underemployed, down 1.3 percentage points from that of 1403Q1, i.e., they have worked less than 44 hours a week due to some economic problems like fall in production and as such, notwithstanding their willingness to work more. Table 4 compares the major labor market indices in springs of 1403 and 1404.

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

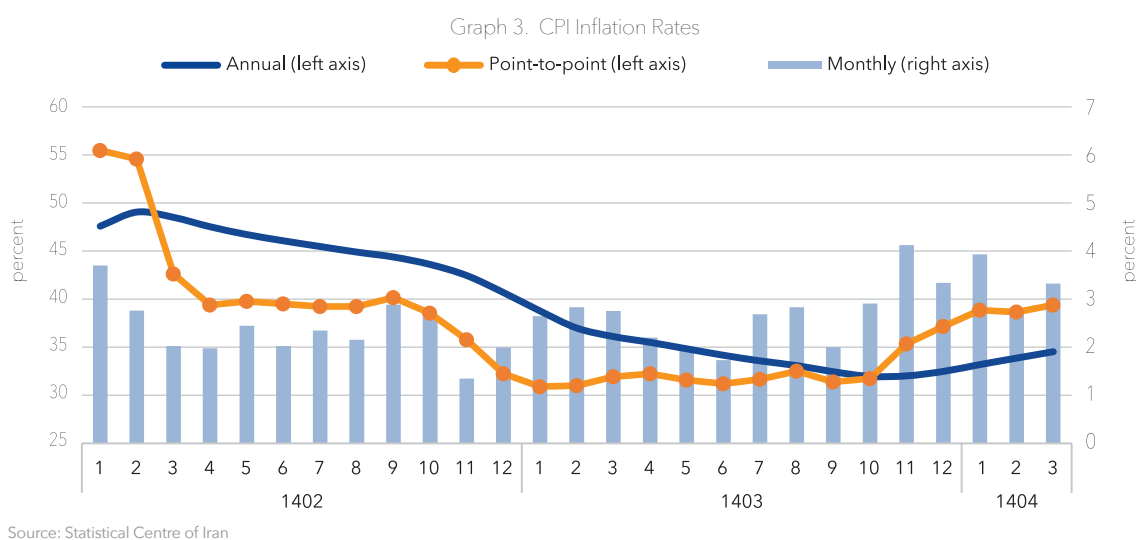
		1403Q1			1404Q1		
		Total	Male	Female	Total	Male	Female
Economic Participation	Rate (percent)	41.2	68.3	14.3	41.2	68.4	14.0
	Number (million)	26.8	22.2	4.7	27.1	22.5	4.6
Employment	Rate (percent)	38.0	64.0	12.1	38.2	64.3	12.1
	Number (million)	24.7	20.8	4.0	25.1	21.1	4.0
Unemployment	Rate (percent)	7.7	6.2	15.0	7.3	6.0	13.7
	Number (million)	2.1	1.4	0.7	2.0	1.3	0.6
Unemployment of Population Aged 18 to 35	Rate (percent)	15.0	12.2	25.4	14.5	12.1	23.9
	Number (million)	1.4	0.9	0.5	1.3	0.9	0.5
Unemployment of Population with Higher Education	Rate (percent)	11.6	7.8	20.0	10.4	7.1	17.6
	Number (million)	0.9	0.4	0.5	0.8	0.4	0.4
Share of Underemployment (percent)		7.9	8.5	4.6	6.6	7.1	3.9
Population Aged 15 and Over (million)		65.0	32.5	32.6	65.8	32.9	33.0

Source: Statistical Center of Iran

4. PRICES AND INFLATION

On the basis of the latest SCI report on CPI, the upward trend of the annual CPI inflation rate that had started from the last month of 1403 extended to 1404Q1, i.e., it registered 33.2 percent in the first month of spring and closed that quarter at 34.5 percent. The point-to-point CPI inflation rate that had started its upward path from the first month of 1403Q4, marked 31.7 percent in that month and

rose to 38.8 percent in the initial month of 1404, but during the rest of 1404Q1, that rate experienced slight changes and finally closed that quarter at 39.4 percent. The monthly CPI inflation rate, however, was volatile during 1404Q1 and registered its high of 3.9 percent in the first month of 1404. Graph 3 depicts the developments of CPI inflation rates from the beginning of 1402 to the end of 1404Q1.



The diminishing trend of the annual CPI inflation rate that began from the last month of 1402Q1 continued till the 11th month of 1403 and reached its low of 32.0 percent in that month from the beginning of 1402 onwards. This diminishing trend was partly attributed to the macroprudential policy of the CBI for limiting monthly growth rate of banks' assets⁷. However, despite that policy, the monetary aggregates indicate that during 1403 and especially in the summer of that year, the banking system has surpassed the cap for monthly growth rate of their assets. The higher pace of Liquidity growth rate in conjunction with the inflationary expectations emanating from political developments, altogether have caused the annual CPI inflation rate to reverse course from the last month of 1403 and that rate registered 32.2 percent, 33.9 percent, and 34.5 percent, respectively,

in the 3 consecutive months of 1404Q1, still below the corresponding rates of the 3 months of 1403Q1. It is worth to mention that the political developments, especially the 12-day War that took place in 1404Q1 would have affected the Iranian banking system, hence the monthly growth rates of the banking system assets might have exceeded the ceiling in 1404Q1 and subsequently higher CPI inflation rates are likely to happen in the coming months.

The point-to-point CPI inflation rate started to rise from the 10th month of 1403 and from 31.7 percent in that month reached 38.8 percent in the first month of 1404. This rate fell slightly to 38.6 percent in the second month of 1404, but again rose by 0.8 percentage point to close 1404Q1 at 39.4 percent. All in all, the monthly and point-to-point CPI inflation rates in 1404Q1 were higher than

7. For further information in this regard take a look at "Monetary and Credit Aggregates".

the corresponding rates in 1403Q1, hence higher annual inflation rate in coming months seems plausible.

An examination of the CPI inflation rate by the 12 main groups of the consumption basket of goods and services reveals that at the end of 1404Q1, the highest annual and point-to-point CPI inflation rates belong to Other Goods and Services at 42.3 percent and 49.3 percent, respectively, while the lowest to Communication at 23.2 percent and 25.6 percent. From a monthly point of view, the highest CPI inflation rate at the end of 1404Q1 is attributed to Foods and Beverages at 4.9 percent and the lowest to Communication at 0.9 percent.

The annual CPI inflation rate in Housing, Water, Electricity, Gas, and Other Fuels to which the highest weight in

the consumption basket is assigned, was continually decreasing in 1404Q1 and from 39.5 percent in the first month of 1404Q1 reached 38.9 percent at the end of that quarter. Contrary to that group, the annual inflation rate in Foods and Beverages - as the second group of the basket in weight - has followed an upward path during the same period and from 29.6 percent in the first month of 1404Q1 rose to 32.7 percent at the end of that quarter. The point-to-point inflation rates, on average, in both of the aforementioned groups, especially in the latter group, have been higher in 1404Q1 than in 1403Q1. Table 5 presents the inflation rates of the 12 main groups of the consumption basket of goods and services.

Table 5. Inflation Rates of the Consumption Basket of Goods and Services at the End of 1404Q1

	Base Year (1400) Weight	Inflation Rate		
		Monthly	Point-to-point	Annual
Overall	100.00	3.3	39.4	34.5
Housing, Water, Electricity and Other Fuels	36.11	2.3	37.5	38.9
Foods and Beverages	28.82	4.9	42.4	32.7
Transport	8.93	2.6	31.9	29.7
Health	6.68	2.8	45.4	32.8
Clothing and Footwear	4.52	2.7	34.5	31.1
Other	4.42	2.6	49.3	42.3
Household Equipment	4.40	3.9	40.1	30.1
Communication	2.41	0.9	25.6	23.2
Restaurants and Hotels	1.35	2.9	33.4	31.4
Education	0.88	1.0	35.7	35.7
Recreation and Culture	0.87	2.9	37.0	31.0
Tobacco	0.62	2.6	38.7	29.5

Source: Statistical Center of Iran

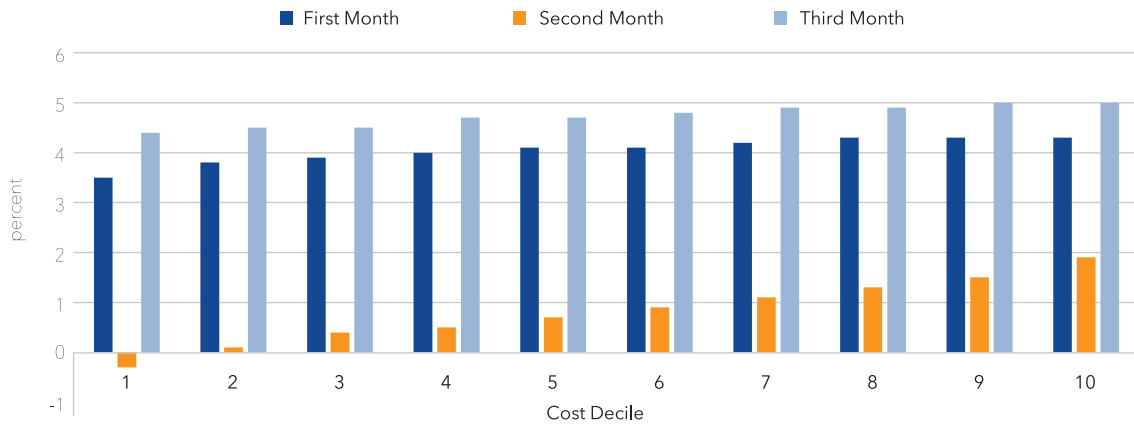
The SCI report on CPI by various cost deciles suggests that the lowest monthly inflation rate in Foods and Beverages as well as Tobacco during the 3 consecutive months of 1404Q1 belongs to the first cost decile, while the lowest to the last one. Accordingly, contrary to its preceding quarter,

in 1404Q1, the bottom cost deciles experienced lower monthly inflation rates than other cost deciles in providing their essential needs. The monthly inflation rates of Foods and Beverages as well as Tobacco by various cost deciles in 1404Q1 are depicted in Graph 4.

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Graph 4. Monthly Inflation Rates of Foods and Beverages and Tobacco During 1404Q1

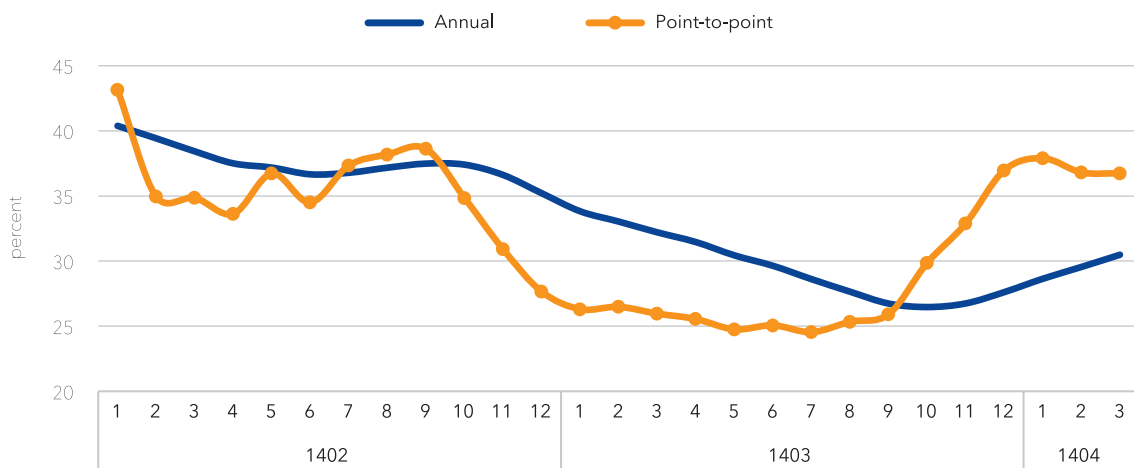


Source: Statistical Center of Iran

The latest report of the SCI on the PPI covered till the end of 1403 (1395=100) on a quarterly basis while preparing this Report. Moreover, the CBI reports the same index on a monthly basis but with a more recent base year (1400=100) and covers PPI data till the end of 1404Q1. On the basis of the CBI report, the annual PPI inflation rate as a leading indicator of the CPI inflation rate, fell to its low of 26.5 percent in the 10th month of 1403 following a downward path, but from its succeeding month onwards, reversed course and finally closed 1404Q1 at 30.5 percent. The point-to-point PPI inflation rate that had

reached its low of 24.5 percent in the 7th month of 1403, reversed course and escalated to the high of 37.9 percent in the first month of 1404 and finally closed 1404Q1 at 36.7 percent. In addition, the SCI report suggests that the annual PPI inflation rate has risen to 31.7 percent at the end of 1403Q4 in an upward path. Despite the difference between the PPI inflation rates calculated by both issuing authorities, they have followed same trends. Graph 5 depicts the developments of the annual and point-to-point PPI inflation rates from the beginning of 1402 to the end of 1404Q1 on the basis of CBI data.

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



Source: Central Bank of Iran

5. BALANCE OF PAYMENTS

The Balance of Payments that encompasses Current Account, Net Capital Account, as well as Errors and Omissions is estimated USD712 million by the CBI for the first 3 quarters of 1403. As for the same period of 1402, the Balance of Payments was reported USD1.2 billion by the same issuing authority.

The Current Account that had experienced USD6.3 billion surplus during the first 3 quarters of 1402, expanded by 157.4 percent to register USD16.2 billion during the same period of 1403. In addition, the Net Capital Account deficit fell to USD14.0 billion during the first 3 quarters of 1403 from USD18.9 billion in the same period of its preceding year. This fall in the Balance of Payments in the first 3 quarters of 1403, in fact roots in the Errors and Omissions, given the notable rise in Current Account surplus and fall in Capital Account deficit during the time span under discussion. The Errors and Omissions that was reported USD13.9 billion - an extraordinary large figure - during the first 3 quarters of 1402 (about 92.3 percent of Goods Account and 32.8 percent of Iran's oil exports for the same period), decreased to negative USD1.4 billion. Despite being notably large

yet, that figure signals more accuracy in calculation of the Balance of Payments.

The Current Account itself contains Goods Account, Services Account, Income Account⁸, and Current Transfers Account. The expansion in this element of Balance of Payments during the first 3 quarters of 1403 is mainly emanated from the considerable growth of Goods Account. The Goods Account that is the difference of goods exports value and goods imports value, reached USD25.4 billion during the first 3 quarters of 1403, up 68.8 percent from the USD15.0 billion in the same period of 1402. The Non-oil Trade Balance deficit in the first 3 quarters of 1403 marked USD23.4 billion, 10.3 percent below that of the same period of 1402. As for the Oil Trade Balance surplus, it rose by 18.6 percent to USD48.8 billion during the same period.

The Services Account deficit registered USD8.1 billion during the first 3 quarters of 1403, remaining the same as that of the first 3 quarters of 1402. In addition, in the same period, the Income Account deficit rose to USD880 million from USD649 million. The Balance of Payments is presented in Table 6 in detail.

Table 6. Balance of Payments (USD million-percent)

	First 3 Quarters of 1402 (A)	1402	First 3 Quarters of 1403 (B)	B to A Percentage Change
Current Account	6,277	8,592	16,555	157.4
Goods Account	15,044	21,077	25,388	68.8
Exports (FOB)	74,092	100,519	86,130	16.2
Oil	42,315	56,796	50,071	18.3
Non-oil	31,778	43,723	36,059	13.5
Imports (FOB)	59,049	79,442	60,742	2.9
Gas and Oil Products	1,174	2,504	1,276	8.7
Other Goods	57,874	76,937	59,466	2.7
Services Account	-8,075	-11,158	-8,128	0.7
Income Account	-649	-1,288	-880	35.6
Current Transfers Account	-43	-39	-226	425.5
Net Capital Account	-18,938	-19,882	-14,046	-25.8
Errors and Omissions	13,886	11,178	-1,397	-
Overall Balance	1,225	-112	712	-41.9

Source: Central Bank of Iran

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

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The Balance of Payments in the first 3 quarters of 1403 is translated to the improvement in Iran's international trade on the one hand and the continuation of Capital Account deficit on the other hand. The remarkable expansion of Goods Account surplus due to the rise in oil and non-oil exports and the negligible increase in imports, contributed to the escalation of the Current Account. However, this expansion was eventually offset by the capital flight as well as the fall in unidentified sources (errors and omissions), resulting in the fall in Balance of Payments in the first 3 quarters of 1403 compared to the same period of its preceding year.

The exchange rate developments also played a dual role in the changes in the Balance of Payments. On the one hand, the USD appreciation against IRR in the foreign exchanges free market incentivizes exporters for more exports - part of the rise in non-oil exports could be attributed to this factor. On the other hand, in the presence of multiple exchange rates, there would be also enough room for rent seeking, over-invoice of imports and under-invoice of exports that altogether disrupt trade statistics and the effectiveness of exchange rate policy.

On the basis of the Islamic Republic of Iran Customs Administration (IRICA), during 1404Q1, Iran's exports of goods reached around 34.5 million tons valued at USD11.7 billion, while its goods imports registered 9.0 million tons valued at USD13.0 billion. In 1404Q1, Iran's customs exports contracted by 9.3 percent in weight and 14.4 percent in value compared to 1403Q1 and as for customs imports, it contracted by 4.4 percent in weight and 11.7 percent in value. Therefore, the deficit of customs Trade Balance that had registered USD1,139 million in 1403Q1 rose to USD1,374 million in 1404Q1. During 1404Q1, 11.133 million tons of petrochemicals valued at USD4.684 billion have been exported from Iran, indicating 28.7 percent fall in weight and 24.5 percent fall in value from 1403Q1. The top five exported items in the same quarter were Liquefied Propane valued at USD874 million, Liquefied Butane at USD611 million, Methanol at USD576 million, Bitumen at USD574 million, and Natural Gas at USD456 million. The top five imported items in the same quarter were Crude Oil valued at USD883 million, Rice at USD500 million, Safflower Oil at USD493 million, and Mobile Phones at USD372 million. Details of Iran's customs trade are shown in Table 7.

Table 7. Iran's Customs Trade

	1403Q1			1404Q1			Percentage Change	
	Weight (1000 ton)	Value (USD million)	Value to Weight Ratio (USD per ton)	Weight (1000 ton)	Value (USD million)	Value to Weight Ratio (USD per ton)	Weight	Value
Exports	38,019	13,622	358.3	34,476	11,655	338.1	-9.3	-14.4
Imports	9,423	14,761	1,566.5	9,013	13,029	1,445.6	-4.4	-11.7
Customs Trade Balance	28,596	-1,139	-	25,463	-1,374	-	-11.0	20.6

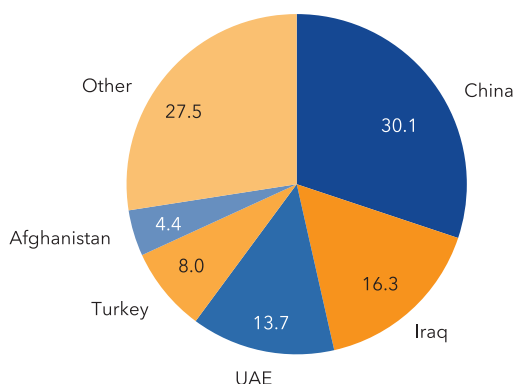
Source: Islamic Republic of Iran Customs Administration

In 1404Q1, China, Iraq, UAE, Turkey, and Afghanistan, respectively, were the top 5 customs exports destinations of Iran, with 72.5 percent share in total customs exports of the country.

During the period under discussion, USD3.5 billion of Iran's customs exports was to China with 30.1 percent

share in total, followed by Iraq at USD1.9 billion and 16.3 percent share, UAE at USD1.6 billion and 13.7 percent share, Turkey at USD937 million and 8.0 percent share, and finally Afghanistan at USD510 million and 4.4 percent share. Graph 6 depicts the top 5 customs exports destinations of Iran in 1404Q1.

Graph 6. Major Customs Exports Destinations of Iran in 1404Q1 with Their Share in Total (percent)

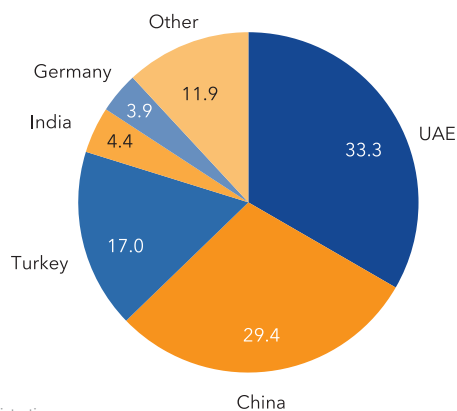


Source: Islamic Republic of Iran Customs Administration

In 1404Q1, 33.3 percent of Iran’s customs imports valued at USD3.9 billion was from UAE as the top source of Imports of the country, followed by China at USD3.4 billion and 29.4 percent share, Turkey at USD2.0 billion and 17.0 percent share, India at USD514 million and 4.4 percent share, and Germany at USD454 million and 3.9 percent

share. The imports data suggests that 79.8 percent of Iran’s customs imports during the period under review has been provided by UAE, China, and Turkey, translating to exerting considerable risk of concentration to Iran. Graph 7 depicts the top 5 sources of Iran’s customs imports in 1404Q1.

Graph 7. Major Sources of Iran’s Customs Imports in 1404Q1 with Their Share in Total (percent)



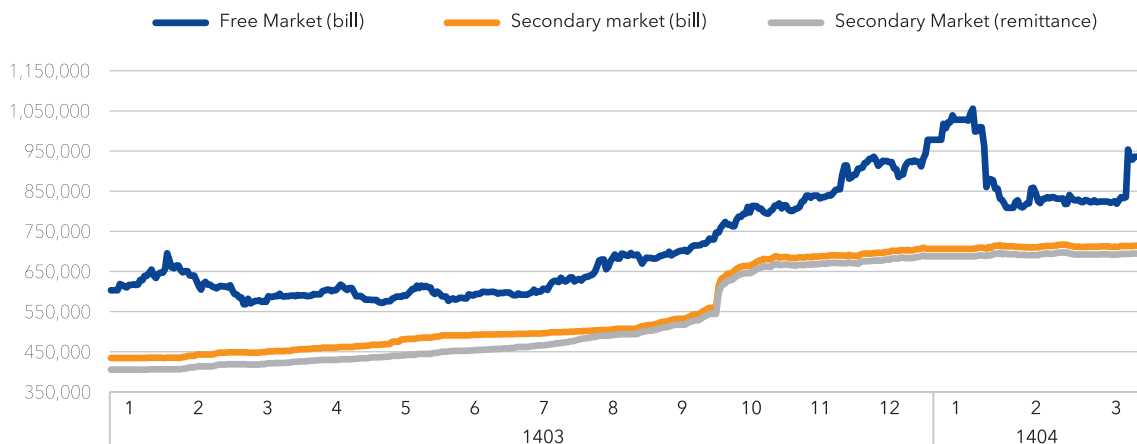
Source: Islamic Republic of Iran Customs Administration

6. FOREIGN EXCHANGE MARKET

In spring 1404, the Iranian foreign exchange market was grappling with the political tensions of winter 1403 that were extended to the new year. Despite the closure of most of the markets in the initial days of the new Iranian year, on the first working day of the year 1404, the USD price exceeded IRR1 million, indicating 65.0 percent rise compared to the same point in its preceding year. This severe USD

appreciation against IRR that rooted in the heightened political tensions, decelerated as a result of the resumption of the nuclear talks. However, the outbreak of the war between Iran and Israel in the late 1404Q1, deteriorated the Iranian foreign exchange market atmosphere. Graph 8 depicts the developments of the USD price against IRR in various markets.

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



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

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

The USD/IRR exchange rate that had exceeded one million in the early spring of 1404, peaked on the 18th day of that quarter, but after the date of the first round of the new nuclear talks in Muscat was announced, it slightly fell. Once the first round of nuclear talks materialized (on April 12, 2025), the USD price fell to below IRR1 million and in response to the release of good news from the results of the first round, fell by another IRR110 thousand the next day - equivalent to 11 percent. Thanks

to the air of optimism coupled with holding 5 rounds of nuclear talks till the late spring 1404 and prior to Israel attack on Iran - 2 days before the 6th round of nuclear talks - the USD/IRR exchange rate was hovering around 830 thousand.

However, as the war was ignited, the USD/IRR exchange rate again started to rise and finally closed 1404Q1 at around 940 thousand. In Table 8, the USD/IRR bill exchange rates in the free market are presented.

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

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

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

The developments of USD prices in the secondary (official) market are also worth to be investigated. The USD/IRR bill exchange rate as well as remittance exchange rate started to increase in the secondary market in the aftermath of the establishment of the new subdivision of that market - known as Commercial Foreign Exchange Market - from the initial days of the last month of fall 1403. In line with the USD appreciation against IRR in the free market, the rise in USD prices in the secondary market also intensified in the last days of 1403Q3. However, from the beginning of the second month of 1403Q4, all the foreign exchange transactions in the secondary market - except for imports of the essential goods - were subject to be carried out in the newly established market, translating to an exercise in order to narrow down the gap between the free-market and secondary-market exchange rates. The price of USD was slightly rising in the secondary market (for both bill and remittance) from that point to the end of 1404Q1 and from IRR666 thousand and IRR685 thousand rose to

IRR694 thousand and IRR714 thousand, respectively, for the bill and the remittance. The gap between the USD/IRR bill exchange rate in the free market and that of the secondary market that averaged above 30 percent in the last month of 1403, rose to about 43 percent right before the first round of the nuclear talks in the early 1404. The gap, however, diminished to 16 percent on average between the first round of nuclear talks and the day of Israel attack on Iran and from that point onwards, again rose to 29 percent, notwithstanding the closure of various markets as a result of war. As for the USD/IRR remittance exchange rate, its gap with the USD/IRR bill exchange rate in the free market averaged 47 percent, 20 percent, and 31 percent during the 3 aforementioned periods. Hence, the Commercial Foreign Exchange Market that was supposed to serve as a mechanism for exchange rate unification could approach its goal between the first round of nuclear talks and the Israel attack on Iran only, and consequently failed.

4 . For further information in this regard take a look at Monetary and Credit Aggregates chapter.

7. MONETARY AND CREDIT AGGREGATES

On the basis of the preliminary statistics of the CBI, at the end of 1403, the Liquidity grew by 29.1 percent to close that year at IRR101,659.5 trillion. Accordingly, the monthly growth rate of M2 during 1403 registered 2.2 percent on average to stand above the 1.8 percent of its preceding year. Hence, it seems that the banks have either exceeded the decreed cap for the growth rate

of their assets⁹ in some points of 1403 or the CBI has adopted a more lenient approach towards the banks regarding implementation of its macroprudential policy. The Monetary Base closed the year 1403 at IRR13,594.3 trillion, up 24.5 percent from that of the end of 1402. Table 9 presents the developments of Monetary Base and Liquidity at the end of 1403.

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

	End of Period Balance		Annual Growth Rate at the End of		Share in Annual Growth Rate at the End of	
	1402	1403	1402	1403	1402	1403
Monetary Base (M0)	10,921.3	13,594.3	27.8	24.5	27.8	24.5
CBI Foreign Assets (net)	18,537.1	31,885.8	512.8	72.0	181.5	122.2
CBI Claims on Public Sector (net)*	-1,786.8	-3,690.0	3.4	106.5	0.7	-17.4
CBI Claims on Public Sector	4,742.8	6,780.7	44.0	43.0	17.0	18.7
Public Sector Deposits with CBI	6,529.6	10,470.7	27.0	60.4	-16.2	-36.1
CBI Claims on Banks	7,713.5	11,701.9	97.2	51.7	44.5	36.5
Other Assets (net)*	-13,542.5	-26,303.4	-491.4	94.2	-198.9	-116.8
Balance of Implementation of Monetary Policy	2,040.0	4,039.9	106.4	98.0	12.3	18.3
Liquidity (M2)	78,774.5	101,659.5	24.3	29.1	Share in Liquidity at the End of	
					1402	1403
Money (M1)	19,146.4	26,317.3	17.5	37.5	24.3	25.9
Notes and Coins with the Public	1,468.8	1,791.3	19.8	22.0	1.9	1.8
Sight Deposits	17,677.6	24,526.0	17.3	38.7	22.4	24.1
Checks (net)	522.6	634.3	159.9	21.4	0.7	0.6
Quasi-Money	59,628.1	75,342.2	26.7	26.4	75.7	74.1
Interest-free Saving Deposits	7,603.5	11,500.5	38.3	51.3	9.7	11.3
Short Term Deposits	16,865.4	21,193.9	5.9	25.7	21.4	20.8
One-year Deposits	14,508.7	15,851.9	-1.6	9.3	18.4	15.6
Two-year Deposits	4,183.5	2,820.2	39.1	-32.6	5.3	2.8
Three-year Deposits	14,382.9	20,746.8	#	44.2	18.3	20.4
Four-Year Deposits	3.6	280.6	0.0	#	0.0	0.3
Five-year Deposits	65.2	63.7	2.4	-2.3	0.1	0.1
Miscellaneous Deposits	2,015.3	2,884.6	23.7	43.1	2.6	2.8
M2 Money Multiplier	7.21	7.48	-2.7	3.7	-	-

Source: Central Bank of Iran

* The expansion of absolute form of any component that takes negative value is a factor of decrease in the M0 in aggregate.

9. According to the circular of CBI, all banks and credit institutions are required to observe the decreed cap for monthly growth rates. Cash balances, accounts with CBI and Islamic Treasury Bills, as well as the below the line items are exempt from this circular. The cap for monthly growth rates of assets was set 2.0 percent for commercial banks and 2.5 percent for specialized banks, however, it seems that recently the CBI has loosened the implementation of its macroprudential policy in order to stimulate economic growth rate.

An examination of M2 developments by various quarters of the year 1403 reveals that on average, this monetary aggregate has experienced monthly expansions of 2.0 percent during spring, 2.8 percent during summer, and 1.9 percent both during fall and winter of 1403. Hence, the rise in monthly growth rate of banks' assets could be attributed to summer 1403, that part of the legal reserves of the banks with the CBI was released in order to be

allocated for mandatory loans. Moreover, the uncertainties from the political tensions caused the CBI to leave more room for the banks to extend facilities in excess of the decreed cap. Purchasing much of the Government Debt Securities issued in excess of the legislated figure of the Budget Law of 1403 by banks was also another factor that speeded up the Liquidity growth rate in 1403. The monthly Liquidity growth rates are presented in Table 10.

Table 10. Monthly Growth Rate of Liquidity in 1403 (percent)

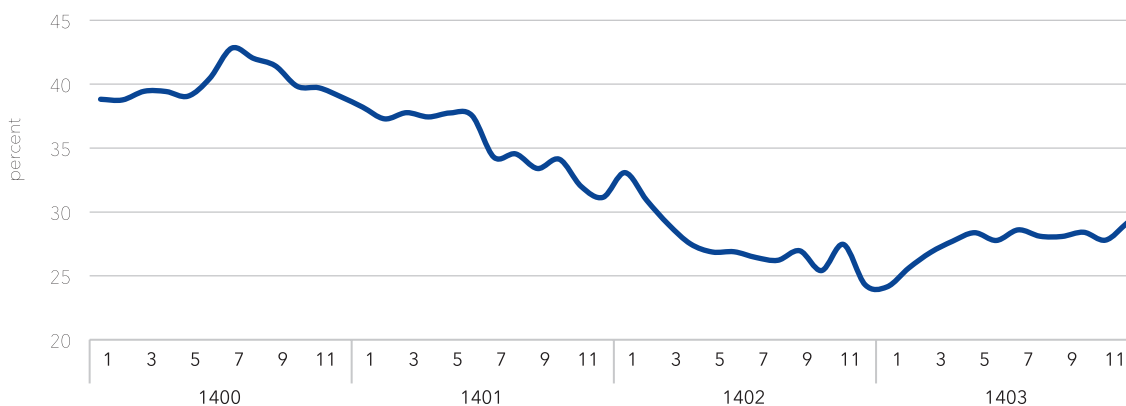
Month	01	02	03	04	05	06	07	08	09	10	11	12
Growth Rate	1.1	2.0	2.8	2.3	2.9	3.1	1.8	1.7	2.3	1.2	2.2	2.3

Source: Central Bank of Iran

The annual growth rate of M2 that had started a downward path from mid-1400 as a result of the CBI practice for controlling banks' balance sheets, marked its low of 24.1 percent in the first month of 1403 and from that point on, was violating till the mid-1403Q3 and stood at 28.1

percent in the 2nd and 3rd month of that quarter. This rate reached 28.4 percent, 27.8 percent, and 29.1 percent, respectively, in the 3 consecutive months of 1403Q4. Graph 9 depicts the annual growth rate of Liquidity from the beginning of 1400 to the end of 1403.

Graph 9. Annual Growth Rate of Liquidity



Source: Central Bank of Iran

An examination of the Liquidity by its components, Money and Quasi-money, reveals that at the end of 1403, M1 has grown by 37.5 percent and Quasi-money by 26.4 percent compared to the end of 1402, causing the share of money in Liquidity to rise by 1.6 percentage points to 25.9 percent at the end of 1403. Among the components of Quasi-money, the three-year deposits expanded by 44.2 percent, while the two-year deposits contracted by

32.6 percent at the end of 1403 compared to the end of 1402. The considerable expansion of the three-year deposits throughout 1403 emanates from the arbitrary waiver of the penalty for prematurity withdrawal by some banks and also conversion of matured one-year and two-year deposits to the three-year deposits with higher interest rate.

The M1 (notes and coins in circulation and sight deposits),

interest-free saving deposits, and short-term deposits altogether formed 58.0 percent of the Liquidity at the end of 1403 which is considered as a large share and stands above the 55.4 percent share at the end of 1402. The share of three-year deposits in Liquidity in the same point registered 20.4 percent, below the share of sight-deposits in Liquidity at 24.1 percent. All in all, the share of Liquidity components in this monetary aggregate conveys that due to the various uncertainties in the Iranian economy and the reactions of other alternative investments such as gold and foreign currencies to the economic and political conditions during 1403, investment in long-term bank deposits has not been desirable.

The latest CBI data suggests that the Monetary Base has reached IRR13,594.3 trillion at the end of 1403, indicating 24.5 percent rise from the end of 1402. The annual growth rate of M0 reached its low of 21.1 percent in the second month of 1403, but reversed course and continually increased in its 3 following months. The annual growth rate of M0 fell to 18.7 percent in the last month of summer 1403, far below the 41.7 percent at the end of summer 1402. In a downward path, that rate registered 21.3 percent, 20.7 percent, and 20.0 percent in the 3 consecutive months of 1403Q3, but reversed course and, respectively, grew to 21.2 percent, 22.0 percent, and 24.5 percent in the 3 consecutive months of 1403Q4.

At the end of 1403, the Net CBI Foreign Assets expanded by 72.0 percent from the end of 1402, with the highest contribution of 122.2 percentage points to the M0 growth rate among its other components during the period under discussion. On the basis of the CBI report, the 72.0 percent rise in the Net CBI Foreign Assets has been mainly due to the rise in USD/IRR exchange rate used for conversion of the assets denominated in foreign currencies to Rial. Accordingly, it is inferred that probably the weighted USD/IRR exchange rate¹⁰ at the end of each month has been used for conversion of CBI foreign assets from the last month of 1402 onwards, far above the USD/IRR conversion rate of 42 thousand that was previously used. Reconverting the Net CBI Foreign Assets to USD using the end of month weighted USD/IRR exchange rate, it is concluded that at the end of 1403,

the Net CBI Foreign Assets has only expanded by around 12.0 percent (in terms of USD) from the end of 1402.¹¹ The CBI claims on banks with 51.7 percent growth rate and 36.5 percentage points share in M0 growth rate, has played a key role in expanding this monetary aggregate at the end of 1403 compared to the end of 1402.

At the end of 1403, the CBI Net Other Assets that generally takes negative values, expanded by 94.2 percent from the end of 1402, in order to offset the effect of the rise in USD/IRR exchange rate used for conversion of Net CBI Foreign Assets. Due to the negative nature of the CBI Net Other Assets, this component has served as the major factor of decrease in the M0 growth rate by negative 116.8 percentage points share at the end of 1403. At the end of 1403, the CBI Net Other Assets remained negative, despite the 98.0 percent expansion in the Balance of the Implementation of the Monetary Policy as its positive subgroups. The Net CBI Claims on the Public Sector with negative 17.4 percentage points share in the M0 annual growth rate in the same period was another factor of decrease in that monetary aggregate. At the end of 1403, CBI Claims on Public Sector grew by 43.0 percent and Public Sector Deposits with CBI grew by 60.4 percent compared to the end of 1402 to make the Net CBI Claims on the Public Sector the second factor of decrease in the M0 annual growth rate in the same period.

The aggregated balance sheet of the banks and non-bank credit institutions reveals that at the end of 1403, their Assets (Liabilities) less below the line items have grown by 57.8 percent from the end of 1402. On the Assets side, Foreign Assets, Claims on Non-public Sector, and Other Assets, respectively, were the top 3 contributors to the annual growth rates of the Assets. Note that in the aftermath of the revision of M0 components in the CBI books the year 1400 and after, the Deposits with the CBI includes those in IRR only and the deposits in foreign currencies are included in Other Assets of banks. On the Liabilities side, Foreign Liabilities, Deposits of Non-public Sector, and Other Liabilities were the top 3 drivers of the annual expansion of the Liabilities. A summary of Assets and Liabilities of the banks and non-bank credit institutions is presented in Table 11.

10. The weighted USD/IRR exchange rate solely represents a weighted average of USD/IRR bill and remittance exchange rates in the secondary market and the USD fixed rate of IRR285 thousand for imports of essential goods.

11. Taking into account the weighted USD/IRR exchange rate at the end of 1402 and 1403, the value of Net CBI Foreign Assets in USD is calculated USD49.2 billion at the end of 1402 and USD55.1 billion at the end of 1403.

Table 11. Summary of Assets and Liabilities of Banks and Non-bank Credit Institutions (IRR trillion)

	End of Period Balance		Share of Banks and Non-bank Credit Institutions at the End of 1403			Annual Percentage Change	
	12/1402	12/1403	Public Commercial	Public Specialized	Non-public	12/1402	12/1403
Assets (excluding below the line Items)	142,022.3	224,087.0	51,844.7	32,505.2	139,737.1	28.0	57.8
Foreign Assets	23,845.1	60,891.1	9,744.5	12,327.1	38,819.5	17.3	155.3
Notes and Coins	191.9	400.1	172.0	24.2	203.9	-1.0	108.5
Deposits with the CBI	9,260.6	11,402.9	2,923.1	727.0	7,752.8	29.9	23.1
Claims on Public Sector	9,749.4	13,168.2	6,544.2	2,293.8	4,330.2	22.9	35.1
Claims on Non-public Sector	66,509.0	88,301.2	18,170.4	11,893.4	58,237.4	30.6	32.8
Other	32,457.3	49,923.5	14,290.5	5,239.7	30,393.3	33.0	53.8
Liabilities (excluding below the line Items)	142,022.3	224,087.0	51,844.7	32,505.2	139,737.1	28.0	57.8
Deposits of Non-public Sector	77,305.7	99,868.2	25,185.5	9,155.0	65,527.7	24.4	29.2
Debt to CBI	7,713.5	11,701.9	3,799.8	1,928.4	5,973.7	97.2	51.7
Deposits of Public Sector	392.0	867.9	470.0	269.3	128.6	-15.4	121.4
Capital Account	2,599.6	6,904.6	423.8	1,906.5	4,574.3	9.0	165.6
Foreign Liabilities	20,479.7	49,083.3	8,170.3	10,833.6	30,079.4	20.2	139.7
Other	33,531.8	55,661.1	13,795.3	8,412.4	33,453.4	34.2	66.0

Source: Central Bank of Iran

At the end of 1404Q1, the balance of extended facilities by banks registered IRR114,434.5 trillion, up 42.5 percent from the IRR80,329.3 trillion at the end of 1403Q1. The balance of deposits also grew by 42.1 percent to IRR148,960.5 trillion in the same period. Accordingly,

the ratio of extended facilities to deposits less the legal reserves reached 83.9 percent at the end of 1404Q1, only 0.2 percentage point below that of the same point in 1403. The balance of extended facilities and deposits of the banks at the end of 1404Q1 are presented in Table 12.

Table 12. Balances of Extended Facilities and Deposits in IRR and Foreign Currencies (end of period-IRR trillion)

	03/1403	03/1404	Percentage Change
Extended Facilities	80,329.3	114,434.5	42.5
Deposits	104,798.5	148,960.5	42.1
Deposits Less the Required Reserves	95,562.2	136,425.6	42.8
Ratio of Extended Facilities to Deposits Less the Required Reserves (percent)	84.1	83.9	-

Source: Central Bank of Iran

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During 1404Q1, IRR17,769.8 trillion facilities has been extended to various sectors of the economy by the banking system, indicating 42.8 percent rise compared to the same period of its preceding year. Out of the total extended facilities in the period under discussion, 75.9 percent, equivalent to IRR13,486.7 trillion is attributed to the businesses (individuals and legal entities) and the remaining 24.1 percent at IRR4,283.2 trillion to the final consumers (households). Going over the extended facilities

by various sectors of the economy reveals that during 1404Q1, Industries and Mining sector had the highest share of 46.1 percent in total extended facilities to the businesses, followed by Services sector at 35.0 percent. Among various types of extended facilities, in the same period, 84.9 percent of the extended facilities to businesses and 64.4 percent of the total extended facilities were attributed to the Working Capital. The extended facilities by the type of recipients in 1404Q1 are shown in Table 13.

Table 13. Extended Facilities by Type of Recipients in 1404Q1 (IRR trillion-percent)

	Sector of the Economy	Amount	Share in Total
Businesses	Agriculture	587.2	4.4
	Industries and Mining	6,214.9	46.1
	Housing and Construction	408.9	3.0
	Commerce	1,549.9	11.5
	Services	4,724.5	35.0
	Miscellaneous	1.2	0.0
	All Sectors	13,486.7	75.9
Final Consumers (households)		4,283.2	24.1
Total		17,769.8	100.0

Source: Central Bank of Iran

8. FISCAL POLICY

In the Budget Law of 1404 (1404 Law for short), IRR18,200.0 trillion is legislated for Tax Revenues (excluding customs duties), of which, 35.0 percent belongs to Indirect Tax (tax on goods and services) and the remaining 65.0 percent to Direct Tax (corporate tax, income tax and wealth tax). As a result, the corresponding figure for Tax Revenues for 1404Q1 equals IRR4,550.0 trillion, a quarter of the total. The Iranian National Tax Administration report suggests that 66.2 percent of the legislated figure for Tax Revenues in 1404Q1 has been realized.

As for Direct Tax, the realization ratio registered 65.2 percent in 1404Q1 and among its components, actual Tax on Wealth reached IRR96.9 trillion (up 74.0 percent from its actual value in 1403Q1) to enjoy the highest realization ratio of 71.0 percent in the period under review. In the same quarter, the Tax on Stamp Duty as a subgroup of Tax on Wealth had the highest realization rate of 116.1 percent and formed 21.0 percent of the actual Tax on Wealth in that period, succeeded by Tax on Transfer of Properties with 82.3 percent realization ratio and 25.5 percent share in the actual Tax on Wealth, 21.7 percent above the realized figure of 1403Q1. In the same period, 62.1 percent of Tax on Shares Transfers was realized at IRR28.5 trillion, indicating remarkable 155.2 percent rise compared to 1403Q1.

The actual Income Tax in 1404Q1 accounted for 69.4 percent of its legislated figure to register IRR553.9 trillion, standing 76.9 percent above its corresponding figure in 1403Q1. Among the components of Income Tax, the actual Tax on Other Income experienced the highest realization ratio, amounting to IRR40.3 trillion, 28 times its legislated figure.

This source of Tax Revenues accounted for 7.3 percent of the actual Income Tax in 1404Q1. The Tax on Salary of Private Sector Employees with 43.4 percent share in Actual Income Tax ranked the 2nd component of Income Tax in terms of realization ratio at 83.5 percent in the same quarter. The actual Tax on Salary of Public Sector Employees that formed 17.2 percent of the actual Income Tax in the same quarter, accounted for 58.6 percent of its corresponding figure in 1404 Law, equaling IRR95.3 trillion and up 21.7 percent from that of 1403Q1. In 1404Q1, 49.5 percent of the legislated figure for Tax on Professions was materialized, up 87.1 percent from that of 1403Q1 and constituting 27.4 percent of the actual Income Tax in the same quarter.

In 1404Q1, Corporate Tax realized 63.1 percent of its legislated figure, amounting to IRR1,278.5 trillion, of which, 79.0 percent (IRR1,010.1 trillion) is attributed to the Tax on Non-public Legal Entities. Moreover, during 1404Q1, 96.5 percent of the legislated figure for Tax on State-owned Companies was realized and its actual level stood 38.6 percent above that of 1403Q1. This source formed 10.8 percent of Corporate Tax with the highest realization ratio among other components of Corporate Tax.

In 1404Q1, the actual Tax on Goods and Services amounted to IRR1,084.6 trillion, up 40.5 percent from that of the same quarter of its preceding year with 68.2 percent realization rate. Among the components of this source of budget, the actual Value-added Tax amounted to 68.4 percent of its legislated amount at IRR613.5 trillion and formed 56.6 percent of the actual Tax on Goods and Services in 1404Q1. Table 14 presents the figures associated with Tax Revenues in 1404Q1.

Table 14. Tax Revenues in 1404Q1 (IRR trillion-percent)

	Realized in 1403Q1	Legislated for 1404Q1*	Realized in 1404Q1	1404Q1 to 1403Q1 Percentage Change	Realization Ratio in 1404Q1	Share in Actual Tax Revenues in 1404Q1
Tax Revenues	1,953.8	4,550.0	3,013.9	54.3	66.2	100.0
Direct Taxes	1,181.6	2,959.1	1,929.4	63.3	65.2	64.0
Corporate Tax	812.9	2,024.7	1,278.5	57.3	63.1	42.4
Income Tax	313.0	797.8	553.9	76.9	69.4	18.4
Wealth Tax	55.7	136.6	96.9	74.0	71.0	3.2
Indirect Taxes	772.2	1,590.9	1,084.6	40.5	68.2	36.0
Tax on Goods and Services	772.2	1,590.9	1,084.6	40.5	68.2	36.0

Source: 1404 Budget Law and Iranian National Tax Administration

* The legislated figure for 1404Q1 is one-fourth of the legislated figure for the year 1404 as a whole.

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In 1404 Law, IRR8,100.0 trillion was legislated for issuance of Government Debt Securities, up 218.1 percent from the corresponding figure in 1403 Law at IRR254.6 trillion. However, in 1403, the actual issuance of Government Debt Securities registered IRR5,196 trillion, far above the legislated figure in 1403 Law. Accordingly, the approved figure of this source of budget in 1404 Law stands 55.9 percent above the realized figure of the year 1403. The CBI coupled with the Ministry of Economic Affairs and Finance started to hold weekly auctions of Government Debt Securities from the late 1404Q1 in both money market and capital market. By the end of 1404Q1, 2 rounds of auctions were

held and IRR750.0 trillion Government Debt Securities was issued. Out of this figure, IRR402.1 trillion of those Securities was demanded by banks and non-bank credit institutions that was completely confirmed by the Ministry of Economic Affairs and Finance, but in the capital market no transaction took place. Accordingly, in 1404Q1, the value of Government Debt Securities transactions in auctions stood 9.5 percent below the IRR423.5 trillion of 1403Q1, probably due to the later starting date of holding of auctions in the year 1404. In Table 15, the details of auctions of Government Debt Securities held by the CBI during 1404Q1 are presented.

Table 15. Government Debt Securities Auctions Held by the CBI in 1404Q1 (IRR trillion-percent)

Month	1403					1404					Point-to-point Growth of Trades in Money Market	Point-to-point Growth of Trades in Capital Market	Point-to-point Growth of Total Trades
	Supply	Banks Demand	Traded in Money Market	Traded in Capital Market	Total Traded	Supply	Banks Demand	Traded in Money Market	Traded in Capital Market	Total Traded			
02	1,048.6	11.9	10.9	10.0	20.9	0.0	0.0	0.0	0.0	0.0	-100.0	-100.0	-100.0
03	1,665.2	348.1	348.1	75.4	423.5	750.0	402.1	402.1	0.0	402.1	15.5	-100.0	-5.1
Total	2,713.8	360.0	359.0	85.4	444.4	750.0	402.1	402.1	0.0	402.1	12.0	-100.0	-9.5

Source: Central Bank of Iran

In addition to the auctions, the Government also can issue debt securities through two other distinct methods, first, selling Murabaha Debt Securities in the capital market via an underwriter, and second, providing government creditors with Islamic Treasury Bonds in exchange of its debts, however, in 1404Q1, no debt securities were issued through these two methods.

From mid-summer 1400 onwards, Over the Counter (OTC) has been in charge of issuing the data on debt market transactions by its players including Government, CBI, banks, Investment Funds, etc. From mid-summer 1400 to the end of 1404Q1, the net accumulated purchase of government debt securities by the CBI and by the Investment Funds registered IRR4,096.0 trillion and IRR4,650.8 trillion, respectively. Note that the CBI

is prohibited from purchasing those sorts of securities through the primary market (IPO) and the figure of net purchase attributed to that organization is regarding the secondary market. The banks that were mainly the suppliers of the Government Debt Securities from mid-summer 1400 to the end of that year (negative net accumulated purchase of IRR556.3 trillion in the primary and secondary markets), shifted to the demand side afterwards. This position maintained in 1404 and the net purchase of government debt securities from the primary and secondary markets during 1404Q1 by banks and non-bank credit institutions reached IRR52.0 trillion. Accordingly, the net accumulated purchase of government debt securities by the banks from mid-summer 1400 to the end of 1404Q1 is estimated around IRR1,752 trillion.

9. CAPITAL MARKET

As in spring of its preceding year, the Iranian capital market faced various circumstances in spring 1404 that highly affected the transactions as well as the

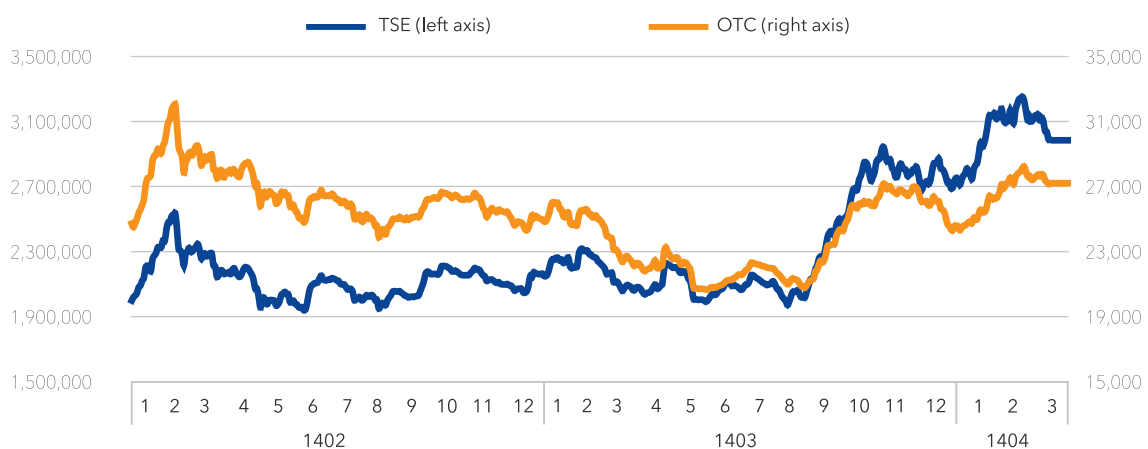
returns in that market. In the following sections, the Iranian capital market is investigated from various perspectives.

9-1. Rate of Return

The new round of nuclear talks between Iran and the US that started in the third week of the year 1404 positively impacted the Iranian capital market and at the end of the first month of 1404Q1, the Tehran Stock Exchange (TSE) and the Over the Counter (OTC) Overall Indices grew by 13.6 percent and 7.0 percent, respectively, compared to the end of 1403. The political developments in 1404Q1 - prior to the Israel attack on Iran - such as continuation of the nuclear talks and the legislation of some bills in line with the FATF, contributed to the further expansion of the Iranian capital market in that quarter. In the second month of 1404, the value of transactions of the individuals mounted to IRR1,763 trillion, indicating 658.9 percent rise compared to the

same period of 1403 and 155.4 percent compared to the last month of 1403. However, two weeks till the end of 1404Q1, the Israel attack on Iran caused the Iranian capital market to close and no transaction took place till the end of that quarter, exerting extraordinary risk to that market. Given the closure of the Iranian capital market in the late days of 1404Q1, the TSE and OTC Overall Indices grew by 10.1 percent and 11.9 percent, respectively, compared to the end of 1403. Once the capital market opened after ceasefire in the early summer, sell queues formed and those Overall Indices started to fall. Graph 10 depicts the daily developments of TSE and OTC Overall Indices from the beginning of 1402 to the end of 1404Q1.

Graph 10. TSE and OTC Overall Indices



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

The return of the Iranian capital market (TSE and OTC) during the 1404Q1, approximately equaled the growth rate of the CPI during the same period and stood above the returns of the alternative investment types. From an annual point of view, during the year ended the last day of 1404Q1, 18-karat gold enjoyed the highest annual return of 101.2 percent compared to the other types of investments, conveying high willingness of the investors to invest in the physical gold market. As for the Gold Funds, much of their portfolios contained gold bullion certificate, with a small portion of physical gold coins certificate in Iran Mercantile Exchange. At the end of 1404Q1, the quarterly return of the former registered

negative 13.9 percent and that of the latter registered negative 18.4 percent. Moreover, the price bubble of gold coin in the physical gold market that had stood above that of the gold coin certificate in Iran Mercantile Exchange at the end of 1403, considerably deflated during 1404Q1, causing the price of physical gold to experience higher fall compared to that of the gold coin certificate in Iran Mercantile Exchange. Given the considerable share of certificates of gold bullion as well as gold coin in the portfolios of Gold Funds, they experienced lower losses compared to the physical gold coins. All in all, none of the selected investment types shown in Table 16 enjoyed notable positive real returns during 1404Q1.

Table 16. Quarterly and Annual Returns of Various Investment Types (in IRR) at the End of 1404Q1

	Quarterly Return (End of 1404Q1 to End of 1403Q4)	Annual Return (End of 1404Q1 to End of 1403Q1)
TSE Overall Index	10.1	46.0
OTC Overall Index	11.9	24.3
18-Karat Gold	-16.5	101.2
Gold Coin	-21.7	89.5
Gold Funds (weighted average)	-12.6	92.7
Fixed Income Funds (weighted average)	7.1	28.6
Saffron Funds (weighted average)	-5.7	6.4
Bitcoin	7.1	79.1
USD in the Free market	-14.6	35.9
Consumer Price Index (CPI)	10.3	39.4

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

9-2. Market Capitalization

On the basis of the Securities and Exchange Organization of Iran, the market capitalization of the Iranian capital market (TSE, OTC, and Iran Mercantile Exchange) reached IRR132,482 trillion at the end of 1404Q1, up 36.7 percent compared to the end of 1403Q1. During the period under discussion, the highest market capitalization expansion is attributed to the Exchange-traded Funds at 137.1 percent, while the lowest to the Stock market at 33.3 percent. The notable expansion of the Exchange-traded

Funds in 1404Q1 is highly emanated from the 268.5 percent expansion in market capitalization of Commodity Funds in Iran Mercantile Exchange (mainly Gold and Saffron Funds). At the end of 1404Q1, the TSE, OTC, and Iran Mercantile Exchange, respectively, constituted 74.4 percent, 24.5 percent, and 1.1 percent of the total market capitalization of the Iranian capital market. In Table 17, the market capitalization of the Iranian capital market at the end of springs of 1403 and 1404 are compared.

Table 17. Market capitalization of the Iranian Capital Market by Various Types*

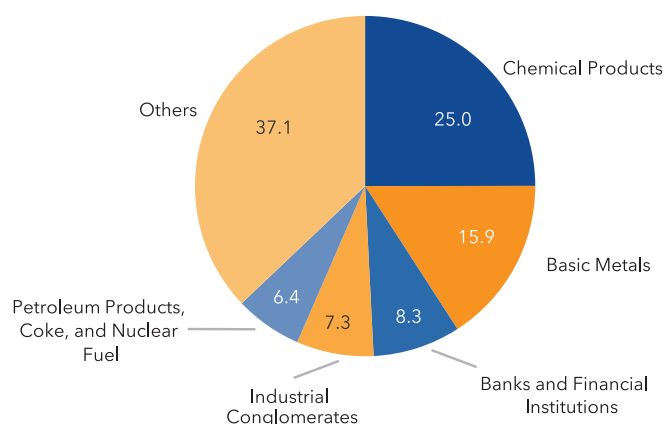
Market	End of 1403Q1 (IRR trillion)	End of 1404Q1 (IRR trillion)	Percentage Change
Shares	85,499	113,991	33.3
Debt Securities	8,472	11,473	35.4
Exchange-traded Funds	2,959	7,017	137.1
Total	96,930	132,482	36.7

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

By the end of 1404Q1, the chemicals industry - mainly including petrochemical producers - with 25.0 percent share in the market capitalization of the Stock market, ranked as the largest listed industry in terms of market capitalization,

followed by basic metals industries at 15.9 percent, banks and credit institutions at 8.3 percent, and conglomerates at 7.3 percent. Graph 11 depicts the top 5 listed industries in the Stock market in terms of market capitalization.

Graph 11. Top 5 Listed Industries by share in Market Capitalization at the End of 1404Q1 (percent)



Source: Securities and Exchange Organization of Iran

9-3. Value of Transactions

The value of transactions in the Iranian capital market (including the Exchange-traded Funds of Iran Mercantile Exchange) totaled IRR144,376 trillion in 1404Q1, up 187.8 percent from that of 1403Q1. Among various segments of the Iranian capital market, in the same quarter, the highest rise in the value of transactions is attributed to the Exchange-traded Funds at 198.5 percent, while the lowest to the Stock market at 136.9 percent. Notwithstanding its 8.7 percent share in the total market capitalization of the Iranian capital market at the end of 1404Q1, the debt

market constituted around 87.8 percent of the total value of transactions of the Iranian capital market. This 87.8 percent share is partly due to Open Market Operations in conjunction with the attractive rate of return of Debt Securities. Given that much of the Debt Securities are traded in the OTC, 95.5 percent of the total value of OTC transactions in 1404Q1 belonged to Debt Securities Transactions. Table 18 presents the value of transactions of various types of securities in the Iranian capital market in springs of 1403 and 1404.

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Table 18. Value of Transactions in the Iranian Capital Market in Springs of 1403 and 1404

Market	1403Q1		1404Q1		1404Q1 to 1403Q1 Percentage Change
	Value of Transactions (IRR trillion)	Share in Total (percent)	Value of Transactions (IRR trillion)	Share in Total (percent)	
Shares	2,112	4.2	5,004	3.5	136.9
Debt Securities	43,825	87.4	126,773	87.8	189.3
Exchange-traded Funds	4,220	8.4	12,599	8.7	198.5
Total	50,158	100.0	144,376	100.0	187.8

Source: Securities and Exchange Organization of Iran

9-4. Finance

On the basis of the Securities and Exchange Organization of Iran, during 1404Q1, IRR1,458 trillion has been financed (including Debt Securities) via TSE and OTC in total, down 32.6 percent from the same quarter of 1403. Out of that IRR1,458 trillion, 20.1 percent was attributed to raising capital (matured claims and cash contributions, or accumulated reserves and profits), 79.3 percent to Issuance of Debt Securities, and only 0.6 percent to Initial Public Offering (IPO). In 1404Q1, 62.2 percent of raising capital itself was financed through matured claims and cash contributions and the remaining 37.8 percent via accumulated reserves and profits.

An examination of fund raising through Debt Securities in 1404Q1 reveals that 82.3 percent of the funds financed via this method was attributed to Government Debt Securities, 14.3 percent to Corporate Bonds, and the

remaining 3.4 percent to Municipal Bonds. Accordingly, 65.2 percent of the total IRR1,458 trillion of finance through TSE and OTC in 1404Q1, equaling IRR951 trillion was attributed to the public finance through issuance of Government Debt Securities. This figure conveys that the Iranian capital market that was supposed to serve as a source of private finance is transformed to a source of financing Government's budget deficit. Given that the domestic businesses raised IRR13,486 trillion via the bank facilities (money market) in 1404Q1, the share of the Iranian capital market in financing businesses during the period under review equals 9.8 percent, and should the Government Debts Securities be excluded, that share falls to 3.6 percent only. In Table 19, various types of finance through the TSE and OTC in springs of 1403 and 1404 are presented in detail.

Table 19. Various Types of Finance in TSE and OTC

Type of Finance	1403Q1		1404Q1		1404Q1 to 1403Q1 Percentage Change
	Value (IRR trillion)	Share in Total (percent)	Value (IRR trillion)	Share in Total (percent)	
Raising Capital (except for asset revaluation and stock premium)	457	21.1	293	20.1	-35.8
Initial Public Offering	1	0.1	9	0.6	597.3
Issuance of Debt Securities	1,704	78.8	1,156	79.3	-32.2
Total	2,162	100.0	1,458	100.0	-32.6

Source: Securities and Exchange Organization of Iran

10. OTHER DEVELOPMENTS

The unprecedented Israel attack on Iran, just 2 days prior to the 6th round of new nuclear talks followed by the USD military strike on Iran's nuclear facilities and subsequently Iran's reciprocal action, altogether known as 12-day War is referred to one of the dominant developments in spring 1404, a factor that had notable consequences, both economic and non-economic. The direct and indirect costs of the war seem impossible to be calculated, however, the direct costs are easier to be estimated than the indirect ones. During the war, Iran launched 591 missiles and 1,050 drones towards Israel and given their type, they have not costed much compared to the USD400 billion GDP of Iran.

Yet, it seems that the Iranian economy has suffered more from indirect consequences of the 12-day War in addition to the loss of human resources. Fall in oil exports, damages to military and civilian buildings and

nuclear infrastructures, costs of disruption of the banking system and its effect on the money market, disruption of online businesses, airlines losses due to suspension of flights, and serve fall in demand in some markets are as a whole, the indirect consequences of the 12-day War, but due to lack of data, their costs are very hard to be quantified.

Some news agencies around the world such as the Turkish Radio and Television Corporation (TRT) estimated the indirect cost of the 12-day War imposed on Iran between USD18 billion to USD28 billion (5 to 7 percent of Iran's GDP), which could prepare the ground for a severe recession in the year 1404.

All in all, the post-war diplomacy of Iran could serve as a determining factor of the future of sanctions as well as the duration of the ceasefire - the main drivers of the future path of the Iranian economy.

11. KEY POINTS

- On the basis of the most recent Global Economic Prospects of the World Bank in June 2025, the world economy is facing new headwinds and among those, trade tensions and heightened policy uncertainties are of high importance. Under such circumstances, the forecasted growth rates for emerging markets and developing economies for 2025 has been revised down and that of Iran was also included in that revision. Iran's GDP growth rate in 2025 that was projected 2.7 percent in the previous report of the World Bank is downgraded to negative 0.5 percent in its report of June 2025.
- The CBI report suggests that Iran's GDP growth rate in 1403 registered 3.1 percent, of which 0.4 percentage point was owed to the Oil sector. The 18.8 percent annual expansion of the Oil sector in 1402 diminished to 4.6 percent in 1403.
- Iran's oil exports remained unstable, risky and highly vulnerable to exogenous factors. Iran's oil production has been less volatile than its oil exports, although following a downward path, it has fallen to 3.241 mbpd in the last month of 1404Q1 from 3.336 mbpd in the last month of 1403Q4 on average, due to the worn-out infrastructure as well as international tensions.
- In 1404Q1, the unemployment rate of the population aged 15 and above fell by 0.4 percentage point compared to 1403Q1 to register 7.3 percent. Meanwhile, the 40.0 percent of the total unemployed population were highly-educated, indicating 3.0 percentage points fall from 1403Q1.
- The latest SCI report on CPI suggests an upward trend of the annual CPI inflation rate during 1404Q1, i.e., it registered 33.2 percent in the first month of spring and closed that quarter at 34.5 percent. The point-to-point CPI inflation rate that had risen to 38.8 percent in the initial month of 1404, experienced slight changes during the rest of 1404Q1 and finally closed that quarter at 39.4 percent. Both SCI and CBI reported an upward path for the PPI inflation rate and given that the PPI is a leading indicator of the CPI, higher CPI inflation rates in coming months seems plausible.
- The developments of the Balance of Payments in the first 3 quarters of 1403 are translated to the improvement in Iran's international trade on the one hand and the continuation of Capital Account deficit on the other hand. The remarkable expansion of the Goods Account surplus due to the rise in oil and non-oil exports and the negligible increase in imports, altogether contributed to the escalation of the Current Account. However, this expansion was eventually offset by the capital flight as well as the fall in unidentified sources, resulting in the fall in the Balance of Payments in the first 3 quarters of 1403 compared to the same period of its preceding year. Iran's customs exports and imports fell by 14.4 percent and 11.7 percent in value, respectively, in 1404Q1. The high share of Iran's major trade parties in Iran's total trade indicates high vulnerability of the country's international trade.
- In spring 1404, the Iranian foreign exchange market was grappling with the political tensions of winter 1403 that were extended to the new year. On the first working day of the year 1404, the USD price exceeded IRR1 million, indicating 64.6 percent rise compared to the same point in its preceding year. This severe USD appreciation against IRR that rooted in the heightened political tensions, decelerated as a result of the resumption of the nuclear talks. However, the outbreak of the war between Iran and Israel in the late 1404Q1, deteriorated the Iranian foreign exchange market atmosphere.
- On average, M2 has experienced monthly expansions of 2.0 percent during spring, 2.8 percent during summer, and 1.9 percent both during fall and winter of 1403. Moreover, the uncertainties from the political tensions caused the CBI to leave more room for the banks to extend facilities in excess of the decreed cap. Purchasing much of the Government Debt Securities issued in excess of the legislated figure of the Budget Law of 1403 by banks was also another factor that speeded up the Liquidity growth rate in 1403. The M1 (notes and coins in circulation and sight deposits), interest-free saving deposits, and short-term deposits, altogether formed 58.0 percent of the Liquidity at the end of 1403. In fact, the share of Liquidity components in this monetary aggregate conveys that due to the decreed negative real rate of deposits and the reactions of other alternative investments such as gold and foreign currencies to the economic and political conditions during 1403, investment in long-term bank deposits has not been desirable. During 1403, the Net CBI Foreign Assets as well as the CBI Claims on Banks were the factors of increase in M0, while the Net Other Assets as well as the Net CBI Claims on Public Sector were the factors of decrease in that monetary aggregate.
- In 1404Q1, 66.2 percent of the legislated figure for Tax Revenues for that quarter (less customs duties) was realized. In addition, out of the IRR750.0 trillion Government Debt Securities supplied in weekly auctions in the same quarter, IRR402.1 trillion were purchased. From mid-1400Q2 to the end of 1404Q1, net accumulated purchase of Government Debt Securities by the CBI, Funds, and banks, respectively, registered IRR4,096 trillion, IRR4,651 trillion, and IRR1,752 trillion.
- The nominal rate of return of the Iranian capital market at the end of 1404Q1 compared to the end of 1403 - 10.1 percent for the TSE Overall Index and 11.9 percent for the OTC Overall Index - indicates that this market has been more profitable than other alternative investments. However, the Iranian capital market has not been that profitable in real terms and it also lost its nominal return in the aftermath of the Iran-Israel War.



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