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Recent Economic Developments in Iran

A Quarterly Report

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Recent Economic Developments in Iran, A Quarterly Report

No. 18, April 2020

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Notes

Note 1: 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 the preceding year. As such, "the growth rate of oil revenues in the first quarter of 1398" indicates the percentage change in oil revenues between the first quarter of 1397 and the first quarter of 1398.

Note 2: 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. The current Persian year is 1398 that started on March 21, 2019, and ends on March 20, 2020. The First quarter of 1398 (referred to as 1398Q1), Spring of 1398, roughly corresponds to the Second quarter of 2019 in the Gregorian Calendar (2019Q2).

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

1397Q4 = 12/22/2018 – 03/20/2019, roughly **2019Q1**
1398Q1 = 03/21/2019 – 06/21/2019, roughly **2019Q2**
1398Q2 = 06/22/2019 – 09/22/2019, roughly **2019Q3**
1398Q3 = 09/23/2019 – 12/21/2019, roughly **2019Q4**
1398Q4 = 12/22/2019 – 03/20/2020, roughly **2020Q1**

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Iran's Economy at a Glance

	1397Q3	1397Q4	1397	1398Q1	1398Q2	1398Q3	1398Q4
Labor Force Participation & Unemployment Rates (percent)							
Participation (10 Years and Over)	40.5	39.5	40.5	40.6	40.8	40.1	-
Unemployment (10 Years and Over)	11.7	12.1	12.0	10.8	10.4	10.6	-
Unemployment (Youth Aged 15-24)	27.0	28.1	27.7	26.5	26.1	25.8	-
Real Growth Rates of GDP and Its Subsectors at Constant 1390 Prices (percent)							
Gross Domestic Product (GDP)	-11.4	-8.4	-4.9	-10.1	-10.4	-1.7	-
Manufacturing and Mining	-21.1	-15.0	-9.6	-21.2	-23.7	-1.9	-
Agriculture	-1.8	1.4	-1.5	4.8	6.7	-1.4	-
Services	-1.8	-2.1	0.0	-0.1	0.1	-0.7	-
GDP (Excluding Oil)	-5.4	-4.1	-2.4	-1.0	0.0	0.9	-
Gross Fixed Capital Formation (at market prices)	*-6.3*	*-10.7*	*-5.6*	*-6.3*	*-1.9*	*0.9*	-
Oil (daily average - thousand barrels)							
Production*	2,993	2,725	3,283	2,409	2,191	2,115	-
Point-to-Point Inflation Rates (percent)							
Growth Rate of Consumer Price Index (1395=100)	35.0	43.1	26.8	51.3	41.3	27.7	22.0
Growth Rate of Producer Price Index (1395=100)	56.1	66.3	47.5	69.5	49.4	-	-
Balance of Payments (USD millions)							
Oil Exports	-	-	60,735	-	-	-	-
Non-Oil Exports	-	-	32,655	-	-	-	-
Imports of Goods	-	-	60,755	-	-	-	-
Goods Account (Net)	-	-	32,635	-	-	-	-
Non-Oil Goods Account (Net)	-	-	-26,722	-	-	-	-
Current Account	-	-	26,741	-	-	-	-
Capital Account	-	-	-16,044	-	-	-	-
Change in Foreign Reserves	-	-	9,880	-	-	-	-
Foreign Exchange Rates (USD/IRR daily average)							
Free Market	132,748	118,786	106,229	136,762	119,395	118,175	138,782
Official	42,000	42,000	42056	42,000	42,000	42,000	42,000
NIMA (Remittance)	94,228	88,082	-	99,593	113,098	108,904	125,657
Monetary and Credit Aggregates (end of period - IRR trillions)							
Monetary Base (M0)	2,436.0	2,656.9	2,656.9	2,744.3	2,951.2	3,142.6	-
CBI Claims on Banks	1,497.9	1,381.7	1,381.7	1,345.5	1,218.8	1,113.9	-
CBI Claims on Public Sector (Net)	132.7	292.0	292.0	414.8	336.6	246.8	-
Liquidity (M2)	17,645.8	18,828.9	18,828.9	19,799.1	21,264.4	22,623.1	-
Money (M1)	2,446.2	2,852.3	2,852.3	3,108.7	3,333.5	3,634.8	-
Sight Deposits	1,991.2	2,304.8	2,304.8	2,606.5	2,834.9	3,106.9	-
Non-Sight Deposits (Quasi-Money)	15,199.6	15,976.6	15,976.6	16,690.4	17,930.9	18,988.3	-
Government Budget and Fiscal Position (IRR trillions)							
Total Revenues	639.4	-	-	-	-	-	-
Tax Revenues	267.8	-	-	-	-	-	-
Oil Revenues	263.6	-	-	-	-	-	-
Other Revenues	108.0	-	-	-	-	-	-
Total Expenditures**	718.2	-	-	-	-	-	-
Current Expenditures	629.9	-	-	-	-	-	-
Development Expenditures	54.6	-	-	-	-	-	-
Budget Balance	-78.8	-	-	-	-	-	-
Tehran Stock Exchange (end of period)							
Overall Index (TEDPIX)	156,083	178,659	178,659	234,879	302,104	353,997	512,900
Financial Index	172,718	205,266	205,266	295,179	364,579	434,767	636,700
Industrial Index	141,206	161,031	161,031	209,497	270,769	316,210	458,000
Market Capitalization (IRR trillions)	5,924	6,830	6,830	8,933	11,045	12,916	18,732

Source: Various reports of Central Bank of the Islamic Republic of Iran (CBI), Statistical Centre of Iran (SCI), and Tehran stock exchange (TSE)

* According to OPEC reports from secondary sources

** The difference between the data on the sum of current and development expenditures and total expenditures in a given quarter is due to the fact that revolving funds are not settled in each quarter but only at the end of the year.

1. Real Sector

The Iranian Economy Experienced very tough conditions in 1398. GDP contraction, high inflation, intensification of the budget deficit, increase in wealth inequality, highly volatile exchange rates, more uncertainty, attendance of banking system problems, considerable fall in international interactions, intense shortage of oil revenues, and finally disruption of various businesses in the aftermath of the Coronavirus outbreak, were among the noticeable difficulties in 1398. Even though international sanctions in 1397 and 1398 severely overshadowed the economic conditions of the country, lack of economic reforms and neglecting to address the domestic problems constituted the main contributors to such economic state. Regardless of the sanctions, undesirable business environment, instability of lawmaking, decreed prices by the government and instable trade regulations all have exacerbated the air of pessimism for the private sector and on the other had domestic and international shocks has made private investors reluctant to invest in the country. All in all, it can be claimed that the Iranian economy has not experienced sustainable economic growths from 1386 onwards. On the contrary, while in the decade between 1376 and 1386, Iranian economy expanded by around 50 percent, Iran's GDP at constant prices in the first three quarters of 1398 was almost equal to that of 1390. Should the same trend endure in winter 1398 (hereafter referred to as 1398Q4), in an optimistic scenario, the GDP in 1398 could be said that has reached to its 1390 level.

The preliminary estimates of the Statistical Center of Iran (SCI) show that Iranian Economy's total value-added during the first three quarters of 1398 has registered around IRR24,372 trillion, indicating a 7.6 percent contraction of GDP at constant prices. This contraction, however, is referred to as the most intense in the same periods of the past 8 years. The non-oil sector of the economy, hopefully grew by 0.9 percent in 1398Q3. Even though this tiny growth rate was achieved after a considerable contraction in 1397Q3 and the production is yet to reach the levels in 1395 and 1396 at constant prices, it may be a signal of the cease of recession at least in the non-oil sector of the economy. Based on the available data, the main contributors to this tiny economic growth have been two subsectors of Industries and Mining sector, the construction subsector and water, electricity and gas supply subsector with respective growth rates of 12.6 percent and 23.3 percent in 1398Q3 and 9.6 percent and 7.7 percent in the first three quarters of the year. Nonetheless, the Industries and Mining sector had the sharpest contraction of 16.6 percent among the major economic sectors in these three quarters, basically due to 37.0 percent fall in the value-added of extraction of oil and natural gas and negligible fall in the value-added of other mines at constant prices. The value-added of extraction of oil and gas at constant prices diminished by around 44 percent in the first half of 1398 (1398H1), but in 1398Q3 its contraction slowed down and reached 15.3 percent. The share of extraction of oil and natural gas at current prices in GDP has been 15.0 percent in the first three quarters of 1398. On a quarterly basis, this share has been diminishing and has registered 14.4 percent in fall 1398. Although the share of oil and gas value-added in the GDP in 1398 has been below its average of recent decades, it is still up from its 10.9 percent share in 1394 and 12.7 percent share in 1395. As the largest sector of the economy, the services sector that usually accounts for approximately half of GDP has contracted by 0.2 percent in the first 9 months of 1398 at constant prices, whereas agriculture is the only sector of the economy that has grown by 3.2 percent in this time span. Agriculture experienced positive growth in 1398H1 and negative growth in 1398Q3, both at constant prices. Details of economic growth rates in 1397 and the first 9 months of 1398 are exhibited in Table 1.

Table 1- The Growth Rates of GDP and Its Subgroups at 1390 Constant Prices (percent)

	1397	1398			
	Year	Q1	Q2	Q3	First nine months
Industries and Mining	-9.6	-21.2	-23.7	-1.9	-16.6
Manufacturing	-6.5	-3.7	-2.2	-0.9	-2.3
Mining	-13.1	-38.8	-44.6	-14.2	-34.9
Extraction of Oil and Natural Gas	-13.9	-40.9	-47.0	-15.3	-37.0
Other Mines	0.8	-3.5	-3.3	-1.2	-2.7
Water, Electricity, and Gas Supply	-5.6	-0.5	1.0	23.3	7.7
Construction	-4.5	7.1	9.5	12.6	9.6
Agriculture	**-1.5**	**4.8**	**6.7**	**-1.4**	**3.2**
Services	**0.0**	**-0.1**	**0.1**	**-0.7**	**-0.2**
Non-oil GDP	**-2.4**	**-1.0**	**0.0**	**0.9**	**0.0**
GDP	**-4.9**	**-10.1**	**-10.4**	**-1.7**	**-7.6**

Source: Statistical Center of Iran, National Accounts report

On the demand side of the economy, the downward trend of private consumption expenditures (at constant prices) signals that the society welfare has diminished. This variable fell by 9.6 percent in 1398Q1 and 6.0 percent in the first three quarters of the year. Public consumption and gross fixed capital formation followed similar trends with respective growth rates of negative 2.4 percent and negative 2.6 percent during the first three quarters of 1398. An examination of the fixed capital formation time series reveals that the investment in Iran in 1397 at constant prices has reached around its level in the early 1380 and that of 1398 is even below that level. However, it is estimated rise in investment in construction was 9.6 percent in the first three quarters of 1398. The net exports have also fallen by 34.1 percent in the first three quarters of 1398 due to 32.6 percent fall in exports and 27.1 percent fall in imports. Table 2 exhibits GDP from the expenditure side for 1397 and the first three quarters of 1398.

Table 2- GDP Growth from Expenditure Side and Its Components at Constant 1390 Prices (percent)

	1397	1398			
	Year	Q1	Q2	Q3	First nine months
Private Consumption	**-2.2**	**-9.6**	**-4.1**	**-4.1**	**-6.0**
Public Consumption	**4.6**	**-2.4**	**-2.4**	**-2.4**	**-2.4**
Gross Fixed Capital Formation	**-5.6**	**-6.3**	**-1.9**	**0.9**	**-2.6**
Machinery	-6.9	-18.9	-14.8	-9.7	-14.7
Construction	-4.5	7.1	9.5	12.6	9.6
Net Exports of Goods and Services	**-4.1**	**-10.4**	**-68.4**	**-11.9**	**-34.1**
Exports	-13.5	-23.5	-58.0	-8.5	-32.6
Imports	-38.3	-61.1	2.5	2.3	-27.1
GDP at Market Prices	**-4.9**	**-10.1**	**-10.4**	**-1.7**	**-7.6**

Source: Statistical Center of Iran, National Accounts report

Investment

On the basis of the data by the Ministry of Industry, Mining, and Trade, the number of establishment permits escalated by 18.7 percent in the first 10 months of 1398 from the same period in 1397 to reach 22,745. The projected capital for the issued permits is above IRR3,127 trillion, showing 21.5 percent growth from the same period of 1397. The operation permits, including creation and development, reached 5,212 in number by 5.3 percent rise in the same period, while their corresponding investment registered IRR445 trillion, 13.9 percent below that in the first 10 months of 1397. Accordingly, it can be inferred that most of the operation permits belonged to the short-sized industries that need lower capital. Out of the establishment permits in this 10-month period, Food and Beverages group accounted for the highest at 2,790 permits, followed by Chemicals group at 2,630. The highest share of projected investment in industrial groups belonged to the Chemicals at 25.1 percent. In addition, the highest share of actual investment was regarding the Food and Beverages at 20.4 percent. The projected capital for establishment permits as well as the actual investment for issued operation permits are presented in Table 3.

Table 3- Capital for Issued Permits (IRR trillion)

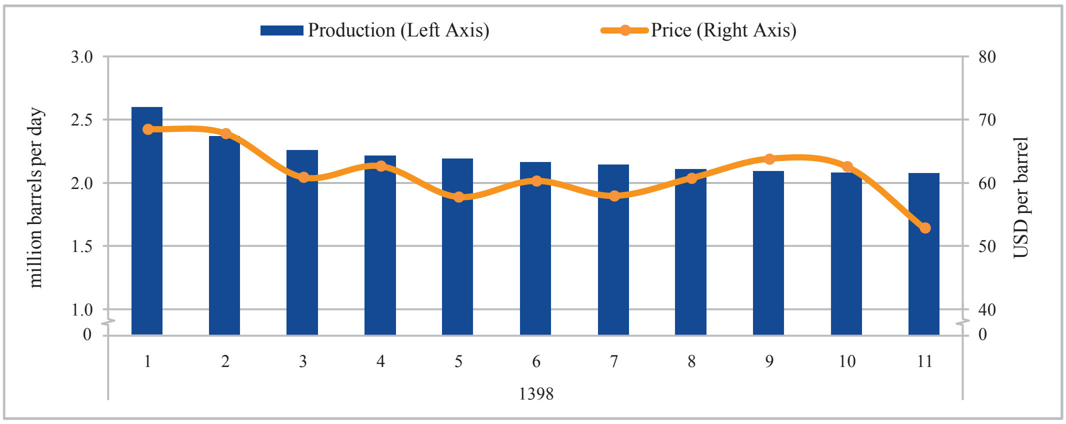
	First 10 Months of 1397	First 10 Months of 1398	Percentage Change
Projection for Establishment Permits	2,574.0	3,127.4	21.5
Operation Permits	517.5	445.4	-13.9

Source: Ministry of Industry, Mining, and Trade, preliminary report of performance in the first 10 months of 1398

Oil

According to the latest monthly report of OPEC based on the secondary sources, Iran's crude oil production totaled 2 million barrels per day (bpd) in Feb 2020 (almost overlapping 11/1398), the lowest monthly level in 1398. The downward trend of oil production, which started in 1397 due to the severe restriction on Iran's exports, continued in 1398 and put the Iranian oil industry into distress. The price of Iran's heavy crude oil that had collapsed in the mid-1397 started to rise from 09/1397 and in the first month of 1398Q1 reached USD68.5 per barrel. This price ranged between USD61 to USD64 from 03/1398 to 10/1398 and eventually fell to USD52 a barrel in 11/1398, contracting the country's oil revenues. However, the oil price diminished further in the remainder of the year. Figure 1 depicts Iran's heavy crude oil price and production level based on OPEC

Figure 1- 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
*OPEC Statistics are based of Gregorian calendar years and their conversion into Persian calendar years are only approximate.

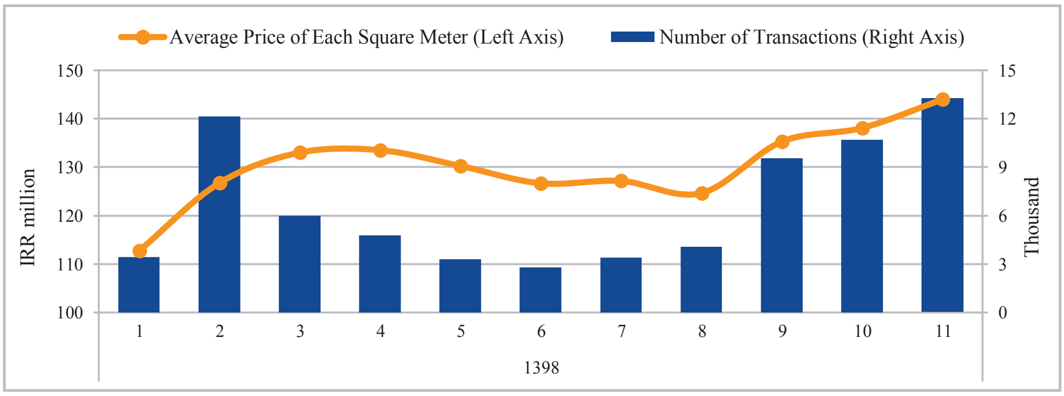
reports and its data covers until Feb 2020. In the second week of Mar 2020 (almost overlapping 2nd half of 12/1398) and following the global outbreak of Coronavirus, however, the oil demand severely diminished and in conjunction with the OPEC Plus disagreement over the oil supply cut, the oil price even fell below USD30 a barrel. Given that no clear time for reining in the corona disease is not estimated, due to the global economic recession, lower oil prices seem plausible in 1399 if the oil exporting countries do not reach an agreement. In the latest meeting of OPEC members and Russia in Dec, 2019, the agreement on 1.7 million bpd cut in oil production was extended till the end of 2020Q1. However, the fall in global oil demand due to the Coronavirus outbreak offset the expected effects of the agreement and oil prices diminished.

In order to prevent further fall in prices, the OPEC Plus again met in the early March to discuss cutting another 1.5 million bpd in production in 2020Q2, but this was rejected by Russia and even the previous agreement was called into question. Accordingly, the oil prices collapsed in the early 12/1398 and the price of Brent Oil was hovering around USD45 a barrel, the lowest price in its preceding 30 months. In response to Russia's action, Saudi Arabia decreased its oil price in order to preserve its market share, hence the global prices fell again close to USD30 a barrel. Currently, the oil market faces a great contraction of demand in tandem with fear for more supply surplus that have prepared the ground for further price falls.

Housing

The average price of a square meter of residential units in Tehran exceeded IRR140 million in 11/1398, indicating a 44.4 percent surge from the same month in its preceding year and a 4.3 percent rise compared to 10/1398. It should be noted that for 26 consecutive months, the housing price in Tehran has been continually rising at higher pace relative to the Consumer Price Index (CPI). The number of transactions reached to the high of 13,000 in 11/1398, 24.1 percent above that in 10/1398 and around 42 percent higher than that in 11/1397. The number of transaction over the first 11 months of 1398, nonetheless, has fallen by 35.6 percent compared to the same period a year earlier. In addition, in 11/1398 point-to-point growth rates of the rent price in the whole country and in Tehran, respectively, registered 31.5 percent and 29.4 percent. It is worth mentioning that during 08/1398 and 09/1398 the rent prices were declining, but this trend ceased in their following two months. Figure 2 illustrates the movement of housing price and the number of transactions recorded in Tehran in 1398 on a monthly basis.

Figure 2- Number of Housing Transactions and Monthly Average Price of Housing in Tehran



Source: Central Bank of Iran, Tehran housing market report, various issues

The increase in the ceiling of the mortgage by MASKAN Bank through priority certificates was a driver of the rise in housing price in late 1398. The ceiling was increased to IRR1 billion for individuals and IRR2 billion for couples (in Tehran), causing the demand for mortgage to expand. In 11/1398 the mortgages were 35 percent above those in 11/1397 in number, while in the first 11 months of 1398 the number was below that of the same period of a year earlier. It seems that the housing price rise has been highly driven by macroeconomic conditions. In other words, high liquidity (M2) coupled with the intensive uncertainty in the economic climate have encouraged individuals to save the value of their wealth via safer assets such as housing, pushing the prices upward.

New tax schemes for the housing market was an important issue regarding the housing market that was discussed in 1398Q4. Based on 1399 budget bill, the residential units valued at IRR100 billion and above would be included in annual tax payments in 1399. The tax rate for properties with the value range of IRR100 billion to IRR150 billion is set at one in a thousand and for the properties valued above this range, the progressive tax would be implemented. For instance, for a property that values IRR20 billion, the owner will be subject to pay IRR150 million tax in 1399. In addition, taxation on vacant units was included in 1399 budget bill by the Consolidation Commission. In this regard, it is suggested that the vacant residential units from 1397 should be identified in the cities with the population of 100 thousand and above and their owners would be subject to pay tax on the basis of the current rental fee of their unit. Tax on capital gain was also added to the draft of "Direct Taxation Reform" bill by the Iranian National Tax Administration. If the bill is passed, in any housing transaction the seller is required to pay tax on capital gain- the differential of the value of the property between the previous transaction and the current transaction. If the property is transacted within less than a year, the tax on capital gain is 25 percent. This rate will reduce for any extra year by 2.5 percentage points (up to 6 years). For seven years and above the tax is set

Labor Force

The unemployment rate of the population aged 15 and above in 1398Q3 was below those in the same quarter of its four preceding years, given the undesirable macroeconomic environment and GDP contraction. On the basis of the SCI, in 1398Q3 the unemployed reached 2.9 million and the unemployment rate registered 10.6 percent, indicating 324 thousand and 1.2 percentage points falls, respectively. The participation rate in this period fell by 0.2 percentage points to 44.3 percent, corresponding to 27.3 million of the economically active population. The population aged 15 and above was 61.7 million individuals in 1398Q3, 668 thousand above that in 1397Q3. However, the number of job seekers experienced lower growth which resulted in a lower participation rate. The air of pessimism in the labor market and being disappointed in finding a job could be considered as the main factors of this decrease in the active population. In the Iranian labor market, the data on female employment has normally been more undesirable than males' and in 1398Q3 the condition for the former exacerbated. The unemployment of females improved less than that of males and their participation rate fell more than that of males. The underemployment rate of the population aged 15 and above also reached 10.6 percent in 1398Q3. Table 4 compares the major statistics of the labor market in 1398Q3 and 1397Q3.

Table 4- Major Statistics of the Iranian Labor Market by Gender for the Population Aged 15 and Above

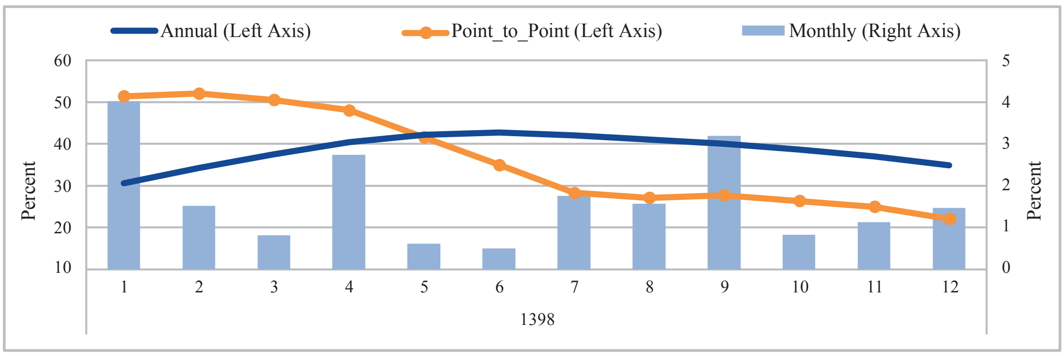
		1397Q3			1398Q3		
		Total	Male	Female	Total	Male	Female
Participation	Rate (percent)	44.5	71.1	17.9	44.3	71.0	17.5
	Number (million)	27.2	21.7	5.5	27.3	21.9	5.4
Unemployment	Rate (percent)	11.8	10.3	18.1	10.6	8.9	17.3
	Number (million)	3.2	2.2	1.0	2.9	2.0	0.9
Employment	Ratio* (percent)	39.2	63.8	14.7	39.6	64.7	14.5
	Number (million)	24.0	19.5	4.5	24.4	20.0	4.5
Underemployment	Share in employment (percent)	11.7	13.0	6.4	10.6	11.3	6.2
	Number (million)	2.8	2.5	0.3	2.6	2.3	0.3
Share of unemployed with higher education in total		40.7	28.5	68.3	43.3	31.2	68.7

Source: Statistical Center of Iran, summary of the workforce survey in 1398Q3
*ratio of employed population to total in the same age group

2. Prices and Inflation

On the basis of SCI's report, the Consumer Price Index (CPI) of the country's households (1395=100) registered 200.5 at the end of 12/1398, indicating a monthly 1.5 percent and a point-to-point 22.0 percent rise. Figure 200 for the CPI shows that the price levels have doubled in about 3 and half year from 1395 to the end of 1398. The inflation rate that has speeded up in 1397 continued to surge till the early 1398. The point-to-point inflation rate that had recorded 52.1 percent in the 2nd month of 1398, started to diminish and finally reached 27.1 percent in 08/1398. The annual rate of inflation that had touched the peak of 42.7 percent in 06/1398 started to fall and closed the year 1398 at 34.8 percent. The monthly inflation rate of 1398 registered high of 4.0 percent in first month of the year, followed by 3.2 percent in 09/1398. This rate averaged 1.7 percent in 1398, 1.6 percentage points below that in 1397. Figure 3 exhibits the various inflation rates for the Iranian households.

Figure 3- CPI Inflation Rates for Households



Source: Statistical Center of Iran, Reports of consumer price index, various issues

Among the 12 main groups of the households' consumption basket at the end of 1398, the highest annual inflation rate of 49.3 percent belonged to "Household Equipment", while "Communication" experienced the lowest annual price rise at 15.4 percent. "Food and Beverages" also experienced a 43.0 percent price rise in the same period. "Transport", on the other hand, had a considerable price rise- due to the rise in gasoline price- with the highest point-to-point inflation rate of 44.8 percent in the last month of 1398. The CPI inflation rates for major groups in the last month of 1398 are presented in Table 5 in a descending order by annual inflation rates.

Table 5- CPI Inflation Rates in the Major 12 Categories in 12/1398 (percent)

	Weight	Percentage Change of Index Compared to		
		Previous Month	Same Month of the Preceding Year	12 Months
Household Equipment	3.9	2.0	26.2	49.3
Transport	9.4	2.7	44.8	46.8
Recreation and Culture	1.7	1.6	26.6	45.5
Clothing and Footwear	4.8	3.1	29.7	43.9
Food and Beverages	26.6	1.9	14.8	43.0
Restaurants and Hotels	1.4	0.6	25.2	40.1
Miscellaneous Goods and Services	4.2	2.1	24.2	37.2
Overall Index	**100.0**	**1.5**	**22.0**	**34.8**
Tobacco	0.6	2.1	8.4	29.9
Health	7.1	0.6	22.1	25.9
Housing, Electricity and other Fuels	35.5	0.4	22.0	23.7
Education	1.9	0.1	20.6	21.8
Communication	2.9	1.1	3.3	15.4

Source: Statistical Center of Iran, Reports of consumer price index, 12/1398

The unexpected outbreak of Coronavirus, however, constituted one of the overwhelming factors, which affected the price levels at the end of 1398. The fear of being infected by COVID-19 among the public resulted in ceasing the activities of majority of businesses and adversely affected the markets for New Year at the end of 1398. The markets for clothes, household equipment and automotive that normally experience boom by the Iranian new year, also entered a period of recession accompanied by fall in prices. Additionally, the price of some healthcare items, as well as foods used for coping with the virus, surged and their supply diminished, which resulted in a high expense of healthcare for households- somehow intolerable for the low-income households. In order to reduce the risk of virus infection, some people were forced to work less than before, translating to lower level of income and eventually contraction of their basket of consumption. Should such circumstance endure in early 1399, the government and economic agents would incur loss and income shortage, hence, the fall in tax revenues is highly plausible. In addition, the considerable shortage of oil revenues caused by the fall in oil prices, exports restrictions, and also fall in tax revenues would exacerbate the budget deficit which entails higher rate of inflation in 1399.

3. Balance of Payments

The latest CBI's data on the balance of foreign payments of Iran only covers the year 1397 while finalizing this report. Based on CBI, balance of payments that is the sum of current account, net capital account and errors and omissions totaled USD9.9 billion in 1397 while the corresponding figure for 1396 has been negative USD8.1 billion. An examination of the components of the balance of payments reveals that the current account surplus has grown by 69.1 percent to USD26.7 billion, whereas the capital account deficit has fallen by 17.0 percent to USD16.0 billion. Accordingly, the significant rise in current account surplus accompanied by the contraction of capital account deficits have been the main drivers of the growth in 1397 balance of payments compared to its preceding year.

The current account consists of the four components of goods, services, income and current transfer accounts. The goods account (goods trade balance) which represents the differential of exports and imports value of goods, considerably rose by 44.4 percent to USD32.6 billion in 1397. It is worth mentioning that trade level of goods in 1397 was below that in 1396, but as the reduction in imports exceeded that of exports in 1397, the goods account has significantly risen in 1397. The imports value in 1397 totaled USD60.8 billion which was 19.6 percent below that of 1396. The value of exports in the same year registered USD93.4 billion, only 4.8 percent below that of 1396. Although the value of oil exports in 1397 fell by 7.7 percent, the value of non-oil exports rose by 1.0 percent. Accordingly, the non-oil exports in 1397 totaled USD32.7 billion, while the value of oil exports fell to USD60.7 billion.

Oil and gas imports in 1397 decreased by 50.1 percent to USD1.4 billion. Besides, non-oil imports has also reached USD59.4 billion, indicating 18.4 percent decrease. As a result, the surplus of oil trade balance reached USD59.4

billion and the deficit of non-oil trade balance registered USD26.7 billion with respective growth rates of negative 5.9 percent and negative 34.0 percent. The services account deficit in the same year contracted by 7.1 percent to USD7.4 billion. The income account and current transfer account in 1397 grew by 20.6 percent and 39.1 percent, respectively, in 1397. The components of balance of payment from 1395 to 1397 are shown in Table 6.

Table 6- Components of Balance of Payments (USD million)

	1395	1396	1397	Percentage Change of 1396 Compared to 1395	Percentage Change of 1397 Compared to 1396
Current Account	16,388	15,816	26,741	-3.5	69.1
Goods Account	20,843	22,596	32,635	8.4	44.4
Exports of Goods (fob)	83,978	98,142	93,390	16.9	-4.8
Oil Exports	55,752	65,818	60,735	18.1	-7.7
Non-oil Exports	28,226	32,324	32,655	14.5	1.0
Goods Imports (fob)	63,135	75,546	60,755	19.7	-19.6
Gas and Oil Products	1,388	2,764	1,378	99.1	-50.1
Other Goods	61,747	72,782	59,377	17.9	-18.4
Services Account	-5,941	-7,916	-7,350	33.2	-7.1
Income Account	928	669	807	-27.9	20.6
Current Transfers Account	558	467	650	-16.3	39.1
Net Capital Account	-18,288	-19,321	-16,044	5.6	-17.0
Errors and Omissions	-5,766	-4,635	-817	-19.6	-82.4
Total Balance	**-7,666**	**-8,140**	**9,880**	**6.2**	**-221.4**

Source: Central Bank of Iran, Economic Indicators, various issues

The latest data on the foreign trade by the IRI Customs Administration only covered the first 11 months of 1398 while finalizing this Report. In the time span under review, 32.4 million tons of goods valued at USD39.9 billion was imported to the country and the country's exports has been 125.3 million tons valued at USD38.6 billion. Therefore, the imports has experienced 10.8 percent growth in terms of weight and 2.3 percent in terms of value compared to the same period of its preceding year. This happened while the IRR depreciation has probably had a declining effect on imports and also, the government's trade policies have been aimed at imports control. In addition, exports rose by 17.6 percent in weight but fell by 4.5 percent in value despite higher willingness of exporters as a result of depreciation of IRR. This data obviously indicates that the government's trade policies in order to expand the domestic supply of foreign currencies from non-oil exports and decrease in foreign currency demand for imports have not succeeded. Also, the ratio of value to the weight of exports in the period under study has been 18.8 percent below that in the same period of 1397, translating to more selling of raw materials and less value-added of goods exports. In addition, the corresponding ratio for imports shows a 7.7 percent fall in the same period which can be referred to higher share of essential goods than high-tech goods in imports.

As a result of the developments of the trade balance, the USD1.372 billion surplus of non-oil trade balance in the first 11 months of 1397 turned to a deficit of USD1.343 billion in the same period of 1398. The statistics of country's foreign trade in the first 11 months of 1397 and 1398 are shown in Table 7.

Table 7- Foreign Trade in the First 11 Months of 1397 and 1398

	First 11 Months of 1398		First 11 Months of 1397		Percentage Change	
	Weight (1000 ton)	Value (USD million)	Weight (1000 ton)	Value (USD million)	Weight	Value
Imports	32,402	39,940	29,232	39,037	10.8	2.3
Exports	125,290	38,597	106,528	40,409	17.6	-4.5
Non-oil Trade Balance	**92,888**	**-1,343**	**77,296**	**1,372**	**20.2**	**-197.9**

Source: IRI Customs Administration, Preliminary Statistics on Foreign Trade in the first 11 months of 1398

Unfortunately, the IRI Customs Administration not only has prevented the details of foreign trade to be released but also has omitted the major items of imports and exports in its preliminary report. In the first 11 months of 1398, China with USD8.9 billion of imports from Iran has been the first exports destination – as in 1397 - accounting for 23.0 percent of Iran's total exports. This share was 20.8 percent in 1397. Iraq also ranked as the 2nd exports destination of Iran with USD8.5 billion in the first 11 months of 1398, corresponding to 22.0 percent of Iran's total exports, above the 20.1 percent share in 1397. In the period under study, Turkey's non-oil imports from Iran totaled USD5.0 billion, so that it ranked as the 3rd exports destination of Iran. The share of exports to Turkey in this period registered 12.9 percent in Iran's total exports while in the year 1397, Turkey ranked as the 6th exports destination of Iran with share of 5.3 percent. Following the re-imposition of US sanctions on Iran, non-oil exports of the country including petrochemicals and natural gas condensates were mainly directed to China, Iraq and especially Turkey. UAE that is ranked as the 4th exports destination of Iran in the first 11 months of 1398 accounts for 10.6 percent of Iran's total exports valued at USD4.1 billion. This share, however, registered 13.4 percent in 1397. The 5th place of exports destination of the country belongs to Afghanistan with USD2.1 billion of imports from Iran, corresponding to 5.6 percent of total exports of the country in the time span under study. It ranked as the 4th with 6.6 percent share in 1397. All in all, the top 5 exports destinations of Iran have accounted for 74.0 percent of total exports in the first 11 months of 1398, above that in the whole year 1397 at 66.8 percent.

On the other hand, China has been the first source of imports of Iran in 1398 like its preceding year with USD10.1 billion. Imports from China that accounted for 24.1 percent of total in 1397, registered 25.3 percent in the first 11 months of 1398. UAE also kept its 2nd place of exporting countries to Iran with USD7.9 billion and its share in total Iran's imports rose from 15.3 percent in 1397 to 19.9 percent in the first 11 months of 1398. On the other hand, Turkey that ranked as the 4th exporter to Iran in 1397 with share of 6.1 percent in total Iran's imports, outperformed India and ascended by one place in the first 11 months of 1398 with USD4.7 billion and share of 11.7 percent in total Iran's imports. India, however, descended to the 4th place of the imports destinations of Iran in the first 11 months of 1398, even though its share had risen to 8.6 percent from 6.4 percent, with USD3.4 billion of exports to Iran. In the previous era of the US sanctions on Iran, the imports of rice from India significantly rose which could be considered as a sign of barter between the two countries- exchanging oil with rice. Based on unofficial sources, in the current era of the sanctions, imports of rice from India has been replaced by tea. Germany remained the 5th source of imports to Iran as in 1397. The imports from Germany registered USD1.9 billion, corresponding to 4.8 percent of total Iran's imports in the first 11 months of 1398. this share has been 5.8 percent in 1397. All in all, the top 5 exporters to Iran have accounted for 70.2 percent of total Iran's imports in the first 11 months of 1398, above the 57.7 percent share in 1397.

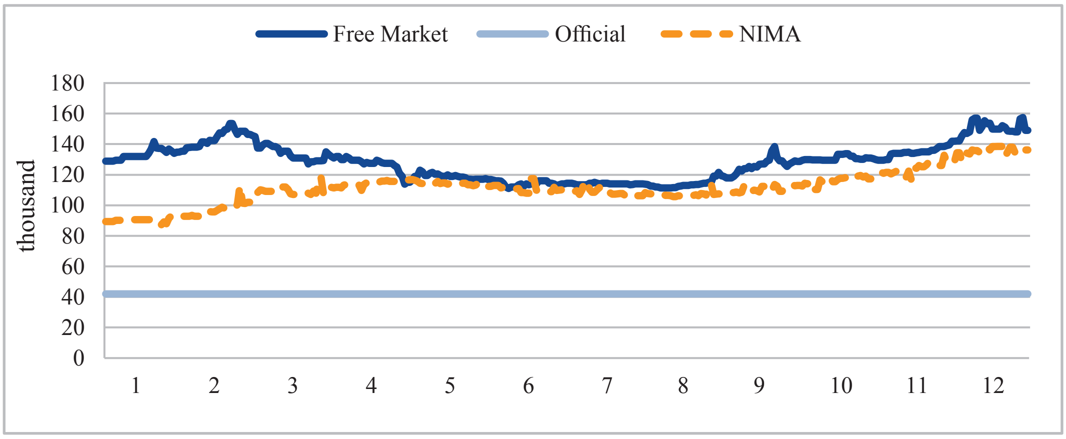
Based on CBI, Iran's total external debt fell by 9.8 percent to USD9.1 billion at the end of fall 1398 from the same time in its preceding year. Out of this figure, about USD7.6 billion belongs to medium-term and long-term debt that have grown by 10.0 percent. However, in this period, short-term debts of the country has diminished by 52.6 percent to USD1.5 billion.

4. Foreign Exchange Market

While the USD/IRR exchange rate in the free market was volatile in the year 1398, its remittance rate in the secondary market (NIMA) was continually increasing. The Iranian Rial (IRR) that was losing value against the major foreign currencies during spring 1398, started to appreciate slightly in summer till the early fall. However, this upward trend reversed course and the IRR started to lose value from mid-fall which lasted during the remainder of the year. The USD/IRR exchange rate in the free market which registered 128.9 thousand at the beginning of 1398, reached the high of 153.5 thousand on 19/02/1398. From then on, the rate started to diminish and touched the low of 111.0 thousand on 05/06/1398. From this point of time, foreign exchange market was in a stable state for more than 2 months but from the middle of fall 1398 the USD/IRR exchange rate rose gradually and closed the year at 149.0 thousand. The USD/IRR exchange rate averaged 150.4 in the last month of 1398 which is referred to as a historical record in the market. The remittance rate of USD/IRR in the secondary market reached 116.0 thousand at the end of 4/1398 from 90.1 thousand in the beginning of the year and the gap between the secondary market and free market rates vanished in this point of time. This convergence between the two rates lasted till the mid-fall, but due to the rise in the free market rate the gap between the two rates reappeared. The free market USD/IRR exchange rate was 9.3 percent up from that in the secondary market at the end of 1398, far below the 44.3 percent gap between the two rates in the beginning of the year. The USD/IRR exchange rate in the secondary market grew by 52.6 percent at the end of the year compared to the beginning of the year, while the free market rate rose by only 15.6 percent between the same points. The rise in the secondary market rate was a factor of slowing down in the free market rate growth and also contributed to lessen the rents and corruption in the market. However, the fixed 42 thousand USD/IRR official exchange rate was a major factor of rent distribution in 1398 as in its preceding year. The foreign exchange deputy of the CBI announced that USD14 billion at the official rate has been allocated in 1398 based on the 1398 Budget Law.

The average free market USD/IRR exchange rate in winter 1398 was 17.4 percent up from that of its preceding quarter and 16.8 percent above the rate in winter 1397. Figure 4 exhibits the USD/IRR exchange rates in official, secondary as well as free markets during the year 1398.

Figure 4- USD/IRR Exchange Rates in 1398



Source: Central Bank of Iran; Gold, Coin and Currency Information network; and sanarate.ir

Even though the USD/IRR exchange rate was continually rising from the second half of fall 1398, inclusion of Iran into the FATF blacklist again on 2/12/1398 speeded up the exchange rate growth. However, CBI governor had previously claimed that inclusion of Iran in the FATF blacklist would not affect the foreign exchange market since other non-sanctionable banking channels for foreign currency exchange were used. The economic conditions in the last month of year coupled with the epidemic of Coronavirus were other drivers of the USD/IRR exchange rate rise. According to the CBI, USD1.5 billion has been supplied in the secondary market by that institution and by non-oil exporters only in 12/1398. Besides, CBI aims to supply EUR250 million for financing medicine and medical equipment at official rate. Regardless of short-term effects of aforementioned factors, the effect of key macroeconomic variables such as liquidity (M2) on the long-term trend of foreign exchange market is not ignorable.

5. Monetary and Credit Aggregates

On the basis of the latest CBI's report on monetary aggregates, the monetary base (M0) at the end of 1398Q3 registered IRR3,142 trillion, indicating 18.3 percent growth compared to the beginning of the year and 29.0 percent rise from the same period of its preceding year. On the basis of the statistics, the rise in the net CBI's foreign assets, mainly as a result of the revaluation of foreign currency exchange rates, has played the key role in the Monetary Base growth in the first three quarters of 1398. In 1397, the severe rise in net CBI claims on the public sector was among the main drivers of the M0 growth. The CBI's net foreign assets that have risen by 27.1 percent from the beginning of 1398 till the end of fall coupled with the 10 percent growth in net other items have been the main contributors to the considerable rise in M0 during the first three quarters of 1398. On the other hand, net CBI claims on the public sector as well as CBI claims on banks have contracted by 15.5 percent and 19.4 percent, respectively, in the same period. It is worth mentioning, that the CBI net claims on the public sector have grown by 86.0 percent from the end of 1397Q3, notwithstanding its contraction in the first three quarters of 1398. Precisely speaking, during 1397Q4, it has grown by 120 percent which emanated from the 172.0 percent rise in CBI claims on the government. According to the CBI report, the source of this rise was mainly an accounting operation, through which part of CBI claims on banks and credit institutions has been converted to CBI claims on the public sector. Therefore, the composition of M0 has slightly changed in 1398, with a higher share of CBI net claims on foreign assets than before. The net other items, which has been a factor of decrease in M0, had less decreasing effect on M0 at the end of fall 1398 compared to the beginning of the year. Table 8 exhibits the sources of M0 as well as their developments.

Table 8- Components of M0 Sources (end of period- IRR trillion)

	1397		1398			Changes in fall 1398 compared to	
	Q3	Q4	Q1	Q2	Q3	Beginning of 1398 (percent)	1397Q3 (percent)
Monetary Base (M0)	**2,436.0**	**2,656.9**	**2,744.3**	**2,951.2**	**3,142.6**	**18.3**	**29.0**
CBI Net Foreign Assets	2,384.1	2,416.5	2,310.4	2,657.7	3,072.4	27.1	28.9
CBI Net Claims on Public Sector	132.7	292.0	414.8	336.6	246.8	-15.5	86.0
CBI Claims on Banks	1,497.9	1,381.7	1,345.5	1,218.8	1,113.9	-19.4	-25.6
Net Other Items	-1,578.7	-1,433.3	-1,326.4	-1,261.9	-1,290.5	10.0	-18.3

Source: Central Bank of Iran, Selected Economic Statistics, various issues

The liquidity (M2) reached IRR22,623 trillion at the end of 1398Q3, rising by 28.2 percent from the end of 1397Q3, which was the highest point-to-point growth rate compared to its 3 preceding years. The escalation of M2 growth in the first 9 months of 1398 was accompanied by a higher stake of money (M1). In other words, the higher returns of the other markets normally cause people to keep their money in short terms deposits rather than the long term deposits, so that they would be beneficiary of more liquid sources in order to invest in other markets. Hence, the more M1, the more would be the inflationary effect of M2. Share of M1 in liquidity followed its upward trend and closed 1398Q3 at 16.0 percent. This figure was 14.0 percent in 1397Q3 and 12.0 percent in 1396Q3. In 09/1398, the point-to-point growth rate of M1 (48.6 percent) was almost twice that of quasi money (24.9 percent). The 56.0 percent rise in sight deposits was the main contributor to the growth in M1, while notes and coins with the public as another component of M1 rose by only 16.0 percent in that period. As the growth rates of M2 and M0 have not much changed in the period under study, the M2 money multiplier has remained the same at 7.2. Table 9 presents the M2 money multiplier as well as the liquidity components in various quarters of 1397 and 1398.

Table 9- M2 Money Multiplier and M2 Components (end of period- IRR trillion)

	1397		1398			Changes in fall 1398 compared to	
	Q3	Q4	Q1	Q2	Q3	Beginning of 1398 (percent)	1397Q3 (percent)
Liquidity (M2)	**17,645.8**	**18,828.9**	**19,799.1**	**21,264.4**	**22,623.1**	**20.2**	**28.2**
Money (M1)	2,446.2	2,852.3	3,108.7	3,333.5	3,634.8	27.4	48.6
Notes and Coins with the Public	455.0	547.5	502.2	498.6	527.9	-3.6	16.0
Sight Deposits	1,991.2	2,304.8	2,606.5	2,834.9	3,106.9	34.8	56.0
Quasi Money	15,199.6	15,976.6	16,690.4	17,930.9	18,988.3	18.9	24.9
M2 Money Multiplier (unit free)	7.2	7.1	7.2	7.2	7.2	1.6	-0.6

Source: Central Bank of Iran, Selected Economic Statistics, various issues

The balance of extended facilities in the banking system rose by 15.4 percent at the end of 1398Q3 from the beginning of the year and by 20.2 percent compared to1397Q3, registering IRR17,409 trillion. The deposits with banks and non-bank credit institutions experienced higher growth rates in the same time spans with respective growth rates of 19.6 percent and 27.4 percent to reach IRR24,717 trillion. As the legal reserve ratio has not changed in the year ending in 1398Q3 and remained the same at 10.3 percent, the ratio of extended facilities to deposits (after deduction of the legal reserve) has decreased to 78.5 percent at the end of 1398Q3. The ratio was 110 percent in early 1390, 92.2 percent in 1393, and was continually diminishing in recent years (except 1395). Table 10 shows these statistics in detail.

Table 10- End of Period Balance of Extended Facilities and Deposits at Banks and Non-Bank Credit Institutions

	1395	1396	1397	09/1398	Percentage Change in 09/1398 Compared to	
					12/1397	09/1397
Extended Facilities (IRR trillion)	9,866.6	12,587.1	15,090.2	17,409.2	15.4	20.2
Deposits (IRR trillion)	12,728.4	16,464.1	20,673.4	24,716.9	19.6	27.4
Deposits Less Legal Reserves (IRR trillion)	11,374.1	14,741.9	18,568.3	22,164.0	19.4	27.5
Legal Reserve Ratio (percent)	10.6	10.5	10.2	10.3	-	-
Ratio of Extended Facilities to Deposits less legal reserves (percent)	86.7	85.4	81.3	78.5	-	-

Source: Central Bank of Iran, Banking Statistics

6. Government Fiscal Performance

After the budget bill of 1399 was rejected by the IRI Parliament on 5/12/1398, for the first time in the history of the Islamic Republic, the enactment of the Integration Commission was directed to the Guardian Council after the Supreme Leader's Command. The bill was legislated by the Council after some amendments. Thus, the parliament was left aside in legislation of the bill. Here, some important points regarding the differences between the budget bill and Budget Law are explored.

The share of National Development Fund (NDF) in the oil exports proceeds was set at 20 percent in both budget bill and Budget Law of 1399, while this share was legislated at 36 percent in the "Sixth Development Plan". This 16-percentage point difference, nevertheless is equivalent to the IRR302.1 trillion of government debt to the NDF. This figure comes from the assumption of

exports of 1 million bpd of oil and natural gas condensates with price of USD50 a barrel and USD/IRR exchange rate of IRR85 thousand. But the bill remains silent in a case of exports below 1 million bpd. Accordingly, it could be inferred that in case of oil exports below 1 million bpd, the NDF should cover part of the IRR302.1 trillion government debt from its other sources. In the Budget Law, the NDF loan to the government is legislated at 16 percent of the oil exports (regardless of the level of exports).
In 1399 budget bill, settlement of IRR400 trillion of Government debts through bartering oil for debts was allowed. This figure was about IRR100 trillion in 1398 Budget Law that was not achievable due to structural problems. Accordingly, rising this figure to IRR400 trillion in 1399 budget bill was a matter of criticism. The Integration Commission increased this figure to IRR900 trillion (almost twice the projected oil revenues) and only National Oil Company debts as well as development plan liabilities are allowed to be settled via this source. However the Guardian Council has replaced the National Oil Company's debt with that of the government, since settlement of National Oil Company debts is a subgroup of State-owned companies' budget and liabilities of development plans is a subgroup of the general budget. Allowing the Settlement of part of a state-owned company's debt from domestic sale of oil is beyond the formal financial relation of the government and National Oil Company. In addition, the holders of various Islamic Government Debt Securities are entitled to barter their securities for exports crude oil which has been approved up to IRR150 trillion based on the nominal value of securities and the oil price in the energy exchange. Without consideration for plausible reluctance of the holders of aforementioned securities to exchange highly-liquid asset with a low-liquid one (oil), the oil price in the energy exchange has been the basis of settlements instead of the regional oil prices. As there exists no oil buyer in the energy exchange at the prices offered by the National Oil Company, no continuous transaction has taken place in this market and hence no price has been discovered. In the enactment of the Integration Commission, the National Oil Company was allowed to give oil at export price to "SEPAH Bank" and "MELLAT BANK" in the case of its overdue liabilities in foreign currencies to these two banks at their request. This part, however, was eliminated by the Guardian Council. All in all, in the Budget Law of 1399, lots of efforts have been made in order to use oil as a means of debt settlements of government.
From 1393 onwards, a note was included in the Budget Laws of each year based on which, the National Oil Company receives Vacuum bottom[1] rather that money from refineries in exchange for selling of crude oil. The Vacuum bottom, then, would be used to settle government debts to contractors. In other words, Vacuum bottom was used a means of payment in place of money, an exercise that entails high transaction costs and is a source of corruption. This note was eliminated in 1399 budget bill. The members of Integration Commission again included exchange of 4 million tons of Vacuum bottom to National Oil Company with crude oil to refineries which was again eliminated by the Guardian Council. If the price of Vacuum bottom is assumed fixed, this note to the bill could cause about IRR100 trillion of the National Oil Company's sources to vanish, which is a significant figure in current state of sanctions. It is worth mentioning that more than 80 percent of the Bitumen produced is supplied by the private sector and via the Iran Mercantile Exchange, hence no obligation could be legislated through Budget Law in this regard. Besides, refineries exchange five main oil products with the crude oil they receive from the National Oil Company, thus nothing would be left to be exchanged with Bitumen.
The enactment of the Integration Commission had required the state-owned Water, Electricity, and Gas supplier in each province to supply these utilities at the door of Industrial zones through their internal sources. Electricity supply of these zones was the task of supplier in a condition that in 1396 and 1397, respectively, only 28 percent and 43 percent of the projected budget for these supplier was materialized. Based on the Parliament Research Center projection, IRR160 trillion is needed to supply electricity to 198 Industrial zone in 1399, which would result in exacerbation of electricity suppliers' debt. Eventually, the Guardian Council excluded this note.
In recent years, settlement of government debt via improper way of transferring the ownership of state-owned companies to the creditors had considerably fallen. However, in the budget law of 1399, the Integration Commission required the government to offset its debts to Social Security Organization as well as Social Security Organization of Armed Forces via granting them share of state-owned companied, ownership rights, energy supply at discretionary prices, disposal of development plans and also state-owned residential units up to IRR500 trillion. Precisely speaking, instead of a transparent process of selling government assets in the market to the public, the worst scenario that potentially entails corruption would take place.
But one of the positive amendments to the budget bill by Integration Commission is the reduction of the government's withdrawal from the NDF resources for the purposes specified in Note 4 of the Article, from EUR3.425 billion EUR2.795 billion. EUR150 million of this reduction is related to water sector projects and EUR50 million is related to watershed management and aquifer management projects. In water sector projects, facilities to pressurized irrigation projects have been reduced from EUR150 million to EUR100 million, and facilities to rural and nomadic water supply projects have been reduced from EUR150 million to EUR100 million. Besides, EUR50 million facilities aimed at sustainable water quality improvement projects in stressful cities have been completely eliminated. Since pressurized irrigation projects had no effect on real water consumption in recent years, and also due to the serious theoretical and experimental problems with these projects, it would have been better to eliminate the credits in this section altogether and facilities aiming at stabilization and improvement of the quality of drinking water in stressful cities would have remained. The USD2 billion credit for strengthening the defense force remains unchanged in the budget law, while the anti-dust credits have dropped from EUR100 million to EUR20 million. IRI Broadcasting credits and innovative plans of the Vice-Presidency for Science and Technology have also been left unchanged, while the EUR150 million credit for the waste problem and the EUR140 million credit for suburban rail transportation have been completely eliminated. However, the Integration Commission decision stipulates that the repayment of these facilities should be considered in the annual budgets for the years 1400 to 1405, while this was neglected in the bill.
The municipalities were allowed to issues maximum IRR50 trillion securities in the budget bill of 1399 which was raised to IRR80 trillion by the Integration Commission. Based on the budget bill, at least half of this figure should be spent on urban trains and urban transports plans. Given that 50 percent of the repayment

1. the base material to produce bitumen

of these securities is guaranteed by the government, IRR12.5 trillion was the minimum financial burden to the government. In the budget law, at least another 25 percent of the securities out be spent on reconstruction of old areas in the neighborhood of holy shrines and the government is required to guarantee 50 percent of the principal and interest payments of these securities, too. Hence, the financial burden to the government through these securities has increased to at least IRR30 trillion. In the budget law, The Ministry of Interior was also permitted to issue IRR10 trillion of Islamic Securities guaranteed by the government in order to finance sources of the firefighting equipment.

Also, the issuance of type 1 of treasury settlement securities rose from IRR20 trillion to IRR50 trillion and that of type 2 (with participation of the banking system) that was eliminated in 1399 budget bill, was included again by the Integration Commission at maximum of IRR300 trillion. Regarding debt settlements via securities of type 2, the Integration Commission had required banks not to receive any extra fee for delay in repayments from debtors, but the Guardian Council eliminated this requirement to avoid imposing any loss to the banking system. Besides, the CBI claims on state-owned banks would be offset through higher CBI claims on the government, and a recapitalization of these banks by the government equivalent to their debt. This process, nevertheless entails moral hazards in the state-owned banks since it would be more difficult to control their future overdrafts from CBI.

The permit of issuance of Insurance securities has risen from IRR1 trillion in the budget bill to IRR10 trillion in the budget law. Also, the permit of issuance of securities aimed at construction and completion of educational and sports areas of the Ministry of Education has been increased from IRR10 trillion to IRR20 trillion.

Elimination of the requirement of Fixed Income Investment Funds to keep half of their assets in form of government securities was a noticeable exercise of the Integration Commission. Legislation of such note in the Budget Law would entail vast adverse effects on these funds as well as the capital market. The ban on the automotive imports that was excluded by the Integration Commission and could be a contributor to higher proceeds for the government in 1399 and a factor of controlling automotive price volatilities, again was included to the Law by the Guardian Council.

Inclusion of tax on residential units valued at IRR100 billion and above and private automotive valued at IRR7 billion and above are among the most important amendments to the budget bill. Accordingly, tax on residential units valued at IRR100 billion to IRR150 billion is 0.1 percent of the difference of its value with IRR100 billion. For instance, the tax on a property that valued IRR150 billion would be 0.1 of the excessive IRR50 billion. Should the value be between IRR150 billion to IRR200 billion, the tax would be 0.1 of 50 billion and 0.2 percent of the excessive value (value of property minus IRR150 billion).

The tax coefficient varies for higher ranges of property values as follows: 0.3 percent for IRR250 billion to IRR400 billion, 0.4 for IRR400 billion to IRR600 billion, and finally 0.5 percent for IRR600 billion and above. The tax ratio on the automotive valued at IRR7 billion and above is also 0.2 percent. Taxation on vacant residential units has been another requirement to the National Tax Administration and municipalities of the cities with population of 100 thousand and above. The tax revenues from vacant residential units would be equally considered as sources of treasury and municipalities.

In 1399 budget bill, IRR400 trillion was considered for disposal of movable and immoveable assets of the government via auction. However, this seems impossible given the performance history of the government in this regard. The members of the Integration Commission entitled the government to sell these assets to its creditors at the auction base prices if they could not be sold through the auction process. However, this note was also excluded for the law by the Guardian Council.

According to the law, the revolving fund of treasury accounts for 3 percent of the general budget at its maximum, but in case of unexpected events, this share is allowed to be 6 percent. The Integration Commission has considered IRR3 trillion and IRR2 trillion of the revolving fund of unexpected events, respectively for covering flood damages and equipping the helicopters of IRI Army Aviation. However, there is no clear figure for the prevalence of Coronavirus disease. Of course, note that this permit is intended for the case of unforeseen events in the same year of budget execution, so that by cutting other budget expenditures, it is possible to repay the revolving fund at the end of the same year. Therefore, it is better not to use the revolving fund when approving the budget expenditures, and instead use it in order to cover the costs of unexpected events of the same year of the Budget Law execution. If it is already clear what we need to spend next year, it is better to cover it from the revenue of the general budget, because budgeting is all about achieving that goal.

The Integration Commission increased the marriage loans from IRR300 million to IRR500 million for each couple (IRR500 million separately for wife and husband). Facilities related to the Imam Khomeini Relief Foundation, the State Welfare Organization of Iran, and the Execution of the Imam Khomeini's Order have also been increased from IRR50 trillion to IRR80 trillion.

The Integration Commission has required banks to grant IRR2 trillion of interest free loans with at least 10-year maturity for housing deposit, marriage loans, and necessary loans for working and retired staff of the IRI Police, IRR10 trillion for housing purchase or construction loans with 9 percent interest rate and 20-year maturity guaranteed by the IRI Police, IRR40 trillion facilities for housing deposit and marriage loans for staff of the IRI Army, Islamic Revolutionary Guard Corp, and Ministry of Defense and Armed Forces Logistic, and also IRR8 trillion for housing purchase or construction of these group.

In addition, IRR5 trillion should be granted to incurable patients and infertile patients, IRR5 trillion to applicants of rural areas, and IRR4 trillion aimed at construction of solar powerhouses. All these facilities should be financed through current and interest free deposits of the banks. The imposition of granting these facilities to the banks in the Budget Law to special groups is challenge to the banking system which exacerbates the current banking crisis.

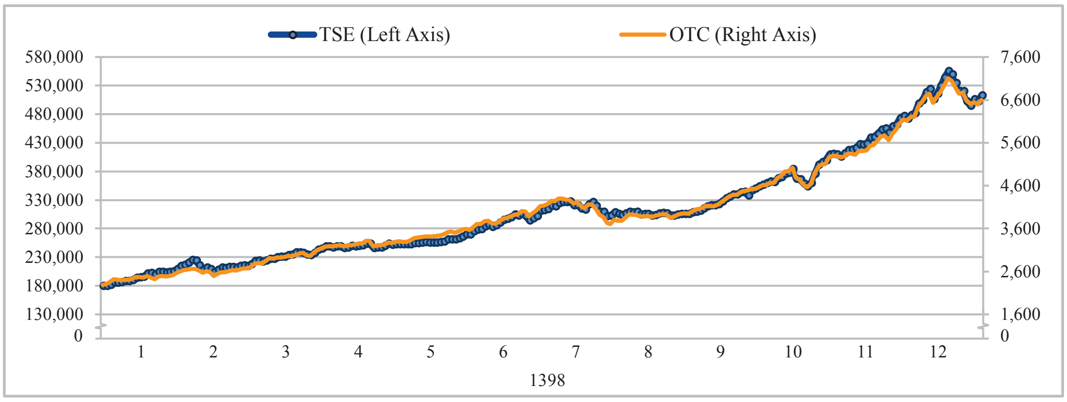
All in all, after the amendments to the budget bill by the Integration Commission, the general sources of budget reached IRR5,610 trillion which is 15.8 percent above the initial budget bill of 1399 and 45.3 percent up from that in the amendment to the 1398 Budget Law. This figure rose by another IRR100 trillion to IRR5,710 trillion after the amendment of the Guardian Council. This happened while the sources of the budget bill were highly overestimated. The dedicated revenues also experienced 0.7 percent rise to reach IRR788 trillion by the Guardian Council. Accordingly, general budget in the Budget Law of 1399 reached IRR6,498 trillion, 15.2 percent above that in the budget bill.

The state-owned companies budget, on the other hand was decreased by 3.2 percent in the Budget Law and caused the total budget of the country to register IRR20,267 trillion in the Budget Law, which was only 1.9 percent higher than that in the budget bill.

7. Capital Market

The Iranian Capital Market was highly bullish throughout the year 1398. The Overall index of Tehran Stock Exchange (TSE) that opened 1398 at 179 thousand, reached 356 thousand on the first day of winter. The index exceeded 500 thousand in the first week of 12/1398 and eventually touched the high of 555 thousand in the second week. TSE overall index closed the year at 512 thousand and registered an annual growth rate of 187 percent. In 1398Q4, the high returns of the market motivated a large number of retail investors to enter the capital market, pulling up the index to higher levels. The overall index rose by 17 percent in 11/1398 that could be referred to as the highest monthly return in 1398 and in the whole lifetime of the TSE. In the middle of 12/1395, the TSE followed its sharp bullish trend for 8 consecutive weeks and eventually recorded 211 percent growth rate from the beginning of the year. However, this boom was mainly originated from a great deal of liquidity that was directed to the stock market – not as a result of any significant promotion in the operation of the listed companies. However, the upward trend of the overall index reversed course from second half of 12/1398 and the index fell slightly. The Over the Counter (OTC) had the same trend as TSE's and closed the year 1398 at 6,591, showing 198.7 percent annual and 44.6 percent quarterly growth. The OTC index reached its maximum on the 14th day of 12/1398 at 7,104. Figure 5 depicts daily developments of TSE and OTC indices in 1398.

Figure 5- TSE and OTC Overall Indices



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

The financial index and Industrial index of the TSE rocketed by 46.4 percent and 44.8 percent respectively, during 1398Q4 and soared by 210.0 percent and 184.5 percent in the whole year. This indicates that even though in the year under review the stocks of financial and banking group witnessed higher returns than those of industrial companies and factories, the gap between them has become narrower in the last quarter. The equally weighted index rose by 58.3 percent in 1398Q4 and in the whole year grew by 438.3 percent, much higher than those of the overall index. Therefore, in average the equities of small-sized companies experienced a higher increase than that of large ones in 1398. The total value of transactions registered IRR5,126.4 trillion, out of which IRR4,637.7 belongs to stocks of companies. The former shows 219 percent growth and the latter 232 percent growth from that of 1397. In addition to stock market, the value of derivatives and tradable funds escalated by 311 percent and 451 percent in 1398, respectively, while debt securities market contracted by 21 percent. The highest monthly value of transactions belonged to the last month of the year out of which, IRR878.8 trillion has been regarding equities with 26 percent monthly growth and 431 percent point-to-point growth. In 1398, IRR30.1 trillion was financed through IPO with 9 newly listed companies. Some important statistics are shown in Table 11.

Table 11- Some Important Statistics of the TSE

	During the period			End of the Period				
	The Number of Equities Traded (billion shares)	Value of Equities Traded (IRR trillion)	Total Value of Transactions (IRR trillion)	Market Capitalization (IRR trillion)	Equally-weighted Index (thousand)	Overall Index (thousand)	Financial Index (thousand)	Industrial Index (thousand)
1398	1,086.2	4,673.7	5,126.4	18,731.7	177.1	512.9	636.7	458.0
1397	510.8	1,407.4	1,606.1	6,828.8	32.9	178.6	205.3	161.0
Percentage Change	112.6	232.1	219.2	174.3	438.3	87.2	210.1	184.5

Source: Tehran Stock Exchange, Comprehensive monthly market report, various issue

The value of OTC transactions grew by 219 percent in 1398 to reach IRR3,242.0 trillion. The market capitalization also rose by 170 percent to IRR6,955.2 trillion. Hence, the sum of market capitalization of TSE and OTC equaled IRR25,686.9 trillion at the end of 1398. The value of IPO in OTC by 234 percent rise, registered IRR22.9 trillion in 1398 with 14 newly listed companies. In addition, 25 new IPOs of Islamic Treasury bills, amendments to the base volume for primary and secondary markets, and some essential developments in rules and regulations of the market took place in this year.

8. Other Economic Developments

The spread of coronavirus in the late 1398 imposed a significant damage to the domestic and global economy. While previously the victims of epidemics were mainly low-income countries, now developed countries have also severely suffered from the current Corona epidemic and the damages have been much greater than the other cases after the World War II. Although estimating the exact extent of damage to the world economy is not possible, the Organization for Economic Co-operation and Development (OECD) estimates it at USD500 billion in an optimistic scenario, while Bloomberg's estimate is USD2.7 trillion in its most pessimistic scenario. The estimates of other institutions lay between these two extremes, including UNCTAD[2] estimate of the USD1 to USD2 trillion loss.

However, no reliable estimate has been made for the Iranian economy, but if Iran's share in the global economy is multiplied by the estimate of the UNCTAD, the loss incurred by Iran would be USD5 to USD10 billion, which is a considerable number. Due to the widespread prevalence of this virus in Iran compared to the average of other countries, the extent of losses imposed on the Iranian economy is expected to be even higher than the aforementioned number. Recently, the CBI's governor announced that Iran has requested for USD5 billion loan from the International Monetary Fund to fight the coronavirus. The amount of requested loan seems considerable compared to anticipated government revenues. The total oil revenues forecasted by the government in the budget bill of 1399, given the optimistic exports of one million bpd, is equivalent to USD11 billion.

Prior to the outbreak of the coronavirus, a severe budget deficit in 1399 was predicted that probably would follow by further fall in tax revenues in the aftermath of coronavirus outbreak. Should this case happen, the government would be left unable to cover the loss of about IRR1,000 trillion. In order to cover its current expenditures in 1399, the government has relied too much on the issuance of bonds and the sale of its property and assets which is obviously unrealistic. Using sources of the National Development Fund (NDF) and even the use of treasury revolving fund is included in the budget bill, and to cover part of this loss, there is no choice but to give up unnecessary current and development expenditures. Even if government's indifference to offset such unprecedented losses is justified by some economists, it is not socially and politically acceptable.

The government has set up some special groups in order to investigate ways to compensate the loss of various sectors of the economy from the transportation sector to kindergartens which are affected by coronavirus outbreak. On the other hand, it has announced that from IRR2 million to IRR6 million would be paid to 1.5 million of Iranian households based on their size. But the most noticeable point in government decisions is that it has imposed covering of much of the damages on the banking system which is already in a critical condition. Forcing the banks to postpone receiving the facilities installments from debtors regardless of the banks' liabilities such as interest payments on deposits and requiring the banks to grant low-interest (4 percent) loans to about three million Iranian households would eventually result in overdraft from CBI sources, translating to rise in monetary base and rate of inflation in 1399 and 1400, given the critical conditions of the banking system.

The coronavirus outbreak has caused both supply and demand sides of the economy to contract, hence some countries have decided to implement expansionary monetary and fiscal policies simultaneously in order to cope with current situation. However, in case of Iran the noteworthy point is that the economy suffers from the stagflation in conjunction with the budget deficit at the same time. Accordingly, more caution ought to be exercised in applying monetary and fiscal policies in Iran.

The directs consequences of coronavirus outbreak (e.g. fall in supply of infected labor force, increased healthcare expenditures, higher costs imposed on various health insurances) are negligible compared to its indirect consequences (e.g. fall in supply of healthy workforce, simultaneous contraction of supply and demand, and change in consumption and saving patterns). However, concentrating on controlling direct ones by the government would be a contributor to lessen the spread of the virus and higher quality treatments, which eventually leads to less indirect consequences. The health system of the country is highly dependent on the government, regardless of the question that whether being state-owned is appropriate for a health system or not. In 1396, the average number of intensive care beds of Iran for adults was 10.5 for 100 thousand, while this figure was 29.2 in Germany, 12.5 in Italy, and 9.7 for Spain. Considering these figures, the death rate from coronavirus in Germany has been relatively less than those in many other countries. Accordingly, the government is initially supposed to promote the healthcare system infrastructure as soon as possible, especially regarding the intensive care unit facilities and keep away from providing low priority supports. Overcoming the coronavirus crisis definitely would be costly, but in order to cover these costs, financial collapse and hyperinflation are not supposed to be prescribed.

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