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Recent Economic Developments in Iran

A Quarterly Report



No. 19 | July 2020

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Recent Economic Developments in Iran, A Quarterly Report **No. 19, July 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.

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**

1399Q1 = 03/21/2020 – 06/21/2020, roughly **2020Q2**

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Iran's Economy at a Glance

	1397	1398Q1	1398Q2	1398Q3	1398Q4	1398	1399Q1
Labor Force Participation & Unemployment Rates (percent)							
Participation (10 Years and Over)	40.5	40.6	40.8	40.1	38.3	39.9	-
Unemployment (10 Years and Over)	12.0	10.8	10.4	10.6	10.6	10.6	-
Unemployment (Youth Aged 15-24)	27.7	26.5	26.1	25.8	25.7	26.0	-
Real Growth Rates of GDP and Its Subsectors at Constant 1390 Prices (percent)							
Gross Domestic Product (GDP)	-4.9	-10.0	-10.1	-1.0	-6.3	-7.0	-
Manufacturing and Mining	-9.6	-20.4	-22.1	-1.8	-11.5	-14.7	-
Agriculture	-1.5	4.9	6.7	-1.2	1.6	3.0	-
Services	0.0	0.1	-0.1	0.4	-1.7	-0.3	-
GDP (Excluding Oil)	-2.4	-1.2	-0.2	1.6	-2.5	-0.6	-
Gross Fixed Capital Formation	-5.6	-6.8	-2.6	0.0	-3.6	-3.4	-
Oil (daily average - thousand barrels)							
Production*	3,283	2,409	2,191	2,115	2,059	2,194	-
Point-to-Point Inflation Rates (percent)							
Growth Rate of Consumer Price Index	26.8	51.3	41.3	27.7	24.4	34.8	21.1
Growth Rate of Producer Price Index	47.5	69.5	49.4	25.6	-15.0	36.7	-
Balance of Payments (USD millions)							
Oil Exports	60,735	10,441	5,723	7,326	-	-	-
Non-Oil Exports	32,655	7,393	7,537	8,267	-	-	-
Imports of Goods	60,755	11,972	13,196	12,597	-	-	-
Goods Account (Net)	32,635	5,863	64	2,995	-	-	-
Non-Oil Goods Account (Net)	-26,722	-4,579	-5,653	-4,330	-	-	-
Current Account	26,741	5,144	-1,022	2,035	-	-	-
Capital Account	-16,044	-3,653	-4,387	-4,737	-	-	-
Change in Foreign Reserves	9,880	-1,666	-2,575	88	-	-	-
Foreign Exchange Rates (USD/IRR daily average)							
Free Market	106,229	136,762	119,395	118,175	138,782	128,278	162,376
Official	42,056	42,000	42,000	42,000	42,000	42,000	42,000
NIMA (Remittance)	-	99,593	113,098	108,904	125,657	111,813	144,430
Monetary and Credit Aggregates (end of period - IRR trillions)							
Monetary Base (M0)	2,656.9	2,744.3	2,951.2	3,142.6	3,525.2	3,525.2	-
CBI Claims on Banks	1,381.7	1,345.5	1,218.8	1,113.9	1,107.5	1,107.5	-
CBI Claims on Public Sector (Net)	292.0	414.8	336.6	246.8	15.8	15.8	-
CBI Net Foreign Assets	2,416.5	2,310.4	2,657.7	3,072.4	3,616.5	3,616.5	-
Liquidity (M2)	18,828.9	19,799.1	21,264.4	22,623.1	24,721.5	24,721.5	-
Money (M1)	2,852.3	3,108.7	3,333.5	3,634.8	4,273.0	4,273.0	-
Sight Deposits	2,304.8	2,606.5	2,834.9	3,106.9	3,661.6	3,661.6	-
Non-Sight Deposits (Quasi-Money)	15,976.6	16,690.4	17,930.9	18,988.3	20,448.5	20,448.5	-
Government Budget and Fiscal Position (IRR trillions)							
The data in this section is not available							
Tehran Stock Exchange (end of period)							
Overall Index (TEDPIX)	178,659	234,879	302,104	353,997	512,900	512,900	1,270,627
Financial Index	205,266	295,179	364,579	434,767	636,700	636,700	1,855,151
Industrial Index	161,031	209,497	270,769	316,210	458,000	458,000	1,109,532
Market Capitalization (IRR trillions)	6,830	8,933	11,054	12,916	18,732	18,732	47,597

Source: Various reports of Central Bank of the Islamic Republic of Iran, Statistical Centre of Iran

* According to OPEC reports from secondary sources

1. Real Sector

The preliminary estimates of the Central Bank of Iran (CBI) present that Iranian Economy's total value-added during the year 1398 was around IRR23,853 trillion, indicating a 6.5 percent contraction at constant prices. According to this estimation, while oil sector's value-added dropped profoundly by 38.7 percent, services sector's value-added experienced a merely 2.0 percent fall and the other two main sectors of the economy, agriculture and manufacturing and mining, saw a notable expansion in their value-added at constant prices. In the CBI's report, therefore, the non-oil economic growth was positive 1.1 percent. On the demand side, the private consumption in this year collapsed to the level of that in 1384 {this is not what you've said in the Persian version} and underwent a plunge of 7.7 percent over just one year, which has been unparalleled since 1384, which shows a considerable deterioration in people's welfare.

Having said that, the Statistical Center of Iran (SCI) released somewhat different estimates of Iran's national accounts in 1398. Accordingly, about IRR34,160 trillion value-added was

created in this year, showing an economic contraction of 7.0 percent at constant prices. This is the largest annual drop in the Iranian economy over the last 7 years. In view of that, value-added of the services sector dropped by 0.3 percent and that of agriculture sector rose by 3.0 percent, which shows a large discrepancy between the CBI and SCI reports. The growth rate of the manufacturing and mining sector in this year amounted to negative 14.7 percent, the majority of which is attributable to the sharp 35.0 percent contraction in extraction of oil and natural gas. The value-added of "water, electricity, and gas supply", the other sub-sector of manufacturing and mining, experienced a 1.6 percent growth in 1398, as well as the value-added of construction which increased by 6.1 percent at constant prices. Taking into account all of these sectors and sub-sectors, the SCI calculated a negative non-oil growth rate (-0.6 percent) for the year 1398, contrary to what the CBI reported. Table 1 illustrates the growth rates of different sectors of the Iranian economy.

Table 1- Growth Rates of GDP and Its Subsectors in 1398 at Constant 1390 Prices (percent)

	SCI					CBI
	Q1	Q2	Q3	Q4	Year	Year
Industries and Mining	-20.4	-22.1	-1.8	-11.5	-14.7	-
Manufacturing	-5.0	-3.7	-0.7	2.4	-1.8	2.1
Mining	-39.2	-44.4	-14.1	-24.8	-32.8	-
Extraction of Oil and Natural Gas	-41.3	-46.9	-15.3	-26.8	-35.0	-38.7
Other Mines	-3.5	-3.3	-1.1	-0.5	-2.1	1.9
Water, Gas, and Electricity Supply	-0.3	2.5	18.5	-10.5	1.6	4.1
Construction	7.7	9.6	12.3	-2.9	6.1	-0.2
Agriculture	4.9	6.7	-1.2	1.6	3.0	8.8
Services	0.1	-0.1	0.4	-1.7	-0.3	-0.2
Non-oil Gross Domestic Product	-1.2	-0.2	1.6	-2.5	-0.6	1.1
Gross Domestic Product	-10.0	-10.1	-1.0	-6.3	-7.0	-6.5

Source: Statistical Center of Iran, Report of National Accounts; Central Bank of Iran, Report of National Accounts

On the demand side, the remarkable fall in private consumption implies a reduction in people's welfare. This component, constituting around 40 percent of GDP on the expenditure side, plummeted by 9.5 percent in 1398Q1 and by 5.4 percent in the whole year, according to the SCI's estimates. Government final consumption expenditure and gross fixed capital formation, similarly, witnessed 1.7 percent and 3.4 percent drop respectively. The level of total gross fixed capital formation at constant prices in 1398 reached less than that in the early

1380s, although the SCI claims that it saw a 6.1 percent increase in the construction sub-sector alone in 1398. The net exports have also fallen by about 20 percent in this year, due to 24.5 percent reduction in exports and 39.8 percent reduction in imports, at constant prices. Besides, changes in inventory and statistical errors made up a noticeable share of 15 percent in the expenditure side of the GDP in 1398, registering 19.0 percent growth at constant prices. The growth rates of gross domestic expenditure and its components are demonstrated in Table 2.

Table 2- Growth Rates of GDP's Components on the Expenditures Side in 1398 at Constant 1390 Prices (percent)

	SCI				Year	CBI
	Q1	Q2	Q3	Q4		Year
Private Consumption	-9.5	-4.1	-4.1	-3.8	-5.4	-7.7
Public Consumption	-1.7	-1.7	-1.7	-1.7	-1.7	-6.0
Gross Fixed Capital Formation	-6.8	-2.6	0.0	-3.6	-3.4	-5.9
Machinery	-18.4	-14.2	-9.2	-4.3	-11.8	-10.0
Construction	7.8	9.6	12.3	-2.9	6.1	-4.3
Net Exports of Goods and Services	-7.2	-30.5	3.5	-41.8	-19.8	-26.9
Exports	-14.5	-33.5	-8.8	-41.2	-24.5	-29.9
Imports	-33.4	-45.6	-44.1	-38.8	-39.8	-38.1
Change in Inventory and Statistical Errors	67.1	235.6	-63.5	-49.5	19.0	21.0
Gross Domestic Product	-10.0	-10.1	-1.0	-6.3	-7.0	-6.8

Source: Statistical Center of Iran, Report of National Accounts; Central Bank of Iran, Report of National Accounts

Investment

According to the Ministry of Industry, Mine and Trade, during the first 11 months of 1398, the number of establishment permits of manufacturing units totaled 25,456 and about IRR3,388 trillion investment is forecasted to be needed for them, presenting an 18.8 percent and a 25.3 percent rise compared to the same period in the preceding year, respectively. The operation permits, including creation and development plans operation permits, reached 5,892 in number by 6.5 percent rise in the same period, while their corresponding investment registered IRR552 trillion, 1.2 percent below that in the same period of 1397. Accordingly, the majority of newly-issued operation permits in this period

belonged to the small and medium-sized enterprises, which need a relatively lower amount of capital. Out of the establishment permits in this 11-month period, food and beverages group accounted for the highest share with 3,045 permits, followed by chemicals group with 2,942 permits. The highest of projected investment in industrial groups belonged to the chemicals group with 24.8 percent share and the highest realized investment belonged to the food and beverages group with 17.3 percent share. The projected investment for establishment permits as well as realized investment for issued operation permits are depicted in Table 3.

Table 3 – The Capital Investment For Issued Permits (IRR trillion)

	First 11 Months of 1397	First 11 Months of 1398	Percentage Change
Projection for Establishment Permits	2,704.9	3,388.3	25.3
Operation Permits	558.5	551.8	-1.2

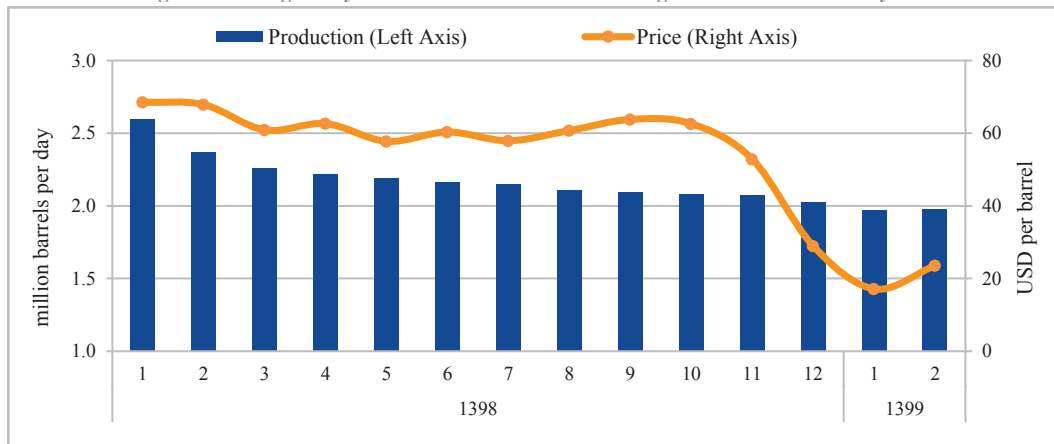
Source: Ministry of Industry, Mine and Trade, the preliminary report of the performance of first 11 months of 1398

Oil

The oil industry, which had been one of the building blocks of the Iranian economy through the recent half-century, has faced serious challenges in recent years. According to the SCI, the value-added of extraction of oil and natural gas in constant prices in 1398 constituted only 13 percent of the Iran's GDP, while its share was more than 20 percent in 1397 and 1396. Due to the heavy sanctions, the release of oil sector performance statistics in Iran has discontinued. The recently-issued report from OPEC, the best available data, shows that Iranian crude oil production had been falling more and more in recent years and its daily figure averaged less than 2 million barrels in May 2020. On the basis of the data published by Kpler, a data intelligence company that provides transparency solutions to commodity markets, Iran's daily oil exports in 1398H2 have plummeted to about 200 thousand barrels and in the first month of 1399

to a mere 70 thousand barrels, being unexampled even in the time of Iran-Iraq war. Having said that, the role of Coronavirus pandemic in the dramatic plunge in global oil demand was by no means negligible. The average price of Iran's heavy oil, which fluctuated between USD61 and USD64 per barrel during 03/1398 to 10/1398, registered merely USD29 in the last month of this year, worsening the government's oil income. The outbreak of Coronavirus as a global severe concern coupled with the decision of OPEC plus (OPEC+) to preserve total oil production of its members reduced the demand more severely and let the price to touch even USD10 in some days. The price of each barrel of Iranian heavy oil, consequently, averaged USD17 and USD23 in 01/1399 and 02/1399, respectively. Figure 1 illustrates the average daily oil production and the average monthly price of Iran's oil since early 1398.

Figure 1- Average Daily Crude Oil Production and Average Price of Iranian Heavy Oil*



Source: OPEC Monthly Reports, based on secondary sources

* OPEC statistics are based on Gregorian calendar years and their conversion into Persian calendar years are only approximate.

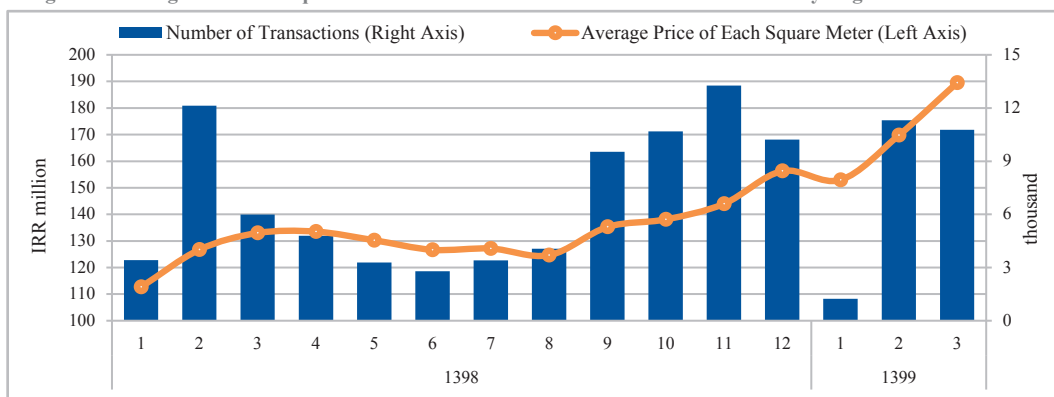
Housing

Just like the other markets, the housing market experienced a considerable escalation in prices through the first quarter of 1399. During the recent boom cycle, the housing price had commenced a marked upward trend a few months before the beginning of 1397, followed by a period of fluctuations between 05/1398 and 08/1398, and surpassed its previous peak in 09/1398 thanks to inflationary expectations and existence of a huge amount of liquidity.

The price of a square meter of residential units in Tehran averaged IRR156 million in 12/1398, showing a 42 percent

climb compared to 12/1397. The price dipped slightly in 01/1399 but the number of transactions in this month was so limited that this dip in price is considered as insignificant. Following that, when the Coronavirus-related restrictions were partially relaxed, the number of transactions went up sharply, reaching about 11 thousand in each of the two next months. As a result, the price of each square meter soared to a high of IRR189 million in 03/1399, registering 11.6 percent monthly jump in the aforementioned two months. These statistics are demonstrated more precisely in Figure 2.

Figure 2- Average Price of a Square Meter of Residential Units and Number of Monthly Registered Transactions



Source: Central Bank of Iran, Developments in the Housing Market in Tehran, various issues

According to the detailed statistics of housing transactions in 03/1399, almost one-third of all transactions in this month belonged to the units whose total price was between IRR3.5 billion and IRR8.5 billion. Simply put, small-sized homes attracted much more demand due to the low purchasing power of the majority of buyers.

The price of housing affects the cost of renting houses, however, the fluctuation of rental rates are smoother and there is always

a delay between their movements. During the recent housing boom cycle, the upward trend of the rental prices of homes fell significantly behind that of housing prices, hence, the price to rent ratio has soared remarkably. This ratio reached above 25 in 1399Q1, while fluctuated around 15 from the year of 1380 to 1397. Anyway, it is expected that in the long run, this ratio will gradually move back towards its long-term average, with higher growth rate of rental prices rate than housing price.

Labor Force

According to the most recent report of the SCI, the number of unemployed reached 2.8 million in 1398Q4, showing the unemployment rate of 10.6 percent. These numbers shrank by 483 thousand and 1.7 percentage points respectively, compared to the same quarter in 1397. The economic participation rate, on the other hand, decreased by 1.1 percentage points to 42.4 percent, resulting from 26.2 million active population in this quarter. Taking all four quarters of this year into account, the unemployment rate and economic participation rate for the population aged 15 and above stood at 10.7 percent and 44.1 percent in 1398, respectively, dipping by 1.5 and 0.4 percentage points. This fall in the unemployment rate was not very consistent with the general trend of the economy, as Iran underwent a more severe economic condition in this year in comparison to preceding years. Considering genders, the labor market in Iran

has always provided a more unfavorable situation for women. For instance, while the unemployment rate of men was only 9.0 percent in 1398, this figure amounted to 17.5 percent for women. Moreover, the high share of the inactive female population has always been among the main challenges of this market, resulting in a much lower economic participation rate compared to the vast majority of other countries. The other upsetting statistics are related to the youth and the highly-educated individuals, whose labor indices are poorer than the average of the population. In 1398, the unemployment rate of youth aged 18-35 registered 17.9 percent and the figure for those with higher education reached 16.7 percent. The latter implies that about 41.6 percent of unemployed group in this year hold at least a college degree. Table 4 presents some major labor market indices by gender in 1398.

Table 4- Major Labor Market Indicators for the Population Aged 15 and Above in 1398

		Total	Male	Female
Economic Participation Rate, Population Aged 15 and Over	Rate (percent)	44.1	71.1	17.0
	Number (million)	27.2	21.9	5.2
Share of Employment, Population Aged 15 and Over	Share (percent)	39.4	64.7	14.0
	Number (million)	24.3	19.9	4.3
Unemployment Rate, Population Aged 15 and Over	Rate (percent)	10.7	9.0	17.5
	Number (million)	2.9	2.0	0.9
Unemployment Rate, Population Aged 18-35	Rate (percent)	17.9	14.8	29.7
	Number (million)	2.1	1.4	0.7
Unemployment Rate, for Highly-Educated Population	Rate (percent)	16.7	12.1	26.2
	Number (million)	1.2	0.6	0.6
Share of the Underemployment	(percent)	9.9	10.9	5.5

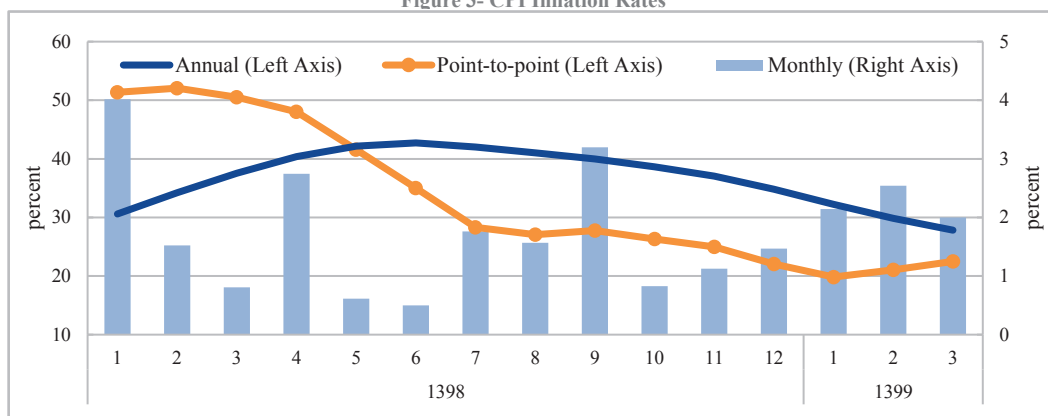
Source: Statistical Center of Iran, Summary result of Labor Force Survey in the year 1398

2. Prices and Inflation

According to the SCI report, the consumer price index (CPI) with the base year of 1395 stood at 214.2 in 03/1399, registering 22.5 percent climb from the similar month in an earlier year and 2.0 percent growth from its preceding month. During the first quarter of 1399, annual inflation continued its downward trend and reached 27.8 percent in 03/1399. This descending trend, existing from the beginning of 1398H2 onwards, was simply because the point-to-point inflation rate was lower than the annual rate since then and it is highly

probable that this trend change course by the end of 1399Q2. The monthly inflation rate, however, has experienced an upward trend since 10/1398, increasing from 0.8 percent in this month to more than 2 percent in the first three months of 1399. Admittedly, the considerable growth of liquidity and monetary base, especially through the recent months, has laid the foundation for witnessing much higher inflations in upcoming months. Figure 3 illustrates the different types of CPI inflation rates for all Iranian households.

Figure 3- CPI Inflation Rates



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

Investigating the details of the SCI report for 03/1399 shows that goods prices rose more quickly than services prices, as the annual inflation rate of them are 31.9 percent and 22.5 percent, respectively. It is worth mentioning that durable goods saw the highest annual inflation rate (41.5 percent) in this month, resulting from their higher demand in the case of high inflation expectations as well as the instant impact of the jump in the exchange rate on their prices. Out of 12 major groups in the consumption basket of goods and services, transport had the greatest annual inflation rate (45.1 percent) and communication had the lowest one (8.7 percent).

The highest and lowest point-to-point inflation rates were also experienced by the same those groups. The inflation for foods and beverages, which used to be higher than that of the overall index in previous months, gradually adjusted in 03/1399 and its annual and point-to-point rates amounted to 27.4 percent and 14.9 percent, respectively. In addition, the highest monthly inflation rate in 03/1399 belonged to recreation and culture, which was experiencing almost the lowest inflation in the preceding 12 months. Table 5 illustrates CPI inflation rates in major groups of the consumption basket in 03/1399, ordered by annual inflation rates.

Table 5 - Inflation Rates of Major Groups in the Consumption Basket in 03/1399 (percent)

	Weight in the Basket	Monthly	Point-to-point	Annual
Communication	2.9	1.0	7.0	8.7
Tobacco	0.6	2.7	16.0	14.5
Education	1.9	0.3	20.4	21.5
Housing, Water, Electricity, Gas and Other Fuels	35.5	1.4	21.7	22.6
Health	7.1	3.1	24.0	24.4
Food and Beverages	26.6	2.4	14.9	27.4
Others	4.2	3.1	25.3	29.4
Restaurants and Hotels	1.4	2.5	17.9	31.6
Recreation and Culture	1.7	3.6	26.5	34.9
Clothing and Footwear	4.8	2.7	28.0	36.3
Household Equipment	3.9	3.4	26.6	37.0
Transport	9.4	0.5	48.6	45.1
Overall	100.0	2.0	22.5	27.8

Source: Statistical Center of Iran, Reports of consumer price index, 03/1399

3. Balance of Payments

At the time of finalizing this report, the latest published data for balance of payments by the CBI pertain to the first nine months of 1398. According to this data, the overall balance which is calculated as the sum of net current account, capital account and errors and omissions, amounted to negative USD4.2 billion in the first nine months of 1398. However, the corresponding figure for the first nine months of 1397 was positive USD7.5 billion. Reviewing the details reveals that current account surplus decreased by 70.9 percent to reach USD6.2 billion, while the net capital account deficit rose by 49.3 percent and registered USD12.8 billion. Furthermore, errors and omissions reached from negative USD5.1 billion in the first nine months of 1397 to positive USD2.5 billion in the first nine months of 1398. In conclusion, considerable drop in current account surplus was the main contributor to the reduction of overall balance in the first nine months of 1398 compared to the same period in 1397.

Current account is composed of goods account, services

account, income account, and current transfers account. The balance of payments data show that goods account, which is the difference between goods exports and goods imports, declined considerably by 66.4 percent to reach USD8.9 billion in the first nine months of 1398. The country's total goods trade was 30.8 percent less than that of in the same period in 1397, although the decline in exports was more significant than the decline in imports, and this was the major factor of decline in the goods account. In the first nine months of 1398, the value of goods imports declined by 20.9 percent and registered USD37.8 billion, while the value of goods exports decreased by 37.2 percent to reach USD46.7 billion. The decline in goods exports was mainly due to the decrease in oil exports by 52.4 percent to USD23.5 billion, which was slightly more than USD23.2 billion non-oil exports. The non-oil exports declined by 7.2 percent in the first nine months of 1398 compared to the same period in 1397.

On the other hand, oil imports decreased by 99.6 percent to

reach almost zero. Meanwhile, non-oil imports declined by 18.6 percent and registered USD37.8 billion. Therefore, the oil trade balance surplus declined by 51.1 percent and reached USD23.5 billion, while the non-oil trade balance deficit fell by 31.9 percent and amounted to USD14.6 billion. In the

period under review, the services account deficit decreased by 45.5 percent and registered USD3.4 billion. Finally, income account and current transfers account decreased by 54.1 percent and 1.4 percent, respectively. Table 6 presents the components of balance of payments in 1395-98.

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

	1395	1396	1397	First 9 Months of		Percentage Change of 1397 to 1396	Percentage Change of First 9 Months of 1398 to First 9 Months of 1397
				1397	1398		
Current Account	26.7	15.8	16.4	6.2	21.2	69.1	-70.9
Goods Account	32.6	22.6	20.8	8.9	26.6	44.4	-66.4
Exports (fob)	93.4	98.1	84.0	46.7	74.4	-4.8	-37.2
Oil	60.7	65.8	55.8	23.5	49.4	-7.7	-52.4
Non-oil	32.7	32.3	28.2	23.2	25.0	1.0	-7.2
Goods Imports (fob)	60.8	75.5	63.1	37.8	47.8	-19.6	-20.9
Gas and Oil Products	1.4	2.8	1.4	0.0	1.4	-50.1	-99.6
Other	59.4	72.8	61.7	37.8	46.4	-18.4	-18.6
Services Account	-7.4	-7.9	-5.9	-3.4	-6.3	-7.2	-45.5
Income Account	0.8	0.7	0.9	0.2	0.4	20.6	-54.1
Current Transfers Account	0.7	0.5	0.6	0.5	0.5	39.2	-1.4
Net Capital Account	-16.0	-19.3	-18.3	-12.8	-8.6	-17.0	49.3
Errors and Omissions	-0.8	-4.6	-5.8	2.5	-5.1	-82.3	-
Overall Balance	9.9	-8.1	-7.7	-4.2	7.5	-	-155.2

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

The latest data on the foreign trade by the IRI Customs Administration only covered the first 2 months of 1399 while finalizing this Report. In this time span, the country's trade has declined mainly due to the outbreak of the coronavirus, and this has been more severe in the case of exports. In this period, 6.4 million tons of goods valued at USD5.0 billion was imported to the country and the country's exports have been 14.5 million tons valued at USD4.3 billion. Therefore, the imports have experienced 10.8 percent growth in terms of weight and 26.8 percent drop in terms of value compared to the same period of its preceding year. The increase in the weight of imports was

probably due to the increase in the share of imports of essential goods. In addition, exports fell by 51.8 percent in weight and 48.7 percent in value due to the outbreak of the coronavirus, the escalation of US sanctions as well as inappropriate domestic trade policies, despite higher willingness of exporters to export as a result of depreciation of IRR.

As a result of the developments of the foreign trade, the USD1.502 billion surplus of non-oil trade balance in the first 2 months of 1398 turned to a deficit of USD0.741 billion in the same period of 1399. The statistics of country's foreign trade in the first 2 months of 1398 and 1399 are shown in Table 7.

Table 7- Foreign Trade in the First 2 Months of 1398 and 1399

	First 2 Months of 1398		First 2 Months of 1399		Percentage Change	
	Weight (1000 tons)	Value (USD million)	Weight (1000 tons)	Value (USD million)	Weight	Value
Imports	5,779	6,885	6,405	5,041	10.8	-26.8
Exports	30,121	8,387	14,522	4,300	-51.8	-48.7
Non-oil Trade Balance	24,342	1,502	8,117	-741	-66.7	-149.3

Source: IRI Customs Administration, Preliminary report of foreign trade data in the first 2 months of 1399

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 reports. In the first 2 months of 1399, China with USD1.2 billion of imports from Iran has been the first exports destination – as in 1398 - accounting for 27.7 percent of Iran's total exports. This share was 23.0 percent and 20.8 percent in 1398 and 1397, respectively. Iraq also ranked as the 2nd exports destination of Iran with USD1.1 billion imports in the first 2 months of 1399, corresponding to 25.8 percent of Iran's total exports, above the 21.7 percent and 20.1 percent share in 1398 and 1397, respectively. In the period under study, UAE's non-oil imports from Iran totaled USD682 million, so that it ranked as the 3rd exports destination of Iran. The share of exports to UAE in this period registered 15.9 percent in Iran's total exports while in the year 1398, UAE ranked as the 4th exports destination with share of 10.9 percent. Afghanistan that is ranked as the 4th exports destination of Iran in the first 2 months of 1399 accounts for 7.9 percent of Iran's total exports valued at USD341 million. However, this share registered 5.7 percent and this place was 5th in 1398. The 5th place of exports destination of the country belongs to Turkey with USD144 million of imports from Iran, corresponding to 3.4 percent of total exports of the country in the time span under study. It ranked as the 3th with 12.2 percent share in 1398. All in all, the top 5 exports destinations of Iran have accounted for 80.6 percent of total exports in the first 2 months of 1399, above that in the whole year 1398 at 73.5 percent and in the whole year 1397 at 66.8 percent. Thus, Iran's exports have been severely limited to a few neighbors and China. On the other hand, China has been the first source of imports

of Iran in the first 2 months of 1399 like its preceding year with USD1.2 billion. Imports from China that accounted for 24.1 percent of total in 1397 and 25.6 percent of total in 1398, registered 24.5 percent in the first 2 months of 1399. Thus, unlike exports, Iran's imports from China have not changed much. UAE also kept its 2nd place of exporting countries to Iran with USD1.1 billion and its share in total Iran's imports rose from 15.3 percent in 1397 and 20.4 percent in 1398 to 21.4 percent in the first 2 months of 1399. Turkey that ranked as the 3th exporter to Iran in 1398 with share of 11.4 percent in total Iran's imports, take the same place in the first 2 months of 1399 with USD535 million and share of 10.6 percent in total Iran's imports. After a break, Russia has joined the top five sources of imports of Iran in the first 2 months of 1398 with USD356 million of exports to Iran and share of 6.7 percent in total Iran's imports. India, which was the 3th and 4th largest source of imports of Iran in 1397 and 1398, respectively, fell to 5th place in the first 2 months of 1399 with USD335 million of exports to Iran and share of 6.7 percent in total Iran's imports. Germany, as the most important European source of imports of Iran, is no longer among the top 5 exporters to the country. All in all, the top 5 exporters to Iran have accounted for 70.2 percent of total Iran's imports in the first 2 months of 1399, slightly less than the 70.7 percent share in whole 1398.

Based on CBI reports, Iran's total foreign debt fell by 3.3 percent to USD9.0 billion at the end of 1398. Out of this figure, about USD7.5 billion belongs to medium- and long-term debt that have grown by 4.2 percent. However, in this period short-term debts of the country have diminished by 28.5 percent to USD1.5 billion.

4. Foreign Exchange Market

The USD/IRR exchange rate in the free market and in the secondary market (NIMA) was continually increasing in the first 3 months of 1399. This trend had started again in 1398H2 after a short break in the first half of 1398. The USD/IRR exchange rate in the free market which registered 149.0 thousand at the beginning of 1399, reached the high of 186.0 thousand at the end of spring. This rate was related to authorized foreign exchanges, and in unauthorized foreign exchanges, The USD/IRR exchange rate was higher than these figures. In the period under review, the most important news affecting the foreign exchange market was the adoption of a resolution by the IAEA Board of Governors on 30/03/1399, calling on the Islamic Republic of Iran to fully cooperate with the IAEA. However, this was only a spark to increase the foreign exchange rates in Iran, while macroeconomic variables such as the significant growth of the monetary base following the intensification of the government budget deficit, provided the basis for that. The USD/IRR exchange rate averaged 162.4 in the last month of 1399Q1 which is referred to as a historical record in the free market, 30.9 percent more than that of in the same month of preceding year. The remittance USD/IRR exchange rate in the secondary market reached 158.2 thousand at the end of 03/1399 from 136.3 thousand in the beginning of the year, which has been unprecedented in the trading history of this

market. Consequently, the gap between the secondary market and free market rates increased to 17.6 percent at the end of 03/1399 from 9.3 percent in the beginning of the year. Moreover, the fixed 42 thousand USD/IRR official exchange rate led to a significant gap (286.6 percent) between this rate and the USD/IRR exchange rate in the free market in the end of 1399Q1. However, unofficial news indicates a significant decrease in allocation of foreign currencies at the official exchange rates in 1399.

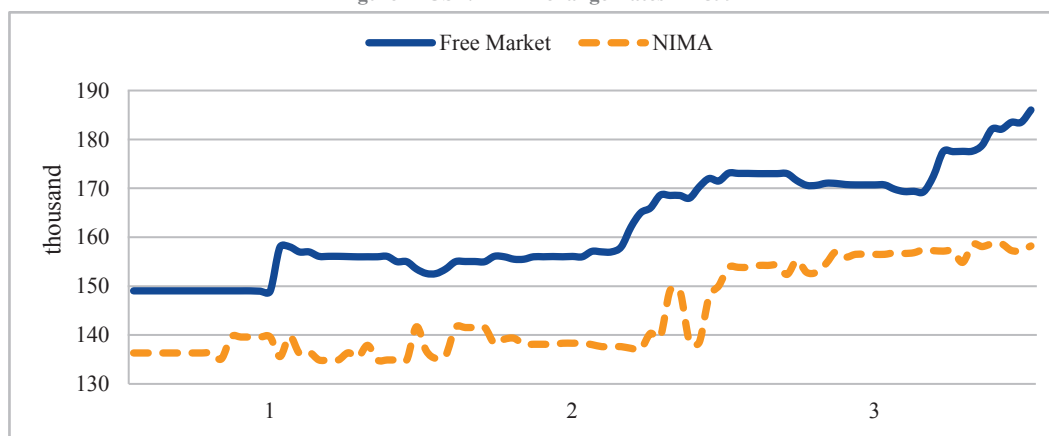
The average free market USD/IRR exchange rate in spring 1399 was 17.0 percent up from that in its preceding quarter and 18.7 percent above the rate in spring 1398. Figure 4 shows the USD/IRR exchange rates in secondary and free markets during the year 1399.

According to the Vice Governor (Foreign Exchange Affairs) of the CBI, the amount of not carried out foreign currency commitments decreased to 10 percent in second month of 1399 from about 28 percent in 10th month of 1398. Thus, imports have increased in exchange for the allocated foreign currencies, partly due to the significant reduction in foreign currencies allocation at the official exchange rates. According to the Governor of the CBI, the foreign currency allocated for imports in the first 50 days of 1399 was USD2.5 billion, about 50 percent of which was provided through the secondary market. Also, requiring

exporters to return the foreign currency proceeds from exports in 1398 until the end of 04/1399 is one of the factors affecting the foreign exchange market in the short term. However, failure to publish monetary statistics in a timely manner to monitor the

monetary base growth rate and failure to publish government fiscal status as one of the most important factors affecting the monetary base growth rate, will increase inflation expectations and will depreciate the national currency.

Figure 4- USD/IRR Exchange Rates in 1399



Source: Central Bank of Iran, Gold, Coin and Currency Information network, and <http://sanarate.ir>

5. Monetary and Credit Aggregates

While almost all reputable central banks around the world release the monetary aggregate data in a weekly basis and with a few days delay, CBI releases these statistics in a quarterly basis and with several months delay. The CBI governor, however, unofficially revealed that in the first quarter of 1399 the liquidity (M2) and the monetary base (M0) increased by 7.3 percent and 8.8 percent, respectively, therefore the former reached IRR26,514 trillion and the latter reached IRR3,835 trillion at the end of this quarter. These growth rates are the highest figures among all similar periods of the years in 1390 decade. The rates for 1398, for example, were 5.2 percent and 3.3 percent, respectively.

This seems to be a serious alert for higher inflation rates in the

upcoming months. Although the details of this data have not been released yet, it is possible to infer that compensating the government's budget deficit with the central bank's resources is responsible for this surge in high-powered money (M0), which could lay the groundwork for higher inflation or even hyperinflation in the long run.

According to the latest available balance sheet of the CBI, the M2 reached IRR24,721 trillion and the M0 stood at IRR3,525 trillion at the end of 1398, with 31.3 percent and 32.7 percent growth rate in that order. Hence, the M2 money multiplier leveled out at 7.0 at the end of this year, remaining almost stable since 1396. Table 8 elaborates on the details of M2 and M0 in 1397 and 1398.

Table 8- Components of Monetary Base Sources and Liquidity Expenditures (end of period - IRR trillions)

	1397		1398			Percentage Change in 1398
	Q1	Q1	Q2	Q3	Q4	
Monetary Base	2,656.9	2,744.3	2,951.2	3,142.6	3,525.2	32.7
CBI Net Foreign Assets	2,416.5	2,310.4	2,657.7	3,072.4	3,616.5	49.7
CBI Net Claims on Public Sector	292.0	414.8	336.6	246.8	15.8	-94.6
CBI Claims on Banks	1,381.7	1,345.5	1,218.8	1,113.9	1,107.5	-19.8
Net Other Items	-1,433.3	-1,326.4	-1,261.9	-1,290.5	-1,214.6	-15.3
Liquidity	18,828.9	19,799.1	21,264.4	22,623.1	24,721.5	31.3
Money	2,852.3	3,108.7	3,333.5	3,634.8	4,273.0	49.8
Notes and Coins with the Public	547.5	502.2	498.6	527.9	611.4	11.7
Sight Deposits	2,304.8	2,606.5	2,834.9	3,106.9	3,661.6	58.9
Quasi-Money	15,976.6	16,690.4	17,930.9	18,988.3	20,448.5	28.0
M2 Money Multiplier	7.1	7.2	7.2	7.2	7.0	-1.0

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

The detailed statistics of the CBI's balance sheet shows that the main contributor to M0 growth in 1398 was the considerable rise in the net foreign assets of the central bank (49.7 percent) with 45.2 percentage points share in M0 growth. In addition, the 15.3 percent drop in the "other items" was another important factor in M0 growth in this year, with 8.2 percentage points share in M0 growth. In the preceding year, on the contrary, the CBI's net claims on the public sector had played the central role in the rise of monetary base. On the other hand, the 94.6 percent plunge in the CBI's net claims on public sector and 19.8 percent decline of CBI's claims on banks were the reducing factors among the components of M0 in this year. Consequently, the share of different components in M0 changed moderately in 1398 and the CBI net foreign assets' share increased even further.

Exploring the balance sheet of the whole banking system reveals that the volume of money rose by 49.8 percent and quasi-money rose by 28.0 percent in 1398, resulting in the highest liquidity (M2) growth rate among previous last 3 years, with 31.3 percent rise. The increase in the M2 was accompanied with higher velocity of money, which results in higher power to cause inflation. It was occurred mainly because of the higher rate of returns in other

markets compared to money-market rates, making long-term deposits less attractive. The share of money in the liquidity has been increasing over recent years, reaching from 12 percent at the end of 1396 to just above 17.0 percent at the end of 1398. The chief cause of rise in money in this year was the 58.9 percent climb of sight deposits, as notes and coins with public rose just by 11.7 percent.

The balance of extended facilities in the banking system rose by 20.2 percent at the end of 11/1398 from the beginning of the year, registering IRR18,121 trillion. The deposits with banks and non-bank credit institutions experienced slightly higher growth rates in the same time spans with the growth rate of 27.4 percent to reach IRR25,781 trillion. As the legal reserve ratio has not changed significantly and remained almost the same at 10.4 percent, the ratio of extended facilities to deposits (after deduction of the legal reserves) has decreased to 78.4 percent at the end of 11/1398. This ratio was 110 percent in early 1390, 92.2 percent in 1393, and has been diminishing in recent years (except in 1395). It is attributable to the fact that banks have become reluctant to make loans under the circumstance of stagflation and highly negative real interest rates. Table 9 shows these statistics in more detail.

Table 9- End of Period Balance of Extended Facilities and Deposits at Banks and Non-Bank Credit Institutions

	1395	1396	1397	11/1398	Percentage Change of 11/1398 Compared to	
					12/1397	11/1397
Extended Facilities (EF - in IRR trillion)	9,866.6	12,587.1	15,090.2	18,120.6	20.1	20.2
Deposits (in IRR trillion)	12,728.4	16,464.1	20,673.4	25,780.6	24.7	27.4
Deposits Less Required Reserves (DLRR - in IRR trillion)	11,374.1	14,741.9	18,568.3	23,098.6	24.4	27.5
Legal Reserve Ratio (percent)	10.6	10.5	10.2	10.4	-	-
EF to DLRR Ratio (percent)	86.7	85.4	81.3	78.4	-	-

Source: Central Bank of Iran, Banking Statistics

In 1398, the facilities extended by the banking system totaled IRR9,750 trillion, rising by 26.0 percent from 1397. Two sectors of services and industrial and mining registered the highest portion of these facilities, each with a share of about one-third, followed by the commerce sector, which constituted 19.0 percent of these facilities. Regarding the purposes of facilities, those in the form of working capital made up 54.0 percent (IRR5,261 trillion) of the whole, the majority of which was extended to industrial and mining sector. Following that,

development, creation and purchasing private goods were the three main purposes of extended facilities in this year. The main destination of extended facilities in the form of development belonged to industrial and mining sector (IRR554 trillion), while in the form of creation belonged to services sector (IRR422 trillion), and in the form of purchasing private goods belonged to commerce sector (IRR883 trillion). Extended facilities in 1398 by different economic sectors and their purposes are depicted in Table 10.

Table 10- Banks' Extended Facilities in 1398 by Sectors and Purpose (IRR trillions - percent)

	Agriculture	Industry and Mining	Housing and Construction	Commerce	Services	Other	Total
Total (IRR billion)	747,467	3,172,389	686,971	1,850,939	3,285,866	6,274	9,749,905
Creation	21.9	11.4	14.2	3.9	12.8	3.6	11.5
Working Capital	62.2	68.3	24.8	38.4	53.1	87.5	54.0
Repair	0.5	0.6	21.0	0.3	2.6	1.6	2.6
Development	9.3	17.5	5.8	8.6	15.4	5.4	13.6
Purchase of Private Goods	1.5	1.5	0.3	47.7	4.8	1.1	11.3
Purchase of House	0.3	0.4	32.8	0.3	1.1	0.3	2.9
Others	4.2	0.3	1.1	0.8	10.2	0.6	4.1

Source: Central Bank of Iran, Extended Facilities by Sectors and Purpose of the receipt in 1398

6. Government Fiscal Performance

After the approval of 1399 Budget Law without reviewing it in the open court of the previous parliament, the new parliament seeks to amend this law. Various estimates of the budget deficit in 1399 are presented, which are rarely provided in detail. Meanwhile, the official statistics of the government's fiscal performance have not been published by the CBI since 1397Q3, and the exact budget deficit realized in 1398 is also in a state of ambiguity.

Confidentiality of realized oil revenues seems to be the main reason for not publishing government fiscal statistics. However, the first vice president has revealed the realization of about USD8 billion in oil exports in 1398. This means that considering the average price of USD59 per barrel for Iranian heavy oil during 1398, oil exports have been about 250,000 barrels per day. If Petrodollar has been exchanged at the USD/IRR exchange rate of 42,000, the government's oil revenues should have been realized in 1398 about IRR350 trillion. Meanwhile, unofficial sources indicate the realization of about IRR540 trillion of oil revenues in this year. These figures will be consistent only if the government has exchanged about USD5.4 billion of its Petrodollar at the official rate and the rest at the average secondary market rate (USD/IRR exchange rate of 111,700). According to the Vice Governor (Foreign Exchange Affairs) of the CBI, the foreign currencies allocated at the official rates was USD14 billion, while part of that financed by non-oil exports and not by government oil revenues. In this case, the gap between the secondary market rate and the official rate is considered as government debt to CBI. Thus, the policy of allocating foreign currencies at the official rates to control the prices of essential goods has, in practice, become a factor in exacerbating inflation by increasing the monetary base.

A reduction of about 50 percent in government oil revenues in 1398 reduced the disposal of non-financial assets to about IRR550 trillion, 35 percent of this year's figure in budget law and almost 92 percent of this year's figure in budget law amendment. Meanwhile, despite the intensification of US oil sanctions, the disposal of non-financial assets in the budget law of 1399 is considered IRR1,075 trillion. Therefore, it seems necessary to review and amend this budget law as soon as possible.

Regarding current revenues, tax revenues have been IRR1,630 trillion, slightly more than the 1398 Budget Law amendment forecast. Also, the performance of other current revenues in 1398 has been close to IRR570 trillion. Thus, the total current revenues have reached about IRR2,200 trillion, which is about 11 percent more than that of 1398 budget law amendment forecast and about 17 percent more than the performance of current revenues in 1397. Thus, real current revenues in 1398 have declined considering the inflation experienced in this year, which reflects the economic recession. Tax revenues in the Budget Law of 1399 are considered about 26 percent more than the performance of 1398, which is not far away due to the expected inflation in 1399.

Unfortunately, statistics on current and development expenditures in the second half of 1398 are not available. However, it is expected that the current expenditures performance in 1398 are close to the budget law amendment approved figure (IRR3,113 trillion), while development expenditures performance cover about half of the approved figure (IRR430 trillion). Thus, it is estimated that the operating and non-financial balance deficit has reached about IRR560 trillion this year, which is nearly twice the same figure in 1397.

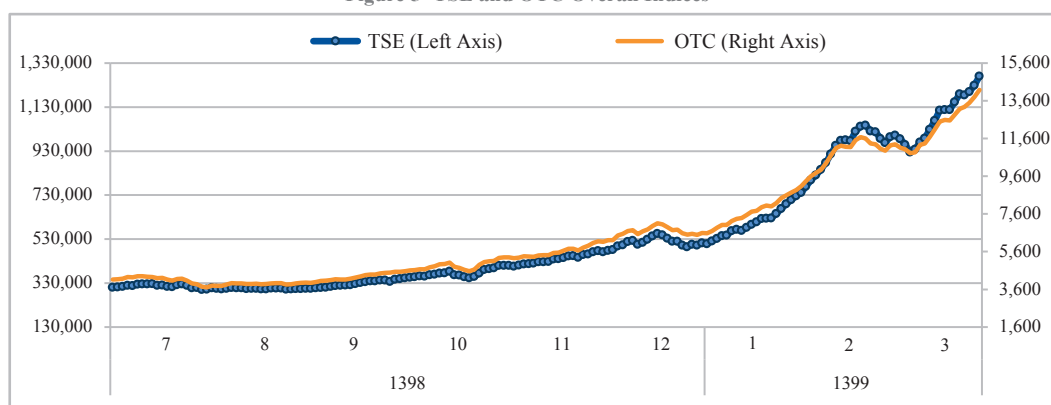
Also, the cost of repaying previous government debts (acquisition of financial assets) in 1398 was almost double that of 1397. To finance the acquisition of financial assets and the operating and non-financial balance deficit, the disposal of financial assets increased by 80 percent to reach IRR1,680 trillion, almost IRR960 trillion of which has been financed by the issuance of Islamic debt securities and about IRR650 trillion by the resources of the National Development Fund (NDF). Due to the central bank's lack of access to NDF resources following US sanctions, the government's withdrawal from the fund acts as government borrowing from the CBI, leading to an increase in the monetary base. It is worth noting that despite the significant issuance of government debt securities, due to the simultaneous growth of the monetary base, real interest rates not only did not increase, but also followed a downward trend. In addition to exacerbating inflation rate, this has led to a sharp increase in asset prices.

7. Capital Market

After the bullish trend of the capital market of Iran in 1398, resulting in a growth rate of about 190 percent in terms of overall indices, the majority of market experts did not expect the same trend in 1399. Nevertheless, the market in the first quarter of 1399 climbed surprisingly and unprecedentedly. The overall index of Tehran Stock Exchange (TSE), which stood at 510 thousand on the last working day of 1398, reached just above one million in the middle of 02/1399, followed by a week of downward trend. The bearish market, however, lasted just until 925 thousand and

bounced back much more rapidly, standing at a high of 1,270 thousand at the end of this quarter. The index experienced a quarterly growth rate of 150 percent and an annual growth rate of 440 percent. In 1399Q1, the Over the Counter (OTC) market followed almost the same pattern and reached 14,180 at the end of this quarter. The movement of OTC's index registered a 115 percent hike in the 1399Q1 and a 380 percent climb over the year ending this quarter. Figure 5 shows the daily developments of the TSE and the OTC indices in 1398H2 and 1399Q1.

Figure 5- TSE and OTC Overall Indices



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

The number of equities traded in the first quarter of 1399 rose by 91.8 percent in comparison with the same quarter in 1398, however, due to the skyrocketing prices, the value of transactions surged by 650 percent and reached IRR5,049 trillion. The total value of transactions, including exchange-traded funds (ETFs), debt securities and the other instruments of the market, soared by 623 percent compared to 1398Q1. TSE's market capitalization hit IRR47,600 trillion at the end of 1399Q1, 432.8 percent and 174.3 percent above that at the same point of the year before and at the beginning of the current year, respectively. The equally-weighted index rose by 131.1 percent in 1399Q1 and 627.4 percent in the 12 months ending 03/1399,

which was much higher than that for the overall index in annual terms. On average, therefore, the equities of small-sized companies experienced a higher increase in prices compared to the large firms in the 12-month period ending 03/1399. A comparison of the financial index and industry index reveals that, in the recent year ending 03/1399, "banking and finance" stocks have gained more value than "industrial companies and factories" stocks. The aforementioned indices on that order have grown by 191.4 percent and 142.3 percent in the first 3 months of 1399 and 528.5 percent and 429.6 percent in the year ending 03/1399. Table 11 gives more details on these statistics for the TSE.

Table 11- Some Important Statistics of the TSE

	During the period			End of the Period				
	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)
1399Q1	488.8	5,049.3	5,232.4	47,597.3	409.2	1,270.6	1,855.2	1,109.5
1398Q1	254.8	675.3	723.5	8,933.2	56.3	234.9	295.2	209.5
Percentage Change	91.8	647.8	623.2	432.8	627.4	441.0	528.5	429.6

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

8. Other Economic Developments

To deal with the fluctuations of different markets, the government has mainly resorted to price controls and does not even hesitate to violate the private property rights of individuals. Recently, after a significant increase in housing market prices, the President Rouhani gave an order to curb the growth of housing prices, and then set a ceiling for increasing housing rents in Tehran at a maximum of 25 percent, in other metropolises at a maximum of 20 percent, and in other cities at a maximum of 15 percent annually. There was also news of auto-renewal of housing

leases up to three months after the end of the emergency state caused by the Corona virus epidemic, which essentially means a blatant violation of private property rights and the freedom of contract-making. In addition, the President's order is contrary to current law, as the Landlord-Tenant Relations Act of 1376 stipulates that the tenant must vacate and return the property as soon as the contract expires. Regardless of the legal problems of such an order, its effect on the rental housing market is not positive and will ultimately burden more cost on tenants due to

informal transactions. Even assuming that informal transactions are prohibited, in the short term, legal restrictions and reduced rental returns can lead to a reduction in the supply of rental housing and cause more problems for tenants. Policymakers in Iran do not pay attention to the compliance of relative prices with supply and demand forces. For example, The Minister of Roads and Urban Development has claimed recently that current prices in the housing market are not proportional to supply and demand.

Trying to rule the economy by orders in recent months was not limited to the housing market. The recent rise in the foreign exchange rates forced the CBI to emphasize the requirement to comply with the bank's directives and the obligation of exporters to return the foreign currencies proceeds obtained from exports. In addition, the recent increase in car prices

forced the National Competition Council to announce new mandatory car prices, and car manufacturers were required to provide cars at approved prices (well below the market prices). As a result, applicants with special conditions were registered and 25 thousand vehicles were allocated to more than four million applicants by lottery. The distributed economic rent in this method is estimated at about IRR12 trillion.

This is while the welfare of the Iranian people has been declining in recent years. One of the indicators of welfare level is the ratio of food and housing costs to total household expenditures. In this case, higher ratio means lower welfare. According to the latest report of the SCI at 04/1399, the cost of food, tobacco, housing, fuel and lighting for urban households accounted for about 56.7 percent of the total expenditures of urban households, while it was 46.2 percent in 1395.

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