21

Recent Economic Developments in Iran

A Quarterly Report

بانک خاورمیانه
Middle East Bank

No. 21 | January 2021

Disclaimer

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No. 21, January 2021

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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.

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**

1399Q2 = 06/22/2020 - 09/22/2020, roughly **2020Q3**

1399Q3 = 09/23/2020 - 12/21/2020, roughly **2020Q4**

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Iran's Economy at a Glance

	1398Q2	1398Q3	1398Q4	1398	1399Q1	1399Q2	1399Q3
Labor Force Participation & Unemployment Rates (percent)							
Participation (15 Years and Over)	44.9	44.3	42.4	44.1	41.0	41.8	-
Unemployment (15 Years and Over)	10.5	10.6	10.6	10.7	9.8	9.5	-
Unemployment (Youth Aged 15-24)	26.1	25.8	25.7	26.0	24.5	23.1	-
Real Growth Rates of GDP and Its Subsectors at Constant 1390 Prices (percent)							
Gross Domestic Product (GDP)	-9.1	1.7	-6.4	-6.5	-2.9	5.1	-
Manufacturing and Mining	0.4	7.1	2.2	2.3	2.5	7.9	-
Oil	-50.4	-10.1	-35.6	-38.7	-16.8	22.2	-
Agriculture	9.8	7.2	7.8	8.8	4.9	4.1	-
Services	-1.7	2.0	-0.5	-0.2	-1.8	1.4	-
GDP (Excluding Oil)	0.5	3.8	0.1	1.1	-0.6	3.2	-
Gross Fixed Capital Formation (at market prices)	*-0.9*	*2.1*	*-17.5*	*-5.9*	*-1.3*	*-0.2*	-
Oil (daily average - thousand barrels)							
Production*	2,191	2,115	2,059	2,194	1,966	1,942	-
Point-to-Point Inflation Rates (percent)							
Growth Rate of Consumer Price Index (1395=100)	41.3	27.7	24.4	34.8	21.1	30.6	44.2
Growth Rate of Producer Price Index (1395=100)	49.4	25.6	15.0	36.7	12.0	40.7	-
Balance of Payments (USD millions)							
Oil Exports	5,723	7,326	5,526	29,016	3,865	-	-
Non-Oil Exports	7,537	8,267	7,178	30,375	5,073	-	-
Imports of Goods	13,196	12,597	14,471	52,236	9,150	-	-
Goods Account (Net)	64	2,995	-1,767	7,155	-212	-	-
Non-Oil Goods Account (Net)	-5,653	-4,330	-7,293	-21,855	-4,077	-	-
Current Account	-1,022	2,035	-2,404	3,753	-622	-	-
Capital Account	-4,387	-4,737	6,108	-6,669	-2,903	-	-
Change in Foreign Reserves	-2,575	88	5,451	1,298	-1,006	-	-
Foreign Exchange Rates (USD/IRR daily average)							
Free Market	119,395	118,175	138,782	128,278	162,376	220,861	272,950
Official	42,000	42,000	42,000	42,000	42,000	42,000	42,000
NIMA (Remittance)	113,098	108,904	125,657	111,813	144,430	187,365	251,914
Monetary and Credit Aggregates (end of period - IRR trillions)							
Monetary Base (M0)	2,951.2	3,142.6	3,525.2	3,525.2	3,833.5	3,720.6	-
CBI Claims on Banks	1,218.8	1,113.9	1,107.5	1,107.5	1,132.9	1,291.9	-
CBI Claims on Public Sector (Net)	336.6	246.8	15.8	15.8	394.3	172.7	-
CBI Net Foreign Assets	2,657،7	3,072.4	3,616.5	3,616.5	3,669.1	3,631.8	-
Liquidity (M2)	21,264.4	22,623.1	24,721.5	24,721.5	26,571.7	28,958.9	-
Money (M1)	3,333.5	3,634.8	4,273.0	4,273.0	5,050.5	6,007.0	-
Sight Deposits	2,834.9	3,106.9	3,661.6	3,661.6	4,442.5	5,407.4	-
Non-Sight Deposits (Quasi-Money)	17,930.9	18,988.3	20,448.5	20,448.5	21,551.2	22,951.9	-
Government Budget and Fiscal Position (IRR trillions)							
The data in this section is not available							
Tehran Stock Exchange (end of period)							
Overall Index (TEDPIX)	302,104	353,997	512,900	512,900	1,270,627	1،595،160	1,439,124
Financial Index	364,579	434,767	636,700	636,700	1,855,151	2،087،957	2,001,939
Industrial Index	270,769	316,210	458,000	458,000	1,109,532	1،415،024	1,264,532
Market Capitalization (IRR trillions)	11,054	12,916	18,732	18,732	47,597	60،035	57,059

Source: Various reports of Central Bank of the Islamic Republic of Iran (CBI), Statistical Centre of Iran (SCI)

* According to OPEC reports from secondary sources

1. Real Sector

The newest statistics published regarding the national accounts of 1399 indicate an expansion in Iran's Economy during the summer and first half of the year. In 1399Q2, the growth rate of all main groups of economic activity, even the oil sector, has been positive, While the outbreak of Corona virus had led to many restrictions on the economy. In fact, despite the closure of some businesses and reduced demand for some goods and services, the increase in production in other sectors has been so great that it has offset the decrease in production due to the outbreak of Corona virus.

The Central Bank of Iran (CBI) reported its preliminary estimates, according to which the economy's total value-added during the second quarter and the first half of 1399 amounted to IRR9,220 trillion and IRR15,445 trillion at current prices, respectively, indicating a 5.1 percent and 1.3 percent expansion in GDP at constant prices, respectively. Much of this growth has occurred in the oil sector in 1399Q2, while during the first half of this year, the growth of the manufacturing and mining sector has been more impressive. The non-oil growth rate in 1399Q2 and 1399H1 was 3.2 percent and 1.4 percent, respectively.

The growth rate of the oil sector was 22.2 percent in 1399Q2, while it was only 0.8 percent in 1399H1. The growth rate of this sector is mainly related to the increase in the production of natural gas and gas condensate, as well as the increase in crude oil exports.

The manufacturing and mining sector also grew by 7.9 percent in summer and 5.4 percent in the first six months of this year. In this sector, the manufacturing has the highest growth rate (6.7 percent). Electricity, natural gas and water sub-sector also recorded a growth rate of 4.5 percent and the construction sub-sector experienced a growth of 4.1 percent. In the construction sub-sector, the growth rate private construction was 10.1 percent, much higher than government construction.

Despite a positive growth rate of 1.4 percent in summer, the services sector has shrunk by 0.2 percent in the first half of 1399. Among the service sub-sectors, services of monetary and financial institutions had the most positive effect and public services had the most negative effect on the value added growth rate of this sector, both in 1399Q2 and in 1399H1. The former had positive growth rate of 12.1 percent and 11.9 percent, and the latter contracted 6.8 percent and 5.2 percent in 1399Q2 and 1399H1, respectively.

On the other hand, the agriculture sector experienced an economic growth rate of 4.1 percent in the summer and 4.4 percent in the first six months of this year. The developments of this group have little to do with other sectors and are more related to climatic conditions. In this sector and in the first half of this year, the value added of farming products and horticultural products at constant prices increased by 10.1 percent and 5.8 percent, respectively, while the value added of main livestock products at constant prices rose only by 1.8 percent. The main economic sectors' growth rates in the quarters of 1398 and 1399H1 are shown in table 1.

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

	1398						1399			Share in Growth in 1399H1
	Q1	Q2	H1	Q3	Q4	Year	Q1	Q2	H1	
Agriculture	8.5	9.8	9.4	7.2	7.8	8.8	4.9	4.1	4.4	0.5
Oil	-47.4	-50.4	-48.8	-10.1	-35.6	-38.7	-16.8	22.2	0.8	0.1
Manufacturing and Mining	-0.1	0.4	0.1	7.1	2.2	2.3	2.5	7.9	5.4	1.4
Services	-0.3	-1.7	-1.0	2.0	-0.5	-0.2	-1.8	1.4	-0.2	-0.1
Non-oil Gross Domestic Product	**0.4**	**0.5**	**0.4**	**3.8**	**0.1**	**1.1**	**-0.6**	**3.2**	**1.4**	**-**
Gross Domestic Product	**-11.0**	**-9.1**	**-10.0**	**1.7**	**-6.4**	**-6.5**	**-2.9**	**5.1**	**1.3**	**1.3**

Source: Central Bank of Iran, National Accounts report

In 1399Q2, similar to the last two years, the fall in private consumption implies a reduction in people's welfare. This component declined by 0.5 percent this quarter, yet it had plunged by 4.5 percent in 1399Q1. Therefore, private consumption decreased by 2.6 percent at constant prices in 1399H1.

Although the growth rate of public services on the supply side of the economy was negative, on the demand side and despite the conditions caused by the outbreak of coronavirus, a positive growth rate of 6.5 percent in government consumption expenditures in the summer (4.1 percent in the first half of the year) led to an increase in aggregate demand. However, the downward sloping trend of fixed capital formation at constant prices continued in 1399H1 by another 0.6 percent reduction, weakening the foundation of economic growth in the following years. It is worth mentioning that fixed capital formation in construction experienced a 0.3 percent rise in 1399H1 and the decline was due to the 3.3 percent fall in machinery. The net exports have also fallen by 15.6 percent in first half of the year, stemming from 20.6 percent and 37.7 percent reductions in exports and imports in that order, at constant prices. The growth rates of gross domestic expenditures and its components are demonstrated in Table 2.

Table 2- The Growth Rates of GDP and Its Components on the Expenditures Side at 1390 Constant Prices (percent)

	1398						1399		
	Q1	Q2	H1	Q3	Q4	Year	Q1	Q2	H1
Private Consumption	**-8.0**	**-9.5**	**-8.8**	**-1.8**	**-11.3**	**-7.7**	**-4.5**	**-0.5**	**-2.6**
Public Consumption	**-9.0**	**-6.8**	**-7.8**	**-3.3**	**-4.9**	**-6.0**	**1.2**	**6.5**	**4.1**
Gross Fixed Capital Formation	**-4.9**	**-0.9**	**-2.5**	**2.1**	**-17.5**	**-5.9**	**-1.3**	**-0.2**	**-0.6**
Machinery	-18.9	-9.7	-14.2	-15.1	1.7	-10.0	-12.0	4.4	-3.3
Construction	3.3	1.7	2.2	10.6	-24.7	-4.3	3.6	-1.4	0.3
Net Exports of Goods and Services									
Exports	-38.6	-39.7	-39.1	-4.9	-26.2	-29.9	-30.8	-9.3	-20.6
Imports	-50.5	-48.0	-49.3	-28.6	-11.4	-38.1	-44.3	-31.3	-37.7
Gross Domestic Product (at market prices)	**-11.7**	**-9.1**	**-10.4**	**1.8**	**-6.8**	**-6.8**	**-2.9**	**4.8**	**1.2**

Source: Central Bank of Iran, National Accounts report at market prices

Investment

According to the Ministry of Industry, Mine and Trade, during the first eight months of 1399, the number of establishment permits of manufacturing units totaled 25,108, and about IRR3,129 trillion investment is forecasted to be needed for them, recording 45.4 percent and 48.6 percent climb compared to the same period in the preceding year, respectively. Considering the high inflation rate in the country, it is axiomatic that the average real capital for each permit has decreased. The operation permits, including creation and development plans operation permits, reached 4,565 in number, 11.6 percent lower than that in the first eight months of 1398. Nevertheless, their corresponding investment rocketed by 389.7 percent.

The main drivers of this growth were the issuance of operation permit to a gas refining company, followed by a chemical fertilizer company and an aluminum industry complex. 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 8 Months of 1398	First 8 Months of 1399	Percentage Change
Projection for Establishment Permits	2,106.3	3,129.3	48.6
Operation Permits	278.8	1,365.3	389.7

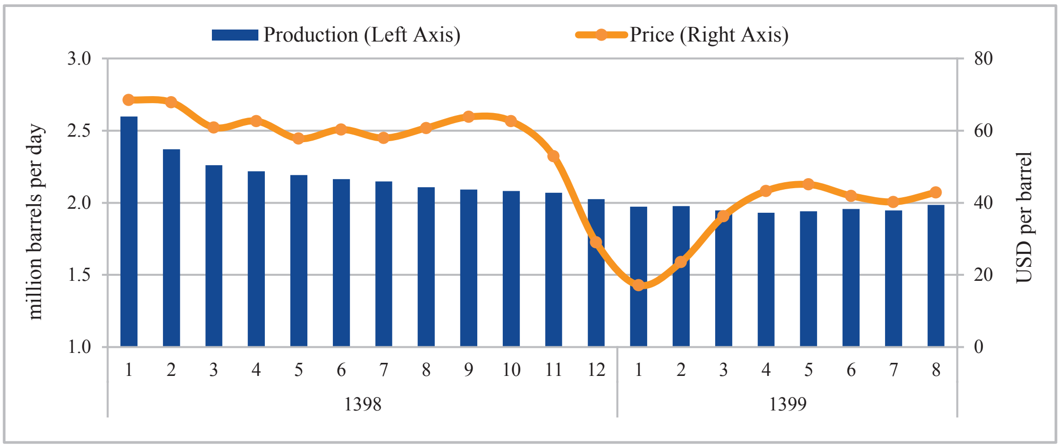
Source: Ministry of Industry, Mine and Trade, the preliminary report of the performance of the first eight months of 1399

Oil

The oil industry, which had been one of the vital ingredients of the Iranian economy through the recent half-century and had constituted the majority of the government's income, has been significantly overshadowed in the aftermath of international sanctions. According to the CBI, the oil sector value-added in current prices made up merely 5.2 percent of Iran's GDP in 1399H1, while its share was about 13.5 percent, 13.0 percent and 7.4 percent in 1396 to 1398, respectively. Due to the severe sanctions, the release of oil sector performance statistics in Iran has discontinued, and thereby the data from secondary sources in OPEC reports has become the best available one. Accordingly, Iran's crude oil production reached 2.0 million barrels per day in November 2020 (approximately 08/1399), showing an 5.7 percent decline compared to the same month in the last year and a 32.0 percent plummet compared to that in 2 years ago. The production level in these months is even less than the amount of export in the years 1395 and 1396. The Iran's oil export statistics have become off the record for about two years and only what published by data intelligence companies that provide transparency solutions to commodity markets is available in this regard. Accordingly, Iran's daily oil exports plummeted to about 200 thousand barrels in 1398H2 and less than 100 thousand barrels at the beginning of 1399. However, following the easing of Coronavirus-related restrictions, the global oil demand and, to some extent, Iran's exports increased and the figure surged to about 700 thousand barrels per day during summer.

The average price of Iran's heavy oil, which fluctuated between USD61 and USD64 per barrel from 03/1398 to 10/1398, registered merely USD29 in the last month of 1398, worsening the government's oil income. The outbreak of Coronavirus as a severe global concern, coupled with OPEC's decision to preserve total oil production level of its members, increased supply surplus severely and let the price touch even USD10 on some days. The price of each barrel of Iranian heavy oil, consequently, averaged USD17 in 01/1399. With rising the global demand as mentioned, the price also commenced increasing to reach USD42.9 in 08/1399. 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



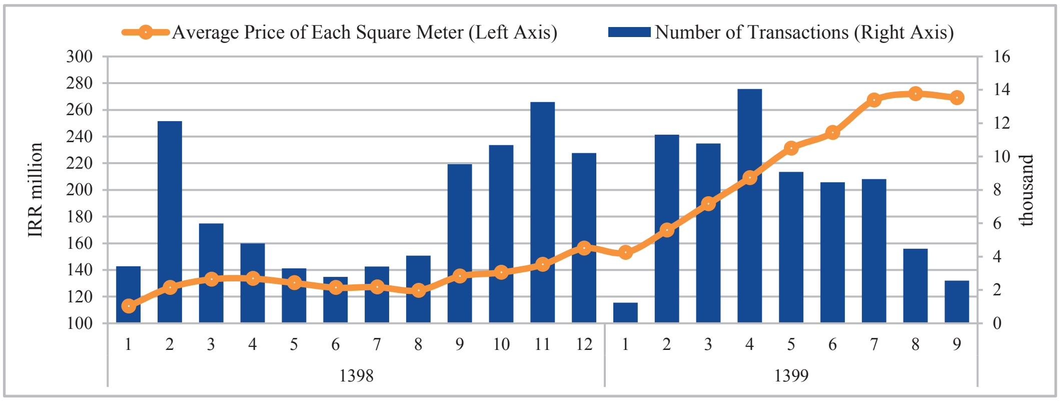
Source: OPEC Monthly Reports, based on secondary sources

Note: OPEC statistics are based on Gregorian calendar years, and their conversion into Persian calendar years is only approximate.

Housing

The price spikes in the housing market, like other asset markets in 1399, continued uninterruptedly until 08/1399, although finally stopped in 09/1399. The average price of a square meter of residential units in Tehran registered IRR269 million in 09/1399, indicating a growth rate of 98.9 percent during a year, however it is 1.1 percent lower than that in preceding month. Therefore, the doubling of housing prices during the year under review was more than the inflation rate, indicating the real growth of housing prices and the decrease in purchasing power of consumers of this durable good. In 09/1399, nearly 2,555 transactions were registered in the Tehran housing market, which was the lowest since 1391, except for the first month of the year, due to this month's exceptional circumstances. More than half of these transactions were recorded for small units with an area of less than 80 square meters and this share is expected to increase even more over time with further increases in average prices. The number of transactions in 09/1399 decreased significantly by 73.2 percent compared to the same month preceding year, indicating the occurrence of a recession in this market. The current housing market downturn is expected to be deeper and longer than the previous downturn (05/1398 to 08/1398). However, it should be noted that the new restrictions due to the intensification of the outbreak of coronavirus have also had a significant effect on reducing the number of transactions. In 01/1399, the new year holidays were accompanied by the spread of the Coronavirus and related restrictions to reduce the number of transactions in Tehran to the low of merely 1,200. Although with limits easing in the next two months, the boom in housing transactions returned, and in each of the following two months, about 11 thousand transactions were recorded. During the last two years, the peak number of transactions was also experienced in 04/1399, with the registration of more than 14 thousand transactions. Figure 2 illustrates the monthly movement of housing prices and the number of transactions recorded in Tehran.

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



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

Labor Force

Based on the SCI's report, the unemployment rate of the population aged 15 and above in 1399Q2 improved significantly and reached below 10 percent (9.5 percent), However, the share of underemployment (less than 44 hours per week employment) has increased by half a percentage point to 9.3 percent. Thus, part of the reduction in the unemployment rate has been not through full-time employment, but through underemployment. Also, other indices of the labor market - Such as participation rate and share of employment - do not indicate improvement and even worsened compared to the same period of preceding year.

In 1399Q2, the unemployment rate was 8.1 percent for men and 16.5 percent for women. The number of unemployed in this quarter amounted to 2.5 million, 1.8 million of which were youth aged 18-35, and about one million hold a tertiary degree. These figures represent the unemployment rate of 16.9 percent for youth and 14.9 percent for highly-educated people, respectively. The unemployment rate for highly-educated women was 23.9 percent in 1399Q2. In contrast, 10.1 percent of employed men were underemployed, compared to 4.8 percent for employed women. Thus, despite the higher unemployment rate among women, they are less engaged in part-time work than men.

On the other hand, the participation rate in 1399Q2 was only 41.8 percent for whole population (3.1 percentage point less than the figure in the same period of preceding year) and 14.1 percent for women. Of the small population of 4.4 million women willing to work, only 3.7 million have managed to find a suitable job. Besides, the employment ratio went down in this quarter by 2.4 percentage points, reaching 37.8 percent. Among approximately 23.5 million individuals who had an occupation in this quarter, 48.1 percent employed in the services sector, 33.4 percent employed in the industry sector and the rest in the agriculture sector. Table 4 compares the major statistics of the labor market in 1399Q2 and 1398Q2.

Table 4- Major Labor Market Indicators for the Population Aged 15 and Over

		1398Q2			1399Q2		
		Total	Male	Female	Total	Male	Female
Economic Participation Rate, Population Aged 15 and Over	Rate (percent)	44.9	72.2	17.6	41.8	69.5	14.1
	Number (million)	27.6	22.2	5.4	26.0	21.6	4.4
Share of Employment, Population Aged 15 and Over	Share (percent)	40.2	66.0	14.4	37.8	63.8	11.8
	Number (million)	24.8	20.3	4.4	23.5	19.9	3.7
Unemployment Rate, Population Aged 15 and Over	Rate (percent)	10.5	8.6	18.2	9.5	8.1	16.5
	Number (million)	2.9	1.9	1.0	2.5	1.8	0.7
Unemployment Rate, Population Aged 18-35	Rate (percent)	17.9	14.1	31.6	16.9	14.0	29.4
	Number (million)	2.2	1.4	0.8	1.8	1.2	0.6
Unemployment Rate, for Highly-Educated Population	Rate (percent)	17.2	12.2	27.1	14.9	10.9	23.9
	Number (million)	1.3	0.6	0.7	1.0	0.5	0.5
Share of the Underemployment (percent)		8.8	9.6	4.8	9.3	10.1	4.8

Source: Statistical Center of Iran, Summary result of Labor Force Survey in 1399Q2

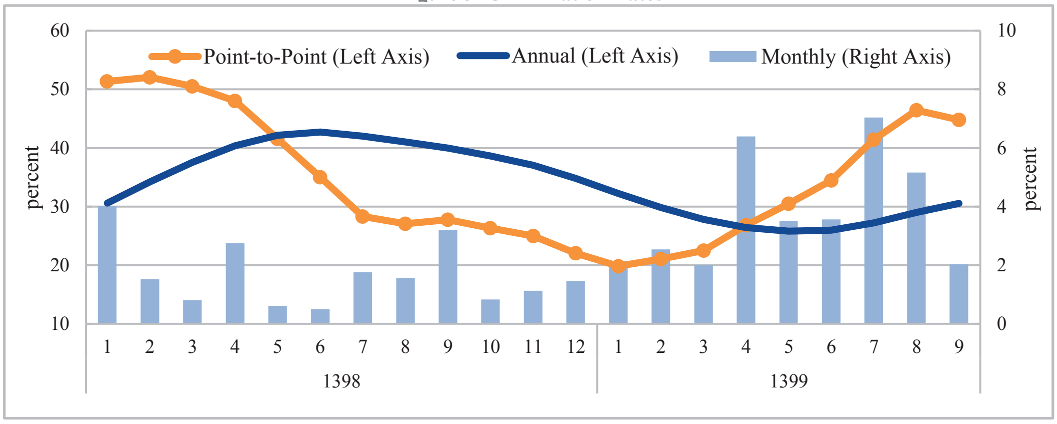
2. Prices and Inflation

Being considered a solvable and straightforward issue in the vast majority of countries, inflation has been invariably a chronic problem in Iran, adversely affecting all aspects of the economy. Particularly in the recent two years, inflation has become one of the main concerns of households and firms in Iran, diminishing not only their saving and income but also their peace of mind.

According to the latest SCI's report, the consumer price index (CPI) with the base year of 1395 stood at 280.6 in 09/1399, indicating 44.8 percent point-to-point, 30.5 percent annual and 2.0 percent monthly inflation rate. The point-to-point inflation rate, which registered 19.8 percent in the first month of this year, commenced an upward sloping trend thereafter, overtaking the annual rate since 04/1399. Consequently, the annual rate ceased its descending trend after 12 months and bounced backed since 06/1399, although it has not yet reached the peak of 42.7% in 06/1398.

The monthly inflation rate which had experienced an upward sloping trend since 10/1398, escalating from 0.8 percent in this month to more than 2 percent in each of the first three months of 1399. In 07/1399, this rate touched a high of 7.4 percent, although decreasing trend then took. Figure 3 illustrates the different types of CPI inflation rates for all Iranian households.

Figure 3- CPI Inflation Rates



Source: Statistical Center of Iran, Report of the consumer price index, 09/1399

Investigating the details of the SCI report for 09/1399, the highest (64.8 percent) and the lowest (11.8 percent) annual inflation rates appertained to “Transport” and “Communication”, respectively. The point-to-point inflation rate was also the highest in the transport group, reaching 65.2 percent in 09/1399, while in 09/1398, about a month had passed since the increase in gasoline prices. However, the monthly inflation rate in the transport group in 09//1399 was negative and it can be expected that the annual and point-to-point inflation rate of this group will decrease compared to other groups in coming months. On the other hand, the lowest point-to-point growth rate of prices in 09/1399 was recorded in “Education” group with 21.3 percent. Meanwhile, the price level of “Food and Beverages” group rose annually and point-to-point by 27.8 percent and 58.0 percent, respectively. In this group, the “Fruits and Nuts” and “Oils and Fats” subgroups have each experienced more than a 75 percent point-to-point inflation rate. Also, the point-to-point inflation rate of the “Milk, Cheese and Eggs” subgroup was 60.8 percent. Separating goods and services, the annual inflation rate of goods and services amounted to 34.7 percent and 24.6 percent, respectively. The gap between these two rates has widened from mid-1397 onwards, and goods prices on average have increased more rapidly, due to rising foreign exchange rates and the outbreak of the Corona virus. The peak of this difference was in 06/1398, when inflation was recorded at 60 percent and 25 percent for goods and services, respectively. Table 5 exhibits CPI inflation rates in major groups of the consumption basket in 09/1399, with a descending weight in the basket order.

Table 5 - Inflation Rates of Major Groups in the Consumption Basket in 09/1399 (percent)

	Weight in the Basket	Monthly	Point-to-point	Annual
Housing, Water, Electricity, Gas and Other Fuels	35.5	0.5	26.1	23.9
Food and Beverages	26.6	5.0	58.0	27.8
Transport	9.4	-3.6	65.2	64.8
Health	7.1	1.8	34.5	25.9
Clothing and Footwear	4.8	3.0	44.4	34.0
Others	4.2	2.2	45.2	31.7
Household Equipment	3.9	4.4	59.6	36.6
Communication	2.9	0.0	24.5	11.8
Education	1.9	0.5	21.3	21.2
Recreation and Culture	1.7	2.7	52.5	34.9
Restaurants and Hotels	1.4	3.5	36.6	25.7
Tobacco	0.6	2.6	53.2	25.7
Overall	**100.0**	**2.0**	**44.8**	**30.5**

Source: Statistical Center of Iran, Report of the consumer price index, 09/1399

It should be noted that due to large changes in the level of welfare and consumption basket of households in the country since 1395, the weights and inflation rates calculated based on the base year of 1395 do not show much the inflationary pressure imposed on Iranian households. Therefore, it is better to update the base year so that the calculated inflation rates better reflect the facts. In fact, the instability of the Iran’s economy necessitates an earlier update of the base year than for stable economies.

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 three months of 1399. 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 USD1.0 billion in 1399Q1. However, the corresponding figure for the same period of preceding year was negative USD1.7 billion. Reviewing the details reveals that USD5.1 billion current account surplus has turned into USD0.6 billion deficit, while the net capital account deficit decreased by 20.5 percent and registered USD2.9 billion. Furthermore, errors and omissions reached from negative USD3.2 billion in 1398Q1 to positive USD2.5 billion in 1399Q1. In conclusion, change in the errors and omissions was the main contributor to the reduction of overall balance deficit in 1399Q1 compared to 1398Q1, while change in the current account has had an increasing effect on this deficit.

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 103.6 percent to reach negative USD0.2 billion in 1399Q1 from positive USD5.9 billion in 1398Q1. The country's total goods trade was 39.3 percent less than that of in 1398Q1, 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 addition to the sanctions imposed by USA, the outbreak of Coronavirus has contributed to declining goods trade. In 1399Q1, the value of goods imports declined by 23.6 percent and registered USD9.2 billion, while the value of goods exports decreased by 49.9 percent to reach USD8.9 billion. The decline in goods exports was mainly due to the decrease in oil exports by 63.0 percent to USD3.9 billion, which was less than USD5.1 billion non-oil exports. The non-oil exports declined by 31.4 percent in 1399Q1.

On the other hand, oil imports in 1399Q1, as in the same period of the preceding year, were almost zero. Meanwhile, non-oil imports declined by 23.6 percent and registered USD9.2 billion. Therefore, the oil trade balance surplus declined considerably by 63.0 percent and reached USD3.9 billion, while the non-oil trade balance deficit fell by 11.0 percent and amounted to USD4.1 billion. The services account deficit decreased by 50.0 percent and registered USD0.5 billion. The income account surplus in 1398Q1 has turned into a deficit in 1399Q1 and current transfers account surplus decreased by 4.0 percent. Finally, it is estimated that due to the change in foreign reserves in the first quarter of 1399, the country's foreign reserves outstanding has amounted to about USD122.8 billion. Table 6 presents the components of balance of payments in 1398Q1 and 1399Q1.

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

	1398Q1	1399Q1	Percentage change
Current Account	5,144	-622	-112.1
Goods Account	5,863	-212	-103.6
Exports (FOB)	17,835	8,938	-49.9
Oil	10,441	3,865	-63.0
Non-oil	7,393	5,073	-31.4
Imports (FOB)	11,972	9,150	-23.6
Gas and Oil Products	0	0	-
Others	11,972	9,150	-23.6
Services Account	-1,071	-535	-50.0
Income Account	192	-29	-115.3
Current Transfers Account	161	154	-4.0
Net Capital Account	-3,653	-2,903	-20.5
Errors and Omissions	-3,157	2,519	-179.8
Overall Balance	**-1,666**	**-1,006**	**-39.6**

Source: Central Bank of Iran, Economic Trends, No 100

The latest data on the foreign trade by the IRI Customs Administration covered the first 8 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 intensification of US sanctions, and this has been more severe in the case of exports. In this period, 21.9 million tons of goods valued at USD23.1 billion was imported to the country and the country's exports have been 75.8 million tons valued at USD21.4 billion. Therefore, the imports have experienced 1.2 percent and 18.5 percent drop compared to the same period of its preceding year, in terms of weight and value, respectively. The value of imports has decreased far more than the weight of imports due to the policy of reducing imports of luxury and non-essential goods. In addition, exports fell by 13.9 percent in weight and 19.6 percent in value. As a result of the developments of the foreign trade, the deficit of non-oil trade balance in the first 8 months of 1399 drop slightly by 2.1 percent and reached USD1.684 billion from USD1.721 billion in the same period of 1398. The statistics of country's foreign trade in the first 8 months of 1398 and 1399 are shown in Table 7.

Table 7- Foreign Trade in first 8 months of 1398 and 1399

	First 8 Months of 1398		First 8 Months of 1399		Percentage Change	
	Weight (1000 tons)	Value (USD million)	Weight (1000 tons)	Value (USD million)	Weight	Value
Imports	22,142	28,400	21,881	23,132	-1.2	-18.5
Exports	88,081	26,679	75,821	21,448	-13.9	-19.6
Non-oil Trade Balance	**65,939**	**-1,721**	**53,940**	**-1,684**	**-18.2**	**-2.1**

Source: IRI Customs Administration, Preliminary report of foreign trade data in the first 8 months of 1399

Unfortunately, the IRI Customs Administration has omitted the major items of imports and exports in its preliminary reports. However, for the first 8 months of 1399, customs exports and imports details have been released without mentioning major items, while in order to prevent the escalation of US sanctions, trade statistics with Iraq have been removed from these reports. In this regard, according to the approvals of the Sanctions Committee of the Ministry of Economic Affairs and Finance, the information related to Chapter 27 of HS codes (mineral fuels, mineral oils and products of their distillation; bituminous substances; and mineral waxes) has been removed from export statistics. A significant portion of the country's major items of exports are in Chapter 27. For example, the main export items in 1397 were natural gas condensates, liquefied natural gas, liquefied propane and other light oils and preparations (excluding gasoline), all four of which are in Chapter 27. About half of the country's total exports in the first eight months of 1399 (USD10.4 billion) were either a subset of Chapter 27 or related to Iraq.

In the first 8 months of 1399, China with USD5.4 billion of imports from Iran has been the first exports destination – as in previous years - accounting for 25.0 percent of Iran's total exports. This share was 23.0 percent and 20.8 percent in 1398 and 1397, respectively. Statistics on Iran's exports to Iraq are not available, however, Iraq ranked as the 2nd exports destination of Iran in 1398 and 1397, with 21.7 percent and 20.1 percent share, respectively. In the period under study, UAE's non-oil imports from Iran totaled USD2.7 billion. The share of exports to UAE in this period registered 12.7 percent in Iran's total exports while in the year 1398, UAE ranked as the 4th exports destination with share of 10.9 percent. Turkey accounts for 7.5 percent of Iran's total exports valued at USD1.6 billion in the first 8 months of 1399. This country was in the 3rd place in 1398 with a share of 12.2 percent of Iran's total exports. Afghanistan with USD1.5 billion of imports from Iran, accounts for 7.1 percent of total exports of the country in the time span under study. Its share of Iran's total exports was 5.7 percent in 1398. India also accounted for 2.8 percent of the country's total exports during this period, importing USD610 million worth of goods from Iran.

On the other hand, China has been the first source of imports of Iran in the first 8 months of 1399 – as in its preceding years - with USD6.0 billion. Imports from China that accounted for 24.1 percent of total in 1397 and 25.6 percent in 1398, registered 25.8 percent in the first 8 months of 1399. UAE also kept its 2nd place of exporting countries to Iran with USD5.4 billion and its share in total Iran's imports rose from 15.3 percent in 1397 and 20.4 percent in 1398 to 23.5 percent in the first 8 months of 1399. Turkey ranked as the 3rd exporter to Iran in the period under review - as in 1398 - with USD2.6 billion of exports to Iran and share of 11.3 percent in total Iran's imports. Its share of Iran's total imports in the first eight months of 1399 has not changed much compared to the whole of 1398, although it is much more than the 6.1 percent share of this country in 1397. India was the 4th largest source of imports of Iran in the time span under study – as in 1398 - with USD1.4 billion of exports to Iran and share of 6.2 percent in total Iran's imports. Germany, as the most important European source of imports of Iran, imported USD1.2 billion goods from Iran in the first 8 months of 1399 and accounted for 5.0 percent of the Iran's total imports. All in all, the top 5 exporters to Iran have accounted for 71.8 percent of total Iran's imports in the first 8 months of 1399, more than the 70.7 percent share in whole 1398. In other words, only about a quarter of Iran's imports come from other countries (except these five major partners) and in the wake of US sanctions, Iran's trade has focused on a few limited countries.

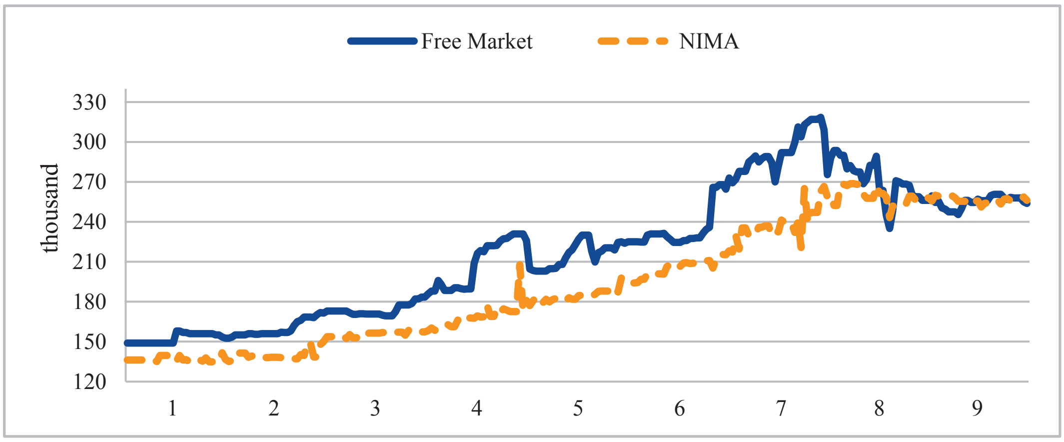
Based on CBI reports, Iran's total foreign debt grew by 2.3 percent to USD9.3 billion at the end of 1399Q2. Out of this figure, about USD7.3 billion belongs to medium- and long-term debt that fell by 2.1 percent. However, in this period short-term debts of the country boosted by 22.9 percent to USD1.9 billion, due to the outbreak of coronavirus.

4. Foreign Exchange Market

The USD/IRR exchange rate in the free market had a significant upward trend at the third quarter of 1399. This trend which had resumed in 1398H2 after a short break in the first half of 1398, intensified in 07/1399. The USD/IRR exchange rate in the free market which registered 149.0 thousand at the beginning of 1399, 186.0 thousand at the beginning of 1399Q2 and 270.0 thousand at the beginning of 1399Q3, reached the high of 318.6 thousand on 07/27/1399. This rate was related to authorized foreign exchanges, and in unauthorized foreign exchanges, The USD/IRR exchange rate was higher than these figures. After that, as the US presidential election approached, this rate decreased, so that the USD/IRR exchange rate in the free market fell to 235.0 thousand on 08/18/1399, after the victory of the Democratic candidate. The foreign exchange market then experienced an almost stable trend, caused the USD/IRR exchange rate to reach 254.0 at the end of 1399Q3. The USD/IRR exchange rate averaged 255.1 in the last month of 1399Q2 which is more than twice that of in the same month of preceding year. The important point is the remittance USD/IRR exchange rate in the secondary market (NIMA) has been slightly higher than the free market rate in 09/1399, while historically the secondary market rates have been in the lower range than the free market rates. Unlike the free market, the remittance rates in the secondary market did not decrease much after the US election and only stabilized in the range close to the free market rates. The remittance USD/IRR exchange rate in the secondary market reached 256.3 thousand at the end of 1399Q3 from 136.3 thousand in the beginning of the year. Consequently, the gap between the secondary market and free market rates narrowed in 09/1399 from a peak of 37.7 percent on 07/21/1399. however, the fixed 42 thousand USD/IRR official exchange rate led to a significant gap (459.9 percent) between this rate and the USD/IRR exchange rate in the free market in the end of 1399Q3.

The average free market USD/IRR exchange rate in fall 1399 was 23.6 percent up from that in its preceding quarter and 131.0 percent above the rate in fall 1398. Figure 4 shows the USD/IRR exchange rates in secondary and free markets during the year 1399.

Figure 4- USD/IRR Exchange Rates in 1399



Source: Gold, Coin and Currency Information network, and https://www.sanarate.ir

In addition to the US election, influential factor on the foreign exchange market in the third quarter of 1399 was the permission to import of goods through the applicant foreign currencies (without foreign currency transfer) in 08/1399.

In this way, the owners of some goods stored in the customs, which previously could only be in the queue to receive foreign currencies from the secondary market, were allowed to proceed with customs clearance without receiving the bank tracking code - even by providing foreign currencies from the free market. In the short run, this led to an increase in foreign exchange demand in the free market and had an increasing effect on the foreign exchange rates. However, it should be noted that the long-term trend of the foreign exchange rates is mainly influenced by the monetary policy. Due to the significant government budget deficit and the government's financial dominance over the CBI's monetary policy, monetary expansion has intensified in the last two years, challenging the long-term decline in the foreign exchange rates.

5. Monetary and Credit Aggregates

At the time of high inflation, a meticulous and quick evaluation of monetary aggregates as main cause of inflation is of great value and an integral part of policymaking. The CBI, however, releases these statistics with several months of delay. As a result, the assessment of this data is often possible after the emergence of inflationary effects, which in turn is one of the reasons why the central bank has come under fire. According to the latest accessible CBI's reports, high-powered money (M0) and liquidity (M2) stood at IRR3,721 trillion and IRR28,959 trillion at the end of 1399Q2, respectively, showing 26.1 percent and 36.2 percent annual growth rates. During the first half of 1399, the monetary base and liquidity increased by 5.4 percent and 17.1 percent, respectively. The M2 money multiplier, therefore, ascended and reached 7.8 at the end of 1399Q2.

Considering the CBI's balance sheet, the main source of the mentioned climb in M0 over the year under review was the considerable rise in CBI net foreign assets (36.7 percent), due to Sale of part of the National Development Fund's foreign exchange assets by the government to the CBI in order to finance the budget deficit as well as revaluation of foreign currency denominated assets and exchange of foreign currencies at higher rates. It is worth mentioning that using the National Development Fund's resources and changing them to rial by the CBI is nothing more than the direct borrowing of government from the CBI, because the CBI does not have access to this foreign currencies abroad following US sanctions. The increase in net foreign assets of the CBI along with the net other items was the main reason for the rise in the monetary base in 1398, while the sharp increase in CBI's net claims on public sector in 1397 played this role. Meanwhile, during the year ended 1399Q2, CBI net claims on the public sector dropped by 48.7 percent. However, according to the budget law, part of the CBI's claims on banks have been cleared with the banks' claims on the government, and this process has had an increasing effect on the CBI's claims on the government. Moreover, the CBI claims on banks rose by 6.0 percent at the end of 1399Q2. Also, the net other items increased by 9.0 percent, which, due to its negative amount, had a reducing effect on M0.

Exploring the balance sheet of the whole banking system indicates the surprising 80.2 percent jump in the volume of money (M1) and 28.0 percent escalation in quasi-money at the end of 1399Q2 compared to the same point in the preceding year. These growth rates are almost unprecedented. In fact, in the wake of a faster increase in money than that in quasi-money, the liquidity of money was also rising in this period, which results in a higher power to cause inflation, in addition to inflation caused by the growth of the monetary base. During the first half of this year, the money (M1) increased by 40.6 percent, while the quasi-monetary grew by 12.2 percent. The share of money (M1) in the liquidity (M2) has been increasing over recent years, reaching from 12.7 percent at the end of 1396, 15.1 percent at the end of 1397 and 17.3 at the end of 1398 to 20.7 percent at the end of 1399Q2. Table 8 elaborates on the components of M2 and M0 in recent quarters.

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

	1398				1399		Percentage Change of 1399Q2 compared to	
	Q1	Q2	Q3	Q4	Q1	Q2	1398Q4	1398Q2
Monetary Base	**2,744.3**	**2,951.2**	**3,142.6**	**3,528.5**	**3,833.5**	**3,720.6**	**5.4**	**26.1**
CBI Net Foreign Assets	2,310.4	2,657.7	3,072.4	3,475.7	3,669.1	3,631.8	4.5	36.7
CBI Net Claims on Public Sector	414.8	336.6	246.8	156.3	394.3	172.7	10.5	-48.7
CBI Claims on Banks	1,345.5	1,218.8	1,113.9	1,106.9	1,132.9	1,291.9	16.7	6.0
Net Other Items	-1,326.4	-1,261.9	-1,290.5	-1,210.4	-1,362.8	-1,375.8	13.7	9.0
Liquidity	**19,799.1**	**21,264.4**	**22,623.1**	**24,721.5**	**26,571.7**	**28,958.9**	**17.1**	**36.2**
Money	3,108.7	3,333.5	3,634.8	4,273.0	5,020.5	6,007.0	40.6	80.2
Notes and Coins with the Public	502.2	498.6	527.9	611.4	578.0	599.6	-1.9	20.3
Sight Deposits	2,606.5	2,834.9	3,106.9	3,661.6	4,442.5	5,407.4	47.7	90.7
Quasi-Money	16,690.4	17,930.9	18,988.3	20,448.5	21,551.2	22,951.9	12.2	28.0
M2 Money Multiplier	**7.2**	**7.2**	**7.2**	**7.0**	**6.9**	**7.8**	**11.1**	**8.0**

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

The government budget deficit in 1399 has led to an increase in monetary aggregates and inflation rate, not only through borrowing from the National Development Fund (indirect borrowing from the CBI) but also to a lesser extent through borrowing from the public in the form of government debt securities. Although the CBI's net claims on the public sector decreased at the end of 1399Q2 compared to 1398Q2, the acquisition of government debt securities by the CBI (both in the form of overdraft and open market operations to reduce interbank market interest rates to target range) has an additive effect on this variable. For example, at the beginning of 08/1399, following the issuance of large amounts of government debt securities, the interest rate in the interbank market was 23.2 percent, which was even higher than the announced rate of bank overdrafts from the CBI (interest rate ceiling). During this month, the CBI made IRR111.5 trillion outright purchase of government debt securities to control interest rates. In addition, during the month under review, the purchase of government ssecurities in the form

of repurchase agreements (open market operations by Repo) was about IRR74 trillion, which despite the 14-day maturity, the outstanding was IRR62.2 trillion at the end of 08/1399. Also, the banks had about IRR94.2 trillion overdrafts from the CBI in the form of a repurchase agreement, the outstanding of which was about IRR11.9 trillion at the end 08/1399. Thus, the balance of injections of CBI reserves in the form of repurchase agreements was IRR74.1 trillion at the end of 08/1399, which along with the IRR111.5 trillion outright purchase of government debt securities, had an increasing effect on the CBI's claims on the government.
At the end of 06/1399, the balance of extended facilities in the banking system reached IRR22,753 trillion, rising by 17.6 percent from the beginning of the year and 35.2 percent from the similar point in 1398. The deposits in banks and non-bank credit institutions experienced higher growth rates in the same periods, with 36.0 percent growth rate to reach IRR31,954 trillion. Meanwhile, the legal reserve ratio average, standing above 10 for years, dipped to 9.3 percent by CBI decision, to help banks provide Coronavirus-related loans. Therefore, the deposits less required reserves experienced a higher growth rate and increased by 37.4 percent. The ratio of extended facilities to deposits (after deduction of the legal reserves), which was decreasing continuously in recent years, registered 78.5 percent at the end of 06/1399. Table 9 illustrates 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	1398	1399Q2	Percentage Change of 1399Q2 compared to	
						1398Q4	1398Q2
Extended Facilities (EF - in IRR trillion)	9,866.6	12,587.1	15,090.2	19,355.8	22,753.2	17.6	35.2
Deposits (in IRR trillion)	12,728.4	16,464.1	20,673.4	27,162.8	31,954.4	17.6	36.0
Deposits Less Required Reserves (DLRR - in IRR trillion)	11,374.1	14,741.9	18,568.3	24,381.1	28,975.5	18.8	37.4
Legal Reserve Ratio (percent)	10.6	10.5	10.2	10.2	9.3	-	-
EF to DLRR Ratio (percent)	86.7	85.4	81.3	79.4	78.5	-	-

Source: Central Bank of Iran, Banking Statistics

The flow of the banking system's extended facilities totaled IRR6,967 trillion in the first half of 1399, registering a marked growth rate of 82.3 percent. Thus, despite the recession in the economy, credit policies stimulate aggregate demand to counter the effects of the outbreak of coronavirus and its inflationary consequences will be visible in the economy if the supply does not experience a significant increase. Two sectors of "services" and "industries and mining" again allocated the highest portions of these facilities, 35.1 percent and 31.0 percent respectively, followed by the commerce sector, with 20.0 percent. Regarding the purposes, the majority of facilities was extended in the form of working capital (60.7 percent) and its amount has more than doubled compared to 1398H1.
Table 10 compares different economic sectors in terms of extended facilities and the corresponding purposes during 1399H1.

Table 10- Banks' Extended Facilities in the first half of 1399 by Sectors and Purpose (percent of total)

	Agriculture	Industry and Mining	Housing and Construction	Commerce	Services	Other	Total
Total (IRR trillion)	**498.5**	**2,128.4**	**393.7**	**1,412.7**	**2,445.5**	**88.3**	**6,967.2**
Creation	18.9	15.3	14.9	4.3	12.3	96.5	13.3
Working Capital	68.6	75.8	24.7	44.3	63.2	2.3	60.7
Repair	0.4	0.7	25.8	0.3	1.6	0.1	2.3
Development	7.7	6.9	3.6	6.0	11.5	1.2	8.1
Purchase of Private Goods	1.0	1.1	0.1	44.7	0.5	0.0	9.7
Purchase of House	0.2	0.2	30.0	0.3	0.5	0.0	2.0
Others	3.1	0.0	0.9	0.1	10.3	0.0	3.9

Source: Central Bank of Iran, Extended Facilities by Sectors and Purposes during 1399H1

6. Government Fiscal Performance

The budget bill of 1400 was the last budget bill of the current government that was submitted to the parliament in due time. The bill is far different from the budget law of 1399 in terms of macro figures, yet is almost devoid of structural changes. For this reason, its rejection was much discussed by the parliament. The macro figures of the 1400 budget bill indicated that the government size has grown in comparison to the figures in 1399 budget law. The country's total Budget which consists of "state-owned companies' budget" and "general budget" has risen by 20.2 percent in nominal terms, although it is lower than coming year expected inflation rate, it does not reflect the reality due to the change in the way state-owned companies' budget are calculated. The budget of state-owned companies has increased by only 8.7 percent compared to the Budget Law of 1399. The main reason for this small growth rate is the removal of unrealistic figures from the budget of the National Oil Company and the National Iranian Oil Refining and Distribution Company. For example, before the 1400 budget bill, all resources from the sale of crude oil and gas condensate were considered as resources of the National Oil Company (exchanged at the Nima rates), while the share of the National Oil Company in these resources is only 14.5 percent. In parallel, the company's uses included the government's share, the National Development Fund's share, and hidden energy subsidies to balance the budget. This method made the company's budget unrealistically large, which is why it has been modified in the 1400 budget bill. Moreover, the National Iranian Oil Refining and Distribution Company act as intermediary to purchase the crude oil and gas condensate from the National Oil Company and sell them to refining companies. Therefore, more than 98 percent of the company's resources and uses were allocated to the accounting of this intermediation operation in the Budget Law of 1399. This amount of sales of crude oil and gas condensate was included in both the budget of the National Oil Company and the budget of the National Iranian Oil Refining and Distribution Company, which led to the intensification of double counting in the total budget of state-owned companies. By removing these unrealistic figures, the revenues and the expenses of the National Oil Company have decreased by 78.9 percent and 89.0 percent, respectively, and the revenues and the expenses of the National Iranian Oil Refining and Distribution Company have shrunk by 99.8 percent and 99.9 percent, respectively, Compared to the Budget Law of 1399.

The general budget grew by 43.1 percent in the 1400 budget bill compared to its corresponding figure in the 1399 Budget Law. The general budget consists of "general sources and uses" and "sources and uses of dedicated revenues". Dedicated revenues are gained by the public organizations and will be spent within them. In other words, such revenues will not be directed to the treasury so that they cannot be reallocated to other sectors. The general sources are only in hands of government and treasury, which consists of current revenues (mainly tax), disposal of non-financial assets (mainly oil exports and disposal of government assets) and disposal of financial assets (mainly selling of debt securities). The treasury on the other hand spends these sources for current expenditures (mainly employees' salaries and payments to the pension funds), acquisition of non-financial assets (development expenditures) and acquisition of financial assets (payment of previous debts). Table 11 depicts a general overview of the 1400 budget bill.

Table 11- General Overview of the 1400 Budget Bill (IRR trillion- Percent)

Sources				Uses			
	1400 Budget Bill	Growth Compared to 1399 Budget Law	Growth Compared to 1399 Performance forecast*		1400 Budget Bill	Growth Compared to 1399 Budget Law	Growth Compared to 1399 Performance forecast*
Revenues	3,176	10.0	26.9	Expenditures	6,370	46.1	53.1
Disposal of Non-financial Assets	2,253	109.6	838.6	Acquisition of Non-financial Assets	1,040	18.2	53.0
Disposal of Financial Assets	2,985	70.8	17.0	Acquisition of Financial Assets	1,003	113.4	120.4
General Sources	**8,413**	**47.3**	**58.9**	**General Uses**	**8,413**	**47.3**	**58.9**
Dedicated Revenues	885	12.3	-	From Dedicated Revenues	885	12.3	-
Sources of General Budget	**9,298**	**43.1**	**-**	**Uses of General Budget**	**9,298**	**43.1**	**-**
Sources of State-owned Companies	15,620	8.7	-	Uses of State-owned Companies	15,620	8.7	-
Sources of Country's Budget	**24,357**	**20.2**	**-**	**Uses of Country's Budget**	**24,357**	**20.2**	**-**

Source: 1400 budget bill and 1399 budget law

* The performance forecast for 1399 is based on the report of the Islamic Parliament Research Center of Iran.

In 1400 budget bill and based on "6th Development Plan", 38 percent of the oil revenues belongs to National Development Fund (NDF), however, the government has allowed itself to receive 18 percentage points of this share as a subset of the disposal of financial assets (borrowing from the fund). Thus, the share of the NDF in oil exports has been reduced to 20 percent, which is similar to the budget laws of the last two years. Meanwhile, the Supreme Leader allowed this share reduction to be limited to the export of one million barrels per day of oil and gas condensate, and required the government to comply with the 38 percent share of the NDF in order to export in excess. Also, according to the order of the Supreme Leader, in case of oil exporting more than one million barrels per day, it is necessary that the resulting resources be used to repay all overdue government facilities from the NDF. Anyway, government share in proceeds from oil exports in the "Oil Revenues" section of 1400 budget bill is 47.5 percent after deducting 14.5 percent share of National Companies of Oil and Gas and 38 percent share of the NDF. In 1400 budget bill, exports of oil and natural gas condensates is projected at 2.3 million bpd with price of approximately USD40 per barrel while in 1399 Budget Law it was projected at 1.0 million bpd and USD50 a barrel - albeit due to overestimation in this regard, during 1399 and according to the decision of the Supreme Economic Coordination Council, the government was allowed to issue IRR1,250 trillion debt securities in excess of the approved ceiling of the budget law. Table 12 presents the forecasted oil revenues in 1400 budget bill.

Table 12- Forecasted Oil Revenues in 1400 Budget Bill

	Million Barrels per Day	Oil and Condensates price (per barrel)	Total Revenues (USD billion)	Share of NFD (percent)	Share of Oil or Gas Company (percent)	Government's Share (percent)	Government Revenues (USD billion)
Exports of Oil and Natural Gas Condensates	2.3	40.0	33.6	38.0	14.5	47.5	16.0
Net Exports of Gas	-	-	2.9	38.0	14.5	47.5	1.4
Total	**-**	**-**	**36.5**	**-**	**-**	**-**	**17.3**

Source: 1400 budget bill and its implicit assumptions based on the Islamic Parliament Research Center of Iran report

Also, it is specified that USD8.0 billion out of the USD17.3 billion of oil revenues be converted to IRR at official rate (IRR42,000 per USD) and the rest at the "Electronic Trade System (ETS)" foreign exchange rate (a projection of IRR177,500 per USD). Meanwhile, in other parts of the 1400 budget bill (such as using the resources of the National Development Fund), the ETS USD/IRR exchange rate is considered 115,000, which has impaired the transparency and consistency of the bill. The ETS USD/IRR exchange rate at the end of 09/1399 was about 250,000. Anyway, given these assumptions, government's oil revenues in the 1400 budget bill has increased by 249.9 percent compared to the 1399 Budget Law and 766.4 percent compared to the performance forecast for the current year to reach IRR1,992.7 trillion. Adding the 18 percent share of NDF in oil revenues (IRR755.0 trillion - exchanged at the USD/IRR exchange rate 115,000), government's oil revenues totals IRR2,767.7 trillion which covers 32.7 percent of the general sources. It should be noted that Iran's oil exports before the US withdrawal from the JCPOA averaged 2.2 million bpd in 1395 and 2.3 million bpd in 1396, and is currently less than one million bpd. If Iran's oil exports are less than 2.3 million bpd in 1400, borrowing from the National Development Fund share will be reduced compared to the forecast of the 1400 budget bill, However, a higher ETS exchange rate than the rate envisaged in the bill could multiply this figure.
The government uses of NDF funds however are not limited to these cases. In 1400 budget bill, some other obligations have been specified for the NDF which violate the "6th Development Plan". This includes extending EUR2.845 billion facilities guaranteed by the government aimed at promotion of defense affairs, watershed management, IRI Broadcasting, and the like, which the corresponding figure is not included in the budget bill sources and uses. This task (using the resources of the NDF) was not allowed after the order of the Supreme Leader, and the government was obliged to provide its resources from the general budget.
Thus, following the order of the Supreme Leader, some changes in the field of oil revenues should be applied in the budget bill. Given the government's significant debt to the NDF, potential resources from more than one million bpd oil exports will be used to repay this debt, without the government receiving anything, according to the order of the Supreme Leader. Therefore, the maximum oil revenues of the government should be calculated on the basis of one million bpd oil exports. Assuming the stability of other items such as USD40 per barrel oil price and 177,500 USD/IRR exchange rate and USD8 billion exchange of oil resources at the USD/IRR official exchange rate, government oil revenue will amount to IRR392.5 trillion, which is 31.1 percent less than that of in the 1399 budget law and 70.6 percent more than the performance forecast for 1399. Government borrowing from the National Development Fund will also be limited to 18 percent of the resources proceed from one million bpd oil exports, in terms of 115,000 USD/IRR exchange rate will be IRR362.5 trillion. By increasing the USD/IRR exchange rate to 250,000 (current ETS exchange rate) for both the NDF and the government's share of oil exports (excluding USD8 billion at the official exchange rate), government oil revenues will be IRR415.6 trillion and government borrowing from The NDF will be IRR788.0 trillion, bringing the total use of oil resources by the government to IRR1,203.6 trillion.
The issuance of oil bonds (IRR700 trillion in the subset of the disposal of financial assets) is a note that has been added to 1400 budget bill, regarding the government's use of oil resources. Moreover, it is mentioned that if the oil revenues are less than the amount foreseen in the bill, the government can increase the issuance of oil bonds. In this way, a part of the oil revenues of the future governments has been taken into account in the 1400 budget bill, although a part of it can be spent in the next government. These oil bonds not only do not have an advantage over other government debt securities, but could also lead to higher interest rates and financing costs for both the government and the private sector, given the possible rise in oil prices and foreign exchange rates.
In the budget bill of 1400, the disposal of government's moveable and immovable properties in the subset of disposal of non-financial

assets has been considered IRR250 trillion, which although it is less than that of in the budget law of 1399, its realization is still out of reach. The performance of budget regarding disposal of moveable and immovable properties was IRR3.8 trillion in 1397 and about IRR5.0 trillion in 1398, while it is predicted that its performance will be about IRR10.0 trillion in 1399. It should be noted that IRR20 trillion of these disposals are in terms of Sukuk which, in practice, translates to asset-based finance and should be placed in the category of disposal of financial assets rather than that of non-financial assets. In addition, the disposal of stocks, properties and assets (mainly in the form of debt settlement) up to IRR900 trillion is considered in the notes of this bill, the corresponding sources and uses are not included in the total general budget. Contrary to the budgeting principles, the details of these resources and the allocation of expenditures are not clear in this note and only in general, expenses such as equalization of pension payments, end-of-service bonuses and teacher rankings are considered for it. First of all, it should be noted that these expenditures are perpetual and will impose significant costs on future governments in the coming years, while the projected resources are unsustainable and available only once in 1400. Also, the disposal of this volume of state-owned enterprises and properties within a year in compliance with existing laws - such as the prohibition of debt settlement through disposal - is out

Table 13- General Sources and Uses of Government in 1399 Budget Bill (IRR trillion- percent)

	1400 Budget Bill	Share in Total General Sources	Growth Compared to 1399 Budget Law		1400 Budget Bill	Share in Total General Sources	Growth Compared to 1399 Budget Law
Current Revenues	**3,176.0**	**37.7**	**10.0**	**Current Expenditures**	**6,370.1**	**75.7**	**46.1**
Tax	2,479.5	29.5	21.3	Compensation of Employees	2,086.3	24.8	-
Proceeds of State-owned Properties	311.1	3.7	-24.5	Use of Goods and Services	485.7	5.8	-
Proceeds of Sale of Goods and Services	145.6	1.7	13.3	Cost of Properties	0.1	0.0	-
Proceeds of Fines and Damage	83.2	1.0	-6.4	Subsidies	47.3	0.6	-
Other	156.6	1.9	-26.7	Grants	107.6	1.3	-
				Social Welfare	1,891.9	22.5	-
				Other	1,751.4	20.8	-
Operating Balance					**-3,194.2**	**-**	**116.9**
Disposal of Non-financial Assets	**2,252.7**	**26.8**	**109.6**	**Acquisition of Non-financial Assets**	**1,040.3**	**12.4**	**18.2**
Receipts from Crude Oil and Oil Products	1,992.7	23.7	249.9	Construction	796.7	9.5	-
Receipts from Sale of Movable and Immovable Properties	250.0	3.0	-49.5	Machinery and Equipment	146.9	1.7	-
Receipts from Disposal of Development Projects	10.0	0.1	0.0	Other Fixed Assets	2.7	0.0	-
				Inventory Use	0.0	0.0	-
				Precious Items	0.0	0.0	-
				Land	5.4	0.1	-
				Other Non-produced Assets	88.6	1.1	-
Non-financial Balance					**1,212.4**	**-**	**521.5**
Disposal of Financial Assets	**2,984.7**	**35.5**	**70.8**	**Acquisition of Financial Assets**	**1,003.0**	**11.9**	**113.4**
Sale of Islamic Securities	1,250.0	14.9	42.0	Credit Related to Disposal of Stocks	36.8	0.4	-
Use of Foreign Loans	0.5	0.0	0.0	Principal of Islamic Securities Repayment	806.1	9.6	-
Principal of Loan Receipt	12.2	0.1	-6.3	Principal of Bank Facilities Repayment	3.5	0.0	-
Disposal of State-owned Companies	950.0	11.3	719.9	Unpaid Obligations from Previous Years	5.1	0.1	-
Last Year's Payment Return	16.0	0.2	28.1	Principal of Foreign Loans Repayment	151.5	1.8	-
Use of National Development Fund	755.0	9.0	4.7				
From other Disposals	1.0	0.0	-75.0				
Financial Balance					**1,981.7**	**-**	**55.2**

Source: 1400 budget bill and 1399 budget law of reach. For this reason, the ban on debt settlement through the disposal of properties and enterprises has been removed from the text of this note, while this method of disposal is one of the worst methods in terms of economic consequences. In addition, these properties and enterprises are not liquid, while current expenditures are intended for them. Similarly, according to the 1399 Budget Law, IRR320 trillion of properties and enterprises were transferred to the Social Security Organization, and in return, the organization's current expenditures on salary adjustment increased. Eventually, the organization's liquidity deficit led to an increase in its borrowing from its subsidiary bank. Therefore, in such a procedure, increasing the pressure on banks' resources, banks' overdrafts from the CBI and increasing liquidity will be inevitable. In fact, although a significant portion of banks' reserves deficit are related to government fiscal decisions, in order to receive credit from the CBI, banks have to buy government securities that have been created from the budget deficit.

In addition to the IRR700 trillion oil bonds, the government has been allowed to issue IRR550 trillion Islamic debt securities. Therefore, by adding IRR20 trillion of Sukuk, the issuance of government debt securities will be IRR1,270 trillion in the 1400 budget bill, while in the "6th Development Plan" it was allowed to only use IRR550 trillion of the revenues from disposal of debt securities in 1400. On the other hand, the government has considered IRR1,300 trillion in order to repay the previously matured securities in 1400. Out of this amount, IRR706 trillion is aimed at principal repayment, IRR100 trillion at issuance of new securities in order to raise funds for principal and interest repayments of the previously matured securities in 1400, and the rest belongs to interests and issuance fees of government debt securities. Table 13 presents general source and uses of government.

In the 1400 budget bill, 46.1 percent growth in current expenditures versus a slight 10 percent growth in general revenues compared to the 1399 budget law has led to a significant 116.9 percent growth in the operating balance deficit. The total amount of credits allocated to compensation of employees is not specified. What is referred to as employee compensation only covers their salary and does not include fringe benefits. Also, the compensation of the personnel of the Armed Forces, the Ministry of Defense and Armed Forces Logistics and the Ministry of Intelligence are not reported in this heading and are included in the heading of other expenses. Credits allocated to employee retirement contributions are also categorized under the heading of social welfare. Meanwhile, part of the purchase of services under the heading of use of goods and services is related to the payment of salaries of contractual employees, which cannot be calculated due to the lack of payment to the final beneficiary. Anyway, according to the Planning and Budget Organization, the compensation of employees in the 1400 budget bill are close to 5,480 trillion (about 86 percent of the total current expenditures), out of which IRR1,400 trillion are related to pension funds. The bill envisions a 25 percent increase in government employees' salaries, while about 80 percent of government employees are in the top five and about 60 percent are in the top three income deciles.

All in all, the significant increase in current expenditures in the 1400 budget bill, along with the slight increase in public revenues, has led the government to overestimate oil revenues and rely on more borrowing. To solve this problem and prevent the escalation of the budget deficit in 1400, there is no choice but to eliminate the avoidable expenditures and reduce the growth rate of the unavoidable expenses.

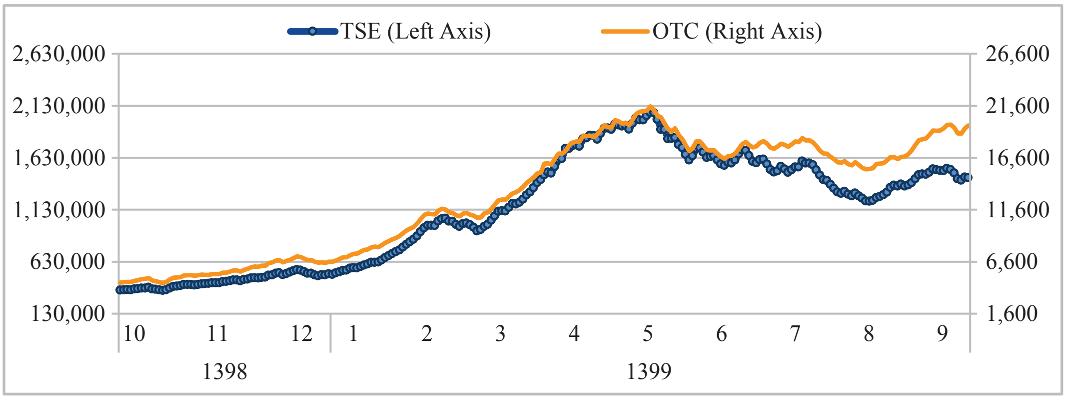
7. Capital Market

The first quarter of 1399 for the Iran's capital market began in an unprecedented and unexpected way. The Overall index of the Tehran Stock Exchange (TSE) that opened 1399 at about 510 thousand reached more than one million in the third week of 02/1399, registering a nearly 100 percent climb in one and a half month. Despite a short-lived decline later this month, the index continued to rise more rapidly in 03/1399, and this trend continued almost uninterruptedly until the end of 04/1399. There have been fluctuations in the market since early 05/1399, but the general direction was still upward sloping. On 05/20/1399, the index touched a high of just above 2 million, followed by a dramatic fall, registering 1.212 million on 08/20/1399. In other words, while in the first 50 days of 1399Q2, the index rocketed by 63 percent, in the next three months and during 90 days plunged by about 41 percent. After that, and especially after the announcement of the allocation of one percent of the resources of the NDF to the Capital Market Stabilization Fund, the market was slightly revived and the overall index reached 1.439 million at the end of 1399Q3.

There is a lot of criticism about the performance of the Capital Market Stabilization Fund and the use of resources of the NDF. Capital market officials deny its effect on rising inflation rate by downplaying the use of the resources of the NDF (about IRR10 trillion) and also by citing the use of repayments of previous rial facilities provided by the NDF. However, the previous Rial facilities of the NDF have been paid contrary to its statute, and it is better that their repayments be done in terms of the foreign reserves of this fund again. Also, the interest rate on facilities paid to the Capital Market Stabilization Fund is 12 percent, which, given the inflation rate, will lead to a reduction in the effective resources of the NDF in the future. In addition, the main criticism of the Capital Market Stabilization Fund's performance is its potential economic rent. Fund officials have said they will support stocks that are suddenly affected by a catastrophic event, citing a refinery fire, for example. The point is that risk management is the responsibility of private companies, and if a company does not manage risk properly, it is fair that the company's shares be affected. The approach of protecting major shareholders of companies with poor risk management from public sources will lead to moral hazard.

The overall index of Over the Counter (OTC) which usually experienced similar trend compared to the overall index of TSE, changed direction in 1399Q2 and surpassed the growth rate of TSE overall index. It moved from less than 8,600 at the beginning of the year to the high of 21,536 on 05/19/1399, However, dropped to 15,484 on 08/19/1399. This index also soared by more than 50 percent in the first 50 days of 1399Q2 and plummeted by 28 percent in the next 90 days. Thus, although OTC growth in 1399Q2 was slightly lower than the TSE, its decline in 1399Q3 was significantly less than the TSE to create a gap between their movement trends. Figure 5 depicts the daily developments of TSE and OTC indices during 1398Q4 to 1399Q3.

Figure 5- TSE and OTC Overall Indices



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

According to the TSE's monthly reports, during the first nine months of 1399, the number of equities traded totaled approximately 1.7 trillion, 139.0 percent more than that of in the same period of preceding year. Considering dramatic growth in prices, the value of transactions experienced much higher growth rate and surged by 711.8 percent. Besides equity, the total value of transactions, including exchange traded funds (ETFs), debt securities and the other instruments of the market, also soared by 692.0 percent. TSE's market capitalization hit IRR57,059 trillion at the end of 1399Q3, 341.8 percent above that at the same point of the year before. The market capitalization had touched IRR71,600 trillion at the end of 04/1399 and even exceeded this figure in early 05/1399, but following the fall of the index, it plummeted accordingly. The movement of equally-weighted index did not differ much from the movement of overall index, indicating that there was not much difference between the returns of small-sized companies stocks and large firms stocks in the 12-month period ending 09/1399. Comparing the increase in financial index (360.5 percent) and industry index (299.4 percent), it is conceivable that like the recent quarters, "banking and finance" stocks have gained more returns than "industrial companies and factories" stocks in the year under review. Table 14 gives more details on these statistics for the TSE.

Table 14- 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)	Overall Index (thousand)	Equally-weighted Index (thousand)	Financial Index (thousand)	Industrial Index (thousand)	Market Capitalization (IRR trillion)
First Nine Months of 1399	1,704.9	19,885.9	21,344.3	1,439.1	447.8	2,001.9	1,264.5	57,059.1
First Nine Months of 1398	713.3	2,449.6	2.694.9	354.0	111.9	434.8	316.6	12,915.6
Percentage Change	139.0	711.8	692.0	306.5	300.2	360.5	299.4	341.8

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

8. Other Economic Developments

About a year after the outbreak of the Coronavirus, no official estimate of its damage to Iran's economy has been published, however, the Corona Economic Informing and Monitoring Base has published scattered data that is important. Accordingly, the country's 14 major business sectors, which account for 32.2 percent of the country's total employment, have been severely affected by the spread of the Coronavirus. Contrary to this report, the official unemployment rate published by the SCI does not show a significant decrease in the number of employed people and the employment rate, at least until 1399Q2. Interestingly, based on the number of layoffs announced by employers covered by the Social Security Act, the monthly premiums received from 12/1398 to 03/1399 have decreased by IRR15 trillion, IRR30 trillion, IRR29 trillion and IRR25 trillion, respectively. The Iran Chamber of Guilds has estimated the losses to the guilds at about IRR2,025 trillion by the end of this year, which will be about 6 percent of GDP.

Also, the damage to the research and technology branch of the health sector is about IRR10 trillion. In total, the damage caused by the outbreak of coronavirus to the health sector is estimated at about IRR250 trillion, based on this report.

Transportation is another sector that has been strongly influenced by the new conditions. The performance statistics of the Iran Ministry of Roads and Urban Development show that the total damage to the transportation sector from 12/1398 to 05/1399 was about IRR45 trillion, with the air and rail sub-sectors have suffered a significant share (90 percent). The estimated damage is about IRR90 trillion by the end of 1399Q3.

In conclusion, the government and the banking system will not be able to fully compensate for the damage caused by the outbreak of the Coronavirus, especially in the face of severe government budget deficits and imbalances in the banking system. The total facilities related to Coronavirus, paid to major air and rail transport companies was only IRR17.9 trillion, from the beginning of the outbreak of the Coronavirus to the end of 08/1399. Also, the facilities paid to the 14 business sectors that are highly affected have not exceeded IRR55.8 trillion, during the same period.

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