22

Recent Economic Developments in Iran

A Quarterly Report

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No. 22, April 2021

Economic Research Department, Middle East Bank

Contributors: Farshid Eslambolchi, Hossein Soltanabadi

Graphic Designers: Hannaneh Niazmand, Mitra Dehghani

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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.

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**

1399Q4 = 12/22/2020 - 03/20/2021, roughly **2021Q1**

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Iran's Economy at a Glance

	1398Q4	1398	1399Q1	1399Q2	1399Q3	1399Q4	1399
Labor Force Participation & Unemployment Rates (percent)							
Participation (10 Years and Over)	42.4	44.1	41.0	41.8	41.4	-	-
Unemployment (10 Years and Over)	10.6	10.7	9.8	9.5	9.4	-	-
Unemployment (Youth Aged 15-24)	25.7	26.0	24.5	23.1	23.7	-	-
Real Growth Rates of GDP and Its Subsectors at Constant 1390 Prices (percent)							
Gross Domestic Product (GDP)	-6.4	-6.5	-2.9	5.2	3.9	-	-
Manufacturing and Mining	2.2	2.3	2.6	7.9	7.0	-	-
Oil	-35.6	-38.7	-16.7	22.2	9.7	-	-
Agriculture	7.8	8.8	4.9	4.1	5.2	-	-
Services	-0.5	-0.2	-1.9	0.8	0.1	-	-
GDP (Excluding Oil)	0.1	1.1	-0.6	3.2	2.9	-	-
Gross Fixed Capital Formation (at market prices)	*-17.5*	*-5.9*	*-1.1*	*-0.2*	*1.8*	-	-
Oil (daily average - thousand barrels)							
Production*	2,059	2,194	1,966	1,942	1,986	-	-
Point-to-Point Inflation Rates (percent)							
Growth Rate of Consumer Price Index (1395=100)	24.4	34.8	21.1	30.6	44.2	47.1	36.4
Growth Rate of Producer Price Index (1395=100)	15.0	36.7	12.0	40.7	-	-	-
Balance of Payments (USD millions)							
Oil Exports	5,526	29,016	3,865	4,693	-	-	-
Non-Oil Exports	7,178	30,375	5,073	6,499	-	-	-
Imports of Goods	14,471	52,236	9,150	11,824	-	-	-
Goods Account (Net)	-1,767	7,155	-212	-632	-	-	-
Non-Oil Goods Account (Net)	-7,293	-21,855	-4,077	-5,325	-	-	-
Current Account	-2,404	3,753	-622	-1,206	-	-	-
Capital Account	6,108	-6,669	-2,903	-990	-	-	-
Change in Foreign Reserves	5,451	1,298	-1,006	-878	-	-	-
Foreign Exchange Rates (USD/IRR daily average)							
Free Market	138,782	128,278	162,376	220,861	272,950	244,027	225,054
Official	42,000	42,000	42,000	42,000	42,000	42,000	42,000
NIMA (Remittance)	125,657	111,813	144,430	187,365	251,914	241,106	206,204
Monetary and Credit Aggregates (end of period - IRR trillions)							
Monetary Base (M0)	3,528.5	3,528.5	3,833.5	3,720.6	4,075.4	-	-
CBI Claims on Banks	1,106.9	1,106.9	1,132.9	1,291.9	1,268.4	-	-
CBI Claims on Public Sector (Net)	156.3	156.3	394.3	172.7	123.0	-	-
CBI Net Foreign Assets	3,475.7	3,475.7	3,669.1	3,631.8	3,838.3	-	-
Liquidity (M2)	24,721.5	24,721.5	26,571.7	28,958.9	31,300.2	-	-
Money (M1)	4,273.0	4,273.0	5,020.5	6,007.0	6,170.3	-	-
Sight Deposits	3,661.6	3,661.6	4,442.5	5,407.4	5,528.1	-	-
Non-Sight Deposits (Quasi-Money)	20,448.5	20,448.5	21,551.2	22,951.9	25,129.9	-	-
Government Budget and Fiscal Position (IRR trillions)							
The data in this section is not available							
Tehran Stock Exchange (end of period)							
Overall Index (TEDPIX)	512,900	512,900	1,270,627	1,595,160	1,439,124	1,307,657	1,307,657
Financial Index	636,700	636,700	1,855,151	2,087,957	2,001,939	1,782,068	1,782,068
Industrial Index	458,000	458,000	1,109,532	1,415,024	1,264,532	1,154,258	1,154,258
Market Capitalization (IRR trillions)	18,732	18,732	47,597	60,035	57,059	51,601	51,601

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 fall and the first nine months of the year. In 1399Q3, as in the previous quarter, 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, both in terms of supply and demand.

The Central Bank of Iran (CBI) reported its preliminary estimates, according to which the economy's total value-added during the third quarter and the first nine months of 1399 amounted to IRR9,283 trillion and IRR24,729 trillion at current prices, respectively, indicating a 3.9 percent and 2.2 percent expansion in GDP at constant prices, respectively. Much of this growth has occurred in the manufacturing and mining sector. The non-oil growth rate in 1399Q3 and the first nine months of 1399 was 2.9 percent and 1.9 percent, respectively.

The growth rate of the oil sector, which was negative in all quarters of 1398 and the first quarter of 1399, became positive in 1399Q2, reaching 9.7 percent in 1399Q3, so that the growth of this sector in the first nine months of 1399 reached 3.9 percent. 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, However, there has been no significant change in the lifting of US sanctions during this period. If the increase in oil exports has led to an increase in Iran's blocked assets in other countries such as China, it will not bring real economic recovery and may even increase the inflation rate by further increasing the monetary base from the CBI's inaccessible foreign reserves.

The manufacturing and mining sector also grew by 7.0 percent in the fall of 1399 and 6.0 percent in the first nine months of this year. In this sector, the manufacturing sub-sector has the highest growth rate (9.8 percent in 1399Q3 and 7.8 percent in the first nine months of 1399). Electricity, natural gas and water sub-sector also recorded a growth rate of 5.1 percent and the construction sub-sector experienced a growth rate of 3.6 percent in the first nine months of 1399. In the construction sub-sector, the private construction growth rate was 7.8 percent, much higher than government construction.

Despite an insignificant positive growth rate of 0.1 percent in 1399Q3, the services sector has shrunk by 0.3 percent in the first nine months of 1399. Among the services sub-sectors, transport, storage and communications had the most positive effect and public services had the most negative effect on the value added growth rate of this sector in 1399Q3. However, in the first nine months of this year, real estate and professional services had the most positive effect on the growth rate of services sector.

On the other hand, the agriculture sector experienced an economic growth rate of 5.2 percent in 1399Q3 and 4.6 percent in the first nine months of this year. In this sector and in the first nine months of this year, the value added of farming products and horticultural products at constant prices increased by 10.0 percent and 5.7 percent, respectively, while the value added of main livestock products at constant prices decreased by 0.2 percent. Orderly price control and non-allocation of foreign currencies for the animal feed imports have contributed to the contraction of livestock products. The main economic sectors' growth rates in the quarters of 1398 and 1399 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 the First Nine Months of 1399
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	First Nine Months	
Agriculture	8.5	9.8	7.2	7.8	8.8	4.9	4.1	5.2	4.6	0.5
Oil	-47.4	-50.4	-10.1	-35.6	-38.7	-16.7	22.2	9.7	3.9	0.5
Manufacturing and Mining	-0.1	0.4	7.1	2.2	2.3	2.6	7.9	7.0	6.0	1.5
Services	-0.3	-1.7	2.0	-0.5	-0.2	-1.9	0.8	0.1	-0.3	-0.2
Non-oil Gross Domestic Product	**0.4**	**0.5**	**3.8**	**0.1**	**1.1**	**-0.6**	**3.2**	**2.9**	**1.9**	**-**
Gross Domestic Product	**-11.0**	**-9.1**	**1.7**	**-6.4**	**-6.5**	**-2.9**	**5.2**	**3.9**	**2.2**	**2.2**

Source: Central Bank of Iran, National Accounts report

Based on CBI revised data, the fall in private consumption, which had led to a continuous decline in household welfare, has stopped since 1399Q2. This component rose by 1.1 percent in 1399Q2 and by 0.1 percent in 1399Q3, however it declined by 1.1 percent in the first nine months of this year. In contrast, the government consumption expenditures contracted by 3.7 percent in 1399Q3, although it grew by 1.6 percent in the first nine months of this year. Also, the downward sloping trend of fixed capital formation at constant prices stopped in 1399Q3. Its growth rate of 1.8 percent in this quarter led to a growth rate of 0.2 percent in the first nine months of 1399. It is worth mentioning that positive growth rate in fixed capital formation is due to investment in the construction sector, while the fixed capital formation in machinery decreased by 1.7 percent in the first nine months of 1399. Regarding the foreign trade, value of exports and imports decreased by 13.9 percent and 33.3 percent, respectively, at constant prices in the first nine months of 1399 compared to the same period of the preceding year. It is noteworthy that according to the statistics provided in the country's balance of payments, the decline in the value of exports of goods (in USD) was more severe than that of imports in 1399. Also, based on national accounts at current prices, the growth rate of imports of goods and services (in IRR) was higher than the growth rate of exports of goods and services in the first nine months of 1399. Thus, this sharp decline in imports of goods and services compared to decline in exports of goods and services at constant prices during this period could be due to a sharp increase in import costs following the tightening of US sanctions and possibly a reduction in foreign currency allocations at official rates. 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	Q3	Q4	Year	Q1	Q2	Q3	First Nine Months
Private Consumption	**-8.0**	**-9.5**	**-1.8**	**-11.3**	**-7.7**	**-4.5**	**1.1**	**0.1**	**-1.1**
Public Consumption	**-9.0**	**-6.8**	**-3.3**	**-4.9**	**-6.0**	**1.2**	**6.5**	**-3.7**	**1.6**
Gross Fixed Capital Formation	**-4.9**	**-0.9**	**2.1**	**-17.5**	**-5.9**	**-1.1**	**-0.2**	**1.8**	**0.2**
Machinery	-18.9	-9.7	-15.1	1.7	-10.0	-11.3	4.4	0.9	-1.7
Construction	3.3	1.7	10.6	-24.7	-4.3	3.6	-1.4	2.1	0.8
Net Exports of Goods and Services									
Exports	-38.6	-39.7	-4.9	-26.2	-29.9	-30.8	-9.3	-0.6	-13.9
Imports	-50.5	-48.0	-28.6	-11.4	-38.1	-44.3	-31.3	-23.9	-33.3
Gross Domestic Product (at market prices)	**-11.7**	**-9.1**	**1.8**	**-6.8**	**-6.8**	**-2.9**	**4.9**	**3.4**	**1.9**

Source: Central Bank of Iran, National Accounts report

Iran's economic growth rate in 1400 is forecasted by the International Monetary Fund at 3.2 percent and the World Bank at 1.5 percent. This figure is projected at 2.1 percent in the Dynamic Stochastic General Equilibrium Model of the Middle East Bank's Economic Research Department.

Investment

According to the Ministry of Industry, Mine and Trade, during the first eleven months of 1399, the number of establishment permits of manufacturing units totaled 36,162, and about IRR5,925 trillion investment is forecasted to be needed for them, recording 40.0 percent and 72.8 percent climb compared to the same period in the preceding year, respectively. The operation permits, including creation and development plans operation permits, reached 6,491 in number, 7.0 percent higher than that in the first eleven months of 1398. Nevertheless, their corresponding investment rocketed by 235.1 percent, registered IRR1,791.8 trillion. The main drivers of this growth were the issuance of operation permit to a gas refining company (IRR558.3 trillion investment), followed by a chemical fertilizer company (IRR148.4 trillion investment), An oil refining company (IRR142.6 trillion investment) and an aluminum industry complex (IRR136.2 trillion investment). 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)

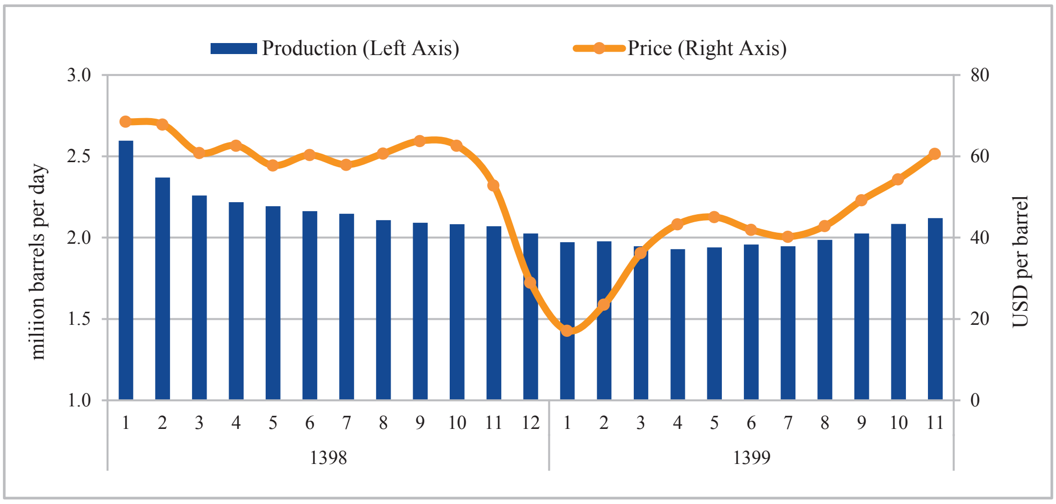
	First 11 Months of 1398	First 11 Months of 1399	Percentage Change
Projection for Establishment Permits	3,428.9	5,925.2	72.8
Operation Permits	534.7	1,791.8	235.1

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

Oil

The oil industry, which had been one of the most vital sectors of the Iranian economy through the recent half-century and had constituted the majority of the government's income, has been significantly damaged 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 the first nine months of 1399, 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 2.1 million barrels per day in February 2021 (approximately 11/1399), showing a 2.4 percent increase compared to the same month in the last year and a 22.2 percent plummet compared to that in 2 years ago. 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 710 thousand barrels per day during December 2020 (approximately 10/1399). 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 before, the price also commenced increasing to reach USD60.7 in 11/1399. 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



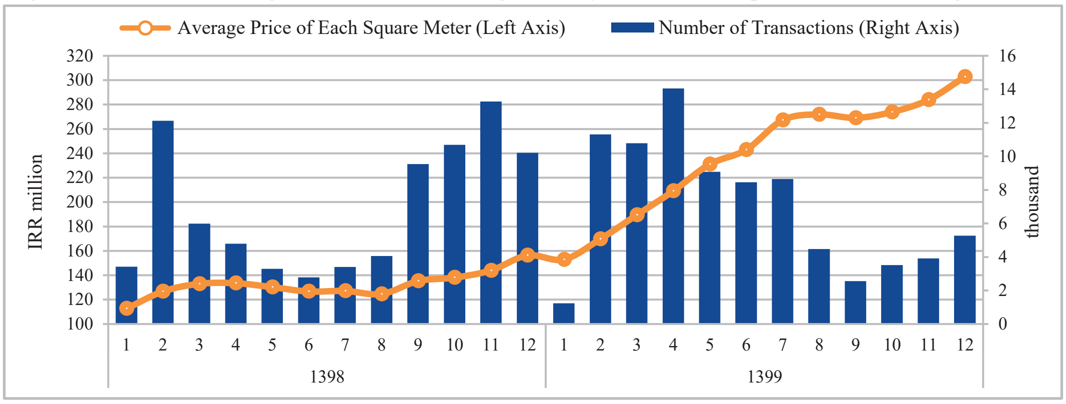
Source: OPEC Monthly Reports, based on secondary sources
Note: OPEC statistics are based on Gregorian calendar years, and their conversion into Persian calendar years is only approximate.

Housing

The price spikes in the housing market continued uninterruptedly in 1399. The average price of a square meter of residential units in Tehran registered IRR303 million in 12/1399, indicating a growth rate of 93.7 percent during a year and 6.6 percent during a month. Therefore, the doubling of housing prices during the year under review was more than the annual inflation rate, indicating the real growth of housing prices and the decrease in purchasing power of consumers of this durable good.

In 12/1399, nearly 5,273 transactions were registered in the Tehran housing market, which was 48.4 percent lower than that of in the same period of preceding year. The growth rate of transactions compared to the same month of the preceding year has been negative since 08/1399 and indicates a stagflation in housing market. More than half of these transactions (53 percent) were recorded for small units with an area of less than 80 square meters. For 61.4 percent of these transactions, the price of per square meter was lower than the average. Also, nearly half of the traded residential units in Tehran were worth more than IRR20 billion in the period under review. 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 1399Q3 continued to decline, despite the consequences of the Corona-virus epidemic, falling 0.1 percentage points from 1399Q2 to 9.4 percent. However, the share of underemployment (less than 44 hours per week employment) increased by 0.6 percentage point (compared to 1399Q2) to 9.9 percent. The share of employees with normal working hours of 49 hours or more per week also decreased from 36.0 percent in 1399Q2 to 34.2 percent in 1399Q3. 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 1399Q3, the unemployment rate was 8.1 percent for men and 15.9 percent for women. Thus, the male unemployment rate has not changed compared to the preceding quarter, but the decrease in the female unemployment rate has led to a decrease in the total unemployment rate. A noteworthy point is the decrease of more than one million active women compared to 1398Q3, despite the increase of more than 361 thousand women in working age. The number of unemployed in this quarter amounted to 2.4 million, 1.8 million of which were youth aged 18-35, and about 980 thousand hold a tertiary degree. These figures represent the unemployment rate of 16.5 percent for youth and 14.3 percent for highly-educated people. In 1399Q3, the share of highly-educated employees in total employees increased by 0.6 percentage points compared to the same period of the preceding year to 25.0 percent and their share among the unemployed people decreased by 3.1 percentage points to 40.2 Percent. Thus, the employment of highly-educated people has improved, although the SCI's report does not provide an estimate of the total population of highly-educated people and its changes.

In summary, the main factor of the downward trend in the unemployment rate is a significant drop in the number of people willing to work. Due to frustration with finding a suitable job, the active population decreased by more than 477 thousand people in 1399Q3 compared to 1398Q3, despite the addition of about 330 thousand people to the population aged 15 and over in the same period. the participation rate in 1399Q3 was only 41.4 percent, 2.9 percentage point less than the figure in the same period of preceding year. The rate for women was only 14.1 percent, and yet only 3.7 million of the small population of 4.4 million women willing to work managed to find a suitable job. Besides, the employment ratio went down in this quarter by 2.1 percentage points, reaching 37.5 percent. Among approximately 23.4 million individuals who had an occupation in this quarter, 49.0 percent employed in the services sector, 34.3 percent employed in the industry sector and the rest in the agriculture sector. Table 4 compares the major statistics of the labor market in 1399Q3 and 1398Q3.

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

		1398Q3			1399Q3		
		Total	Male	Female	Total	Male	Female
Economic Participation Rate, Population Aged 15 and Over	Rate (percent)	44.3	71.0	17.5	41.4	68.8	14.1
	Number (million)	27.3	21.9	5.4	25.8	21.5	4.4
Share of Employment, Population Aged 15 and Over	Share (percent)	39.6	64.7	14.5	37.5	63.2	11.8
	Number (million)	24.4	20.0	4.5	23.4	19.7	3.7
Unemployment Rate, Population Aged 15 and Over	Rate (percent)	10.6	8.9	17.3	9.4	8.1	15.9
	Number (million)	2.9	2.0	0.9	2.4	1.7	0.7
Unemployment Rate, Population Aged 18-35	Rate (percent)	17.9	14.7	29.3	16.5	13.6	28.7
	Number (million)	2.2	1.4	0.8	1.8	1.2	0.6
Unemployment Rate, for Highly-Educated Population	Rate (percent)	17.4	12.6	27.3	14.3	10.3	23.4
	Number (million)	1.3	0.6	0.6	1.0	0.5	0.5
Share of the Underemployment (percent)		10.6	11.5	6.2	9.9	10.9	4.3

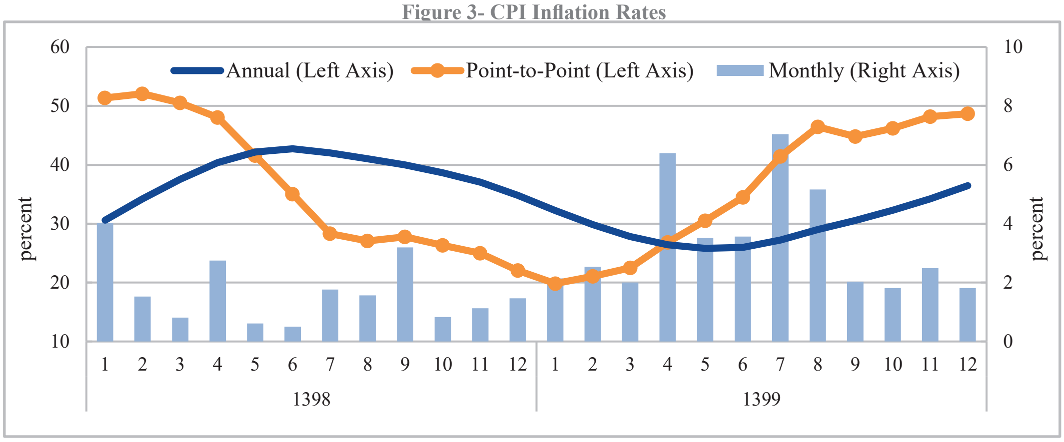
Source: Statistical Center of Iran, Summary result of Labor Force Survey in the 1399Q3

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, high 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 298.1 in 12/1399, indicating 48.7 percent point-to-point, 36.4 percent annual and 1.8 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 percent in 06/1398. The monthly inflation rate which had experienced an upward sloping trend since 10/1398, escalated 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 7.0 percent, although followed a decreasing trend thereafter. 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 the consumer price index, 12/1399

Investigating the details of the SCI report for 12/1399, the highest (65.6 percent) and the lowest (16.5 percent) annual inflation rates appertained to "Transport" and "Communication", respectively. The point-to-point inflation rate was the highest in "Furnishings, Household Equipment and Routine Household Maintenance", reaching 68.3 percent in 12/1399. Meanwhile, the price level of "Food and Beverages" group rose annually and point-to-point by 39.1 percent and 67.0 percent, respectively. In this group, point-to-point inflation rate was 105.9 percent for "Oils and Fats" subgroup, 84.2 percent for "Fruits and Nuts", and 79.4 percent for "Milk, Cheese and Eggs". On the other hand, the lowest (20.3 percent) point-to-point inflation rate appertained to "Communication". Separating goods and services, the annual inflation rate of them amounted to 43.5 percent and 26.4 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 12/1399, with a descending weight in the basket order.

Table 5 - Inflation Rates of Major Groups in the Consumption Basket in 12/1399 (percent)

		Price Percentage Change		
	Weight in the Basket	Monthly	Point-to-point	Annual
Housing, Water, Electricity, Gas and Other Fuels	35.5	1.5	28.4	25.3
Food and Beverages	26.6	1.8	67.0	39.1
Transport	9.4	0.9	54.0	65.6
Health	7.1	2.3	40.2	29.9
Clothing and Footwear	4.8	4.7	52.1	38.7
Others	4.2	1.6	47.8	37.4
Household Equipment	3.9	2.8	68.3	46.5
Communication	2.9	-0.1	20.3	16.5
Education	1.9	0.2	22.0	21.5
Recreation and Culture	1.7	2.0	60.1	42.5
Restaurants and Hotels	1.4	4.7	49.1	29.7
Tobacco	0.6	0.4	51.7	36.6
Overall	**100.0**	**1.8**	**48.7**	**36.4**

Source: Statistical Center of Iran, Reports of the consumer price index, 12/1399

The International Monetary Fund has forecasted an annual inflation rate of 30 percent and a point-to-point inflation rate of 25 for Iran in 1400. The annual inflation rate forecast by the World Bank for Iran in 1400 is 28.3 percent. This figure is projected at 25.1 percent in the Dynamic Stochastic General Equilibrium Model of the Middle East Bank's Economic Research Department.

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 half 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 USD1.9 billion in 1399H1. However, the corresponding figure for the same period of preceding year was negative USD4.2 billion. Reviewing the details reveals that USD4.1 billion current account surplus in 1398H1 has turned into USD1.8 billion deficit in 1399H1, while the net capital account deficit decreased by 51.6 percent and registered USD3.9 billion. Furthermore, In parallel with the reduction of USD4.1 billion in the capital account deficit, errors and omissions increase by USD4.2 billion and reached from negative USD0.3 billion in 1398H1 to positive USD3.8 billion in 1399H1.

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 114.2 percent to reach negative USD0.8 billion in 1399H1 from positive USD5.9 billion in 1398H1. The country's total goods trade (sum of export and import values) was 26.9 percent less than that of in 1398H1, 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 1399H1, the value of goods imports declined by 16.7 percent and registered USD21.0 billion, while the value of goods exports decreased by 35.3 percent to reach USD20.1 billion. The decline in goods exports was mainly due to the decrease in oil exports by 47.1 percent to USD8.6 billion, which was less than USD11.6 billion non-oil exports. The non-oil exports declined by 22.5 percent in 1399H1.

On the other hand, oil imports in 1399H1, as in the same period of the preceding year, were almost zero. Meanwhile, non-oil imports declined by 16.6 percent and registered USD21.0 billion. Therefore, the oil trade balance surplus declined considerably by 47.0 percent and reached USD8.6 billion, while the non-oil trade balance deficit fell by 8.1 percent and amounted to USD9.4 billion. The services account deficit decreased by 43.8 percent and registered USD1.3 billion. The income account surplus decreased by 88.7 percent and current transfers account surplus rose slightly by 0.4 percent in 1399H1. Finally, it is estimated that due to the change in foreign reserves in the first half of 1399, the country's foreign reserves outstanding has amounted to about USD121.9 billion. Table 6 presents the components of balance of payments in 1398H1 and 1399H1.

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

	1398H1	1399H1	Percentage change
Current Account	4,122	-1,828	-144.3
Goods Account	5,927	-844	-114.2
Exports (FOB)	31,094	20,130	-35.3
Oil	16,164	8,558	-47.1
Non-oil	14,930	11,572	-22.5
Imports (FOB)	25,168	20,974	-16.7
Gas and Oil Products	6	0	-100.0
Others	25,162	20,974	-16.6
Services Account	-2,369	-1,332	-43.8
Income Account	246	28	-88.7
Current Transfers Account	319	320	0.4
Net Capital Account	-8,040	-3,892	-51.6
Errors and Omissions	-324	3,836	-
Overall Balance	**-4,241**	**-1,884**	**-55.6**

Source: Central Bank of Iran, Economic Trends, No 101

The latest data on the foreign trade by the IRI Customs Administration covered the first 11 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, 30.8 million tons of goods valued at USD34.3 billion was imported to the country and the country's exports have been 103.1 million tons valued at USD31.2 billion. Therefore, the imports have experienced 6.2 percent and 14.9 percent drop compared to the same period of its preceding year, in terms of weight and value, respectively. In addition, exports fell by 17.9 percent in weight and 18.8 percent in value.

As a result of the developments of the foreign trade, the deficit of non-oil trade balance in the first 11 months of 1399 increased significantly by 63.3 percent and reached USD3.123 billion from USD1.912 billion in the same period of 1398. The statistics of country's foreign trade in the first 11 months of 1398 and 1399 are shown in Table 7.

Table 7- Foreign Trade in First 11 Months of 1398 and 1399

	First 11 Months of 1398		First 11 Months of 1399		Percentage Change	
	Weight (1000 tons)	Value (USD million)	Weight (1000 tons)	Value (USD million)	Weight	Value
Imports	32,872	40,346	30,818	34,321	-6.2	-14.9
Exports	125,591	38,434	103,090	31,198	-17.9	-18.8
Non-oil Trade Balance	**92,719**	**-1,912**	**72,272**	**-3,123**	**-22.1**	**63.3**

Source: IRI Customs Administration, Preliminary report of foreign trade data in the first 11 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 11 months of 1399, customs exports and imports details have been released without mentioning major items, while 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 31.0 percent of the country's total exports in the first 11 months of 1399 (USD9.7 billion) were a subset of Chapter 27, indicating 32.2 percent decrease compared to 1397.

In the first 11 months of 1399, China with USD8.1 billion of imports from Iran has been the first exports destination – as in previous years - accounting for 26.0 percent of Iran's total exports. This share was 23.0 percent and 20.8 percent in 1398 and 1397, respectively. Iraq, which in 1398 and 1397 had a 21.7 percent and 20.1 percent share in Iran's total exports, respectively, ranked as the 2nd exports destination of Iran in the first 11 months of 1399, with imports of USD6.9 billion and a share of 22.0 percent. In the period under study, UAE's non-oil imports from Iran totaled USD4.2 billion. The share of exports to UAE in this period registered 13.4 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 7.2 percent of Iran's total exports valued at USD2.2 billion in the first 11 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 USD2.1 billion of imports from Iran, accounts for 6.7 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. All in all, the top 5 importers from Iran have accounted for 75.2 percent of total Iran's exports in the first 11 months of 1399, more than the 73.5 percent share in whole 1398 and 66.8 percent in whole 1397.

On the other hand, China has been the first source of imports of Iran in the first 11 months of 1399 – as in its preceding years - with USD8.8 billion. Imports from China that accounted for 24.1 percent of total in 1397 registered 25.6 percent in 1398 and in the first 11 months of 1399. UAE also kept its 2nd place of exporting countries to Iran with USD8.5 billion and its share in total Iran's imports rose from 15.3 percent in 1397 and 20.4 percent in 1398 to 24.7 percent in the first 11 months of 1399. Turkey ranked as the 3rd exporter to Iran (exports of USD3.8 billion) in the period under review - as in 1398 - with share of 11.2 percent in total Iran's imports. Its share of Iran's total imports in the first 11 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 USD2.0 billion of exports to Iran and share of 5.8 percent in total Iran's imports. Germany, as the most important European source of imports of Iran, exported USD1.7 billion goods to Iran in the first 11 months of 1399 and accounted for 4.9 percent of the Iran's total imports. All in all, the top 5 exporters to Iran have accounted for 72.1 percent of total Iran's imports in the first 11 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.

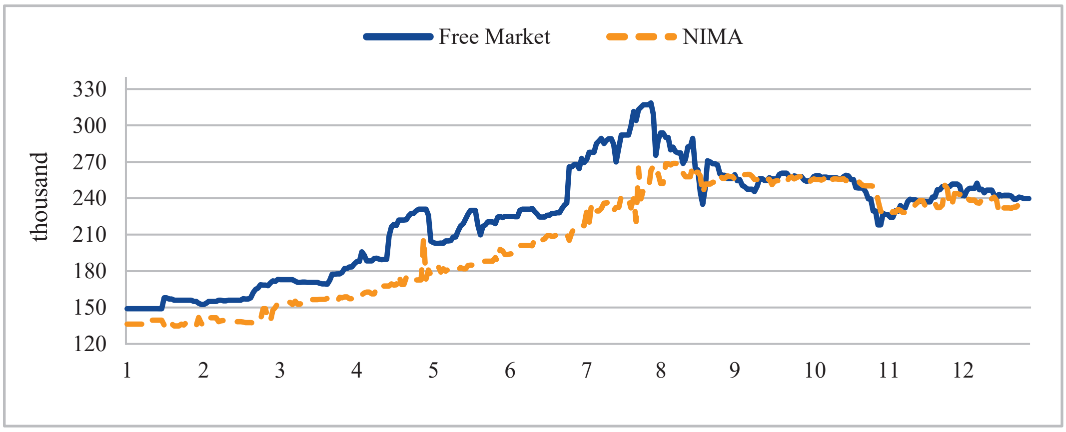
Based on CBI reports, Iran's total foreign debt grew by 3.3 percent to USD9.3 billion at the end of 1399Q3. Out of this figure, about USD7.4 billion belongs to medium- and long-term debt that fell by 2.4 percent. However, in this period short-term debts of the country boosted by 31.8 percent to USD2.0 billion.

4. Foreign Exchange Market

The upward trend of the USD/IRR exchange rate in the free market which had resumed in 1398H2 after a short break in the first half of 1398, continued until 07/1399 and reversed course after that. The USD/IRR exchange rate in the free market which registered 149.0 thousand at the beginning of 1399, 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. The USD/IRR exchange rate decreased to 218.0 thousand on 10/29/1399, however, at the end of the year, it slightly increased to IRR239.6 thousand. The average USD/IRR exchange rate in 1399Q4 was 10.6 percent less than that of in 1399Q3 and 75.8 percent more than that of in the same month of preceding year. The average USD/IRR exchange rate in whole 1399 was 75.4 percent more than that of in 1398.

The remittance USD/IRR exchange rate in the secondary market (NIMA) narrowed its gap with the free market rate in 1399H2. It was even slightly higher than the free market rate in 09/1399 and 10/1399, 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 268.7 thousand on 08/04/1399 from 136.3 thousand in the beginning of the year and it did not fluctuate much after that, so that it reached IRR235.2 thousand at the end of the year. Consequently, the gap between the secondary market and free market rates narrowed since 09/1399 from a peak of 37.7 percent on 07/21/1399 and averaged 1.3 percent in 1399Q4. However, the fixed 42 thousand USD/IRR official exchange rate led to a significant gap (481.0 percent) between this rate and the USD/IRR exchange rate in the free market in 1399Q4. 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

According to the CBI, the foreign exchange receipts of this bank in 1399 (from government oil exports) was about 15 percent of its annual average in the last 20 years. Meanwhile, more than USD10 billion in foreign currency has been allocated to the import of essential goods, drugs and medical equipment at the official rates in 1399, USD2 billion more than the budget law permit. Part of that is provided not from oil exports, but through subsidies from the CBI's resources. Also, in 1398, USD15 billion in foreign currency was allocated at the official rates, of which only USD8 billion was provided by the government's oil exports. In 1399, corn imports had the largest share of allocated foreign exchange at the official rates, followed by medicine, crude vegetable oils, medical equipment, meal, oilseeds, wheat, barley, fertilizer and paper.

5. Monetary and Credit Aggregates

At the time of high inflation, a meticulous 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. According to the latest accessible CBI's reports, high-powered money (M0) and liquidity (M2) stood at IRR4,075 trillion and IRR31,300 trillion at the end of 1399Q3, respectively, showing 29.7 percent and 38.4 percent annual growth rates. During the first nine months of 1399, the monetary base and liquidity increased by 15.5 percent and 26.6 percent, respectively. The M2 money multiplier, therefore, reached 7.7 at the end of 1399Q3. According to unofficial sources, the monetary base reached IRR4,360 trillion and liquidity reached IRR33,090 trillion at the end of 11/1399, indicating annual growth rate of 33 percent and 39 percent, respectively.

Considering the CBI's balance sheet, the main source of the mentioned climb in M0 over the year under review (1398Q3-1399Q3) was the considerable rise in CBI net foreign assets (24.4 percentage points share of the monetary base growth rate), 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 equivalent to 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. The CBI net foreign assets increased by 24.9 percent at the end of 1399Q3, while the CBI net claims on the public sector dropped by 50.2 percent. Moreover, the CBI claims on banks rose by 13.9 percent at the time span under review. Also, the net other items decreased by 10.6 percent, which, due to its negative amount, had an increasing effect on M0.

Exploring the balance sheet of the whole banking system indicates the surprising 69.8 percent jump in the volume of money (M1) and 32.3 percent escalation in quasi-money at the end of 1399Q3. Thus, the annual growth rate of volume of money has decreased slightly and the annual growth rate of quasi-money has increased slightly compared to the preceding quarter, although both of these growth rates are higher than their long-term trends. Meanwhile, 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. 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 16.1 percent at the end of 1398Q3 to 19.7 percent at the end of 1399Q3. Table 8 elaborates on the components of M2 and M0 in recent quarters.

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

	1398				1399			Percentage Change of 1399Q3 compared to	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	1398Q4	1398Q3
Monetary Base	**2,744.3**	**2,951.2**	**3,142.6**	**3,528.5**	**3,833.5**	**3,720.6**	**4,075.4**	**15.5**	**29.7**
CBI Net Foreign Assets	2,310.4	2,657.7	3,072.4	3,475.7	3,669.1	3,631.8	3,838.3	10.4	24.9
CBI Net Claims on Public Sector	414.8	336.6	246.8	156.3	394.3	172.7	123.0	-21.3	-50.2
CBI Claims on Banks	1,345.5	1,218.8	1,113.9	1,106.9	1,132.9	1,291.9	1,268.4	14.6	13.9
Net Other Items	-1,326.4	-1,261.9	-1,290.5	-1,210.4	-1,362.8	-1,375.8	-1,154.3	-4.6	-10.6
Liquidity	**19,799.1**	**21,264.4**	**22,623.1**	**24,721.5**	**26,571.7**	**28,958.9**	**31,300.2**	**26.6**	**38.4**
Money	3,108.7	3,333.5	3,634.8	4,273.0	5,020.5	6,007.0	6,170.3	44.4	69.8
Notes and Coins with the Public	502.2	498.6	527.9	611.4	578.0	599.6	642.2	5.0	21.7
Sight Deposits	2,606.5	2,834.9	3,106.9	3,661.6	4,442.5	5,407.4	5,528.1	51.0	77.9
Quasi-Money	16,690.4	17,930.9	18,988.3	20,448.5	21,551.2	22,951.9	25,129.9	22.9	32.3
M2 Money Multiplier	**7.2**	**7.2**	**7.2**	**7.0**	**6.9**	**7.8**	**7.7**	**9.6**	**6.7**

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

Government borrowing from the NDF (as indirect borrowing from the CBI) has severely overshadowed government debt to the CBI. Despite the issuance of a significant volume of government debt securities and despite the clearing of the banks and other creditors' claims on government with their debts to the CBI, the net CBI's claims on the government not only did not increase, but also reached from IRR70.6 trillion at the end of 1398Q3 to negative IRR159.2 trillion at the end of 1399Q3.

The financing of the budget deficit only through the auction of government debt securities by the CBI has been about IRR1,140 trillion from the beginning of 1399 to 12/12/1399. The total government debt securities issued in the capital market during the first 11 months of 1399 was about IRR1,570 trillion, out of which about IRR440 trillion were Islamic treasury bills. The CBI has purchased these government securities at various stages in order to control interest rates or to provide credit to banks. For example, the injection of liquidity in the framework of open market operations in the week ending 12/19/1399, was IRR63.3 trillion in the form of "repo" with a maturity of 7 days. In addition, the banks' credit receipts from the CBI by pledging government securities were IRR227.9 trillion this week, bringing the total liquidity infusion to IRR291.2 trillion. In contrast, liquidity contraction by the CBI was only IRR68.7 trillion for the settlement of previous repos and IRR95.3 trillion for the sale of government bonds held by the CBI in the secondary market this week (IRR164.0 trillion in total).

At the end of 1399, the balance of the repos was zero, although the balance of the CBI's collateralized loans to banks amounted to IRR227 trillion.

At the end of 09/1399, the balance of extended facilities in the banking system reached IRR25,709 trillion, rising by 32.8 percent from the beginning of the year and 47.7 percent from the similar point in 1398. The balance of deposits in banks and non-bank credit institutions which experienced higher growth rates than extended facilities in recent years, had a reverse trend at the end of 1399Q3 and increased by 42.4 percent to IRR35,206 trillion. Meanwhile, the legal reserve ratio average increased slightly, compared to the end of 1399Q2, to 10.0 percent, which is still lower than that of in preceding years. Therefore, the deposits less required reserves increased by 42.9 percent to IRR31,673 trillion. The ratio of extended facilities to deposits (after deduction of the legal reserves), which was decreasing continuously in recent years, reversed course to 81.2 percent at the end of 1399Q3 from 79.4 percent at the end of 1398. 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	1399Q3	Percentage Change of 1399Q3 compared to	
						1398Q4	1398Q3
Extended Facilities (EF - in IRR trillion)	9,866.6	12,587.1	15,090.2	19,355.8	25,709.3	32.8	47.7
Deposits (in IRR trillion)	12,728.4	16,464.1	20,673.4	27,162.8	35,205.9	29.6	42.4
Deposits Less Required Reserves (DLRR - in IRR trillion)	11,374.1	14,741.9	18,568.3	24,381.1	31,673.0	29.9	42.9
Legal Reserve Ratio (percent)	10.6	10.5	10.2	10.2	10.0	-	-
EF to DLRR Ratio (percent)	86.7	85.4	81.3	79.4	81.2	-	-

Source: Central Bank of Iran, Banking Statistics

The flow of the banking system's extended facilities totaled IRR16,061 trillion in the first 11 months of 1399, registering a marked growth rate of 89.7 percent, which can lead to severe inflationary consequences by increasing aggregate demand. The banking system's extended facilities to counter the effects of the outbreak of coronavirus has not contributed much to the increase in total extended facilities, so that if these facilities and extended facilities to capital market brokerage companies are ignored, the growth rate of extended facilities is estimated at 65.3 percent. Two sectors of "services" and "industries and mining" again absorbed the highest portions of these facilities, 39.2 percent and 30.4 percent respectively, followed by the commerce sector, with 17.8 percent. Regarding the purposes, the majority of facilities was extended in the form of working capital (60.6 percent). Table 10 compares different economic sectors in terms of extended facilities and the corresponding purposes during the first 11 months of 1399.

Table 10- Banks' Extended Facilities in the first 11 months of 1399 by Sectors and Purpose (percent of total)

	Agriculture	Industry and Mining	Housing and Construction	Commerce	Services	Other	Total
Total (IRR trillion)	**1,103.3**	**4,878.8**	**914.3**	**2,860.9**	**6,296.9**	**6.3**	**16,060.5**
Creation	22.0	15.7	21.0	4.1	10.6	10.4	12.4
Working Capital	66.2	75.1	31.2	45.1	59.8	69.4	60.6
Repair	0.6	1.1	21.3	0.3	2.0	1.2	2.4
Development	7.0	6.9	3.5	6.1	18.9	18.2	11.3
Purchase of Private Goods	1.1	1.0	0.0	44.0	0.5	0.0	8.4
Purchase of House	0.2	0.2	22.0	0.2	0.6	0.1	1.6
Others	2.8	0.1	1.0	0.1	7.6	0.7	3.3

Source: Central Bank of Iran, Extended Facilities by Sectors and Purposes during the first 11 months of 1399

6. Government Fiscal Performance

The budget law of 1400, after several stages of rejection and amendment, was finally approved on the last working day of 1399. The country's total budget which consists of "state-owned companies' budget" and "general budget" has risen by 18.3 percent in the law compared to the bill. The budget of state-owned companies has increased by only 0.6 percent and the general budget has grown by 47.7 percent in 1400 Budget Law compared to 1400 Budget Bill. Meanwhile, the general budget has increased by 111.4 percent compared to its corresponding figure in 1399 Budget Law. The general budget consists of "general sources and uses" and "sources and uses of dedicated revenues". The dedicated revenues has increased by only 8.3 percent compared to the bill, while general sources have grown by 51.9 percent. In the general sources components, the highest growth rate compared to the bill is related to the disposal of non-financial assets, while the bill has been heavily criticized for being overestimated in this regard. Table 11 depicts a general overview of the 1400 Budget Law.

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

Sources					Uses				
	1400 Budget Law	Growth Compared to 1400 Budget Bill	Growth Compared to 1399 Budget Law	Growth Compared to 1399 Performance forecast*		1400 Budget Law	Growth Compared to 1400 Budget Bill	Growth Compared to 1399 Budget Law	Growth Compared to 1399 Performance forecast*
Revenues	4,549	43.2	57.5	81.7	Expenditures	9,210	44.6	111.2	121.4
Disposal of Non-financial Assets	3,955	75.6	268.0	1,548.1	Acquisition of Non-financial Assets	1,772	70.4	101.5	160.7
Disposal of Financial Assets	4,275	43.2	144.7	67.5	Acquisition of Financial Assets	1,796	79.1	282.2	294.8
General Sources	**12,779**	**51.9**	**123.8**	**141.3**	**General Uses**	**12,779**	**51.9**	**123.8**	**141.3**
Dedicated Revenues	958	8.3	21.6	-	From Dedicated Revenues	958	8.3	21.6	-
Sources of General Budget	**13,738**	**47.7**	**111.4**	**-**	**Uses of General Budget**	**13,738**	**47.7**	**111.4**	**-**
Sources of State-owned Companies	15,713	0.6	9.4	-	Uses of State-owned Companies	15,713	0.6	9.4	-
Sources of Country's Budget	**28,823**	**18.3**	**42.2**	**-**	**Uses of Country's Budget**	**28,823**	**18.3**	**42.2**	**-**

Source: 1400 Budget Law, 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.

The 1400 Budget Law is set in two ceilings. In fact, out of IRR12,779 trillion approved figure for general sources, the government has been allowed to allocate IRR9,379 trillion and the remaining IRR3,400 trillion will be allocated from the second half of the year and only in proportion to the realization of resources. Two-ceiling budgeting was experienced In the Budget Law of 1394. The result was the realization of uses in the second ceiling and the realization of sources in the first ceiling and the intensification of the budget deficit, consequently. Repetition of this approach in 1400 Budget Law will have more severe negative consequences, considering the approved operating balance deficit of IRR4,661 trillion. The most important part of the second ceiling of the Budget Law of 1400 is the sale of IRR1,300 trillion shares owned by the government and state-owned companies to strengthen the social security of individuals, as well as settling part of the debts of the Social Security Organization and several other similar items to ensure social welfare. In another part of the second ceiling, up to IRR200 trillion will be spent from the disposal of movable and immovable properties and royalties, to provide end-of-service bonuses for government employees, ranking teachers, equalizing the salaries of university faculty members and many other similar cases.

Another important part of the second ceiling of the Budget Law of 1400 is the delivery of IRR900 trillion of crude oil to government claimants in order to repay debts. This was also included in last year's budget law, and its impossibility had already been proven.

Meanwhile, in the second ceiling of the Budget Law of 1400, IRR600 trillion of oil exports (in excess of oil exports in the first ceiling) have been considered. Given that oil revenues in the first ceiling are calculated on the basis of daily oil exports of 2.3 million barrels, oil resources, even in the first ceiling, are unrealistic and highly overestimated. In fact, lawmakers not only did not reduce the bill's estimate of oil revenues, but also increased it. Moreover, in the Budget Law of 1400,

the government is obliged to gradually increase the official exchange rate, and thus IRR100 trillion has been added to miscellaneous revenues in the second ceiling. Foreign currency allocation at the official rates has been set up to USD8 billion, and the CBI has been barred from allocating more than that. The allocation of foreign currencies at the official rates by the CBI was beyond the scope of the budget laws in 1398 and 1399.
In 1400 Budget Law, the share of the National Development Fund (NDF) in oil exports, in accordance with the order of the Supreme Leader, up to one million barrels daily oil exports will be 20 percent and for beyond will be 38 percent. This share was considered 20 percent in the bill, regardless of the amount of oil exports. For this reason, the amount of government borrowing from the NDF has decreased in the budget law compared to the bill. Meanwhile, according to the order of the Supreme Leader and the 1400 Budget Law, the revenues from the beyond one million barrels daily oil exports must be spent on repaying the government debt to the NDF. However, there is no figure for repaying the government debt to the NDF in the tables of this law, which will lead to imbalance of budget resources and expenditures and will increase the budget deficit, consequently. Moreover, other uses of government from the NDF's resources, which were included in the bill, have been eliminated in the law.
Elimination of the issuance of IRR700 trillion in oil pre-sale securities was another change in the 1400 Budget Law compared to the Bill.
Allocation of vacuum batuum (bitumen raw materials) for free was removed from the 1400 Budget Bill after years. However, MPs added it back to the 1400 Budget Law in the amount of IRR150 trillion. In this regard, 48 percent will be allocated to the Ministry of Roads and Urban Development for asphalting roads, 20 percent to the Islamic Revolution Housing Foundation for asphalting and improving villages, 17 percent to the Ministry of Interior for asphalting urban pathways, 6 percent to the Basij Sazandegi Organization for bases and roads between farms, 6 percent to the Ministry of Education for renovation of schools and 3 percent to the Ministry of Agriculture Jihad for desertification and mulching. Also, part of the departure tax revenues (IRR598 billion) will be given to the Islamic Revolution Housing Foundation to be spent on improving border villages.
In another part of the changes in the 1400 Budget Law compared to the bill, up to IRR15 trillion (IRR5 trillion in subsidies for households living in areas without natural gas piping, equivalent to 33 kg of liquefied gas per month on average and IRR10 trillion to develop the infrastructure for the use of liquefied petroleum gas in transportation) have been added to the resources of the targeted subsidy plan from the sale of liquefied petroleum gas (LPG). Moreover, the fuel rate has been set equal to 30 percent of the average rate of feed gas delivered to petrochemical companies for refineries, petrochemicals and metal industries, and equivalent to 10 percent for other industries (except power plants), indicating almost doubling.
In passing the budget law, lawmakers have exercised more oversight and control over the state-owned companies. This includes requiring state-owned companies to submit six-month financial reports and decision making for State-owned companies that have recognized losses for three consecutive years or their accumulated losses have reached more than half of their capital.
In this budget law, the government is obliged to allocate IRR10 million (up to a total of IRR10 trillion) for each child born from the beginning of 1400 - Only in provinces with a fertility rate of up to 2.5 - to the purchase of units of exchange-traded funds in the name of the child. Since this incentive has little effect on fertility, it should be considered only as government support for the capital market.
Regarding the issuance of debt securities, the budget law authorizes the issuance of IRR270 trillion in debt securities to the companies affiliated to the Ministries of Agriculture Jihad, Energy and Roads and Urban Development. Moreover, the issuance of various types of Islamic debt securities has increased from IRR230 trillion in the bill to IRR655 trillion in the law. The Ministry of Economic Affairs and Finance is required to submit a monthly report to the parliament on the ratio of government debt to GDP, and exceeding this ratio beyond 45 percent is subject to parliamentary approval. However, due to over-reliance on government debt securities in this budget law, the parliament will have no choice but to allow this ratio to increase to more than 45 percent. The parliament has also increased the issuance of Islamic treasury bills from IRR200 trillion in the bill to IRR500 trillion in the law. Other increases in government debt that lawmakers have added to the 1400 Budget Law include issuing IRR10 trillion of debt securities to buy firefighting equipment, issuing IRR20 trillion of debt securities and allocating proceeds to the Islamic Revolution Housing Foundation to improve villages and issuing IRR20 trillion of Islamic debt securities for strategic defense research projects.
The issuance of treasury settlement securities (with the participation of banks and the CBI) has also increased from IRR300 trillion in the bill to 350 trillion in the law. In this regard, the settlement of IRR10 trillion of government debt to Astan Quds Razavi has been added to the 1400 Budget Law. Moreover, the permission to trade these securities in the secondary market has been added in the 1400 Budget Law under the pretext of preventing the increase of the monetary base. However, these securities have no effect on the size of the monetary base and only change the share of its components.
Increasing the government's royalties from telecom companies by 10 percentage points has been another point of contention in the 1400 Budget Law. The resources will be allocated to the development of the same company's infrastructure in the National Information Network, content creation in cyberspace, and the master plan of the National Information Network. However, these companies have not been allowed to increase internet consumption tariffs in 1400. In addition, the revenue of users with more than 500 thousand followers in cyberspace is subject to income tax.
Another significant change in the budget law compared to its bill is the change of the foreign exchange rate from the official rate to the rate of the electronic trade system (ETS) in the calculation of import taxes. However, in order to prevent a sharp increase in import costs, MPs reduced the import tariff from 4 percent to 1 percent for essential goods, medicine, medical equipment and agricultural inputs, and 2 percent for other goods. Meanwhile, it is mentioned that the amount of tax on imports of essential goods, medicine, medical equipment and agricultural inputs in Rials should not increase compared to 1399. Also, the import tariff rate for mobile phones worth more than USD600 is set at 12 percent.
The budget law also obliges two car companies with major private shareholders to sell cars in five-year installments to war veterans, another example of the government's numerous interventions in the affairs of so-called private companies.

Increasing the duties of the banking system is another significant change in the 1400 Budget Law compared to the bill. Some of these tasks include: Increase of marriage facilities from IRR500 million for each couple to IRR1 billion for men under 25 years old and women under 23 years old and IRR700 million for older couples, Increase of employment facilities from IRR100 trillion to IRR280 trillion, Increasing the share of the ransom charity organization from the banks' Gharz-al-hasaneh[1] resources from IRR2 trillion to IRR5 trillion, Increase of Gharz-al-hasaneh facilities for renting or buying or building housing for families with three or more children who do not own a house from IRR2.1 trillion to IRR9 trillion and providing facilities of IRR100 million to IRR500 million for giving birth to the first to fifth or more children.

Table 12 presents general source and uses of government in 1400 Budget Law.

Table 13- General Sources and Uses of Government in 1400 Budget Law (IRR trillion- percent)

	1400 Budget Law	Share in Total General Sources	Growth Compared to 1400 Budget Bill		1400 Budget Law	Share in Total General Uses	Growth Compared to 1400 Budget Bill
Current Revenues	**4,549.0**	**35.6**	**43.2**	**Current Expenditures**	**9,210.4**	**72.1**	**44.6**
Tax	3,252.4	25.5	31.2				
Proceeds of State-owned Properties	485.0	3.8	55.9				
Proceeds of Sale of Goods and Services	150.1	1.2	3.1				
Proceeds of Fines and Damage	118.2	0.9	42.1				
Other	543.3	4.3	246.9				
Operating Balance					**-4,661.4**	**-**	**45.9**
Disposal of Non-financial Assets	**3,955.5**	**31.0**	**75.6**	**Acquisition of Non-financial Assets**	**1,772.4**	**13.9**	**70.4**
Receipts from Crude Oil and Oil Products	3,492.7	27.3	75.3				
Receipts from Sale of Movable and Immovable Properties	452.8	3.5	81.1				
Receipts from Disposal of Development Projects	10.0	0.1	0.0				
Non-financial Balance					**2,183.0**	**-**	**80.1**
Disposal of Financial Assets	**4,274.7**	**33.5**	**43.2**	**Acquisition of Financial Assets**	**1,796.4**	**14.1**	**79.1**
Sale of Islamic Securities	1,625.0	12.7	30.0				
Use of Foreign Loans	0.5	0.0	0.0				
Principal of Loan Receipt	12.2	0.1	0.0				
Disposal of State-owned Companies	2.259.0	17.7	137.8				
Last Year's Payment Return	16.0	0.1	0.0				
Use of National Development Fund	362.0	2.8	-52.1				
From other Disposals	0.0	0.0	-100.0				
Financial Balance					**2,478.3**	**-**	**25.1**

Source: 1400 Budget Bill and 1400 Budget Law

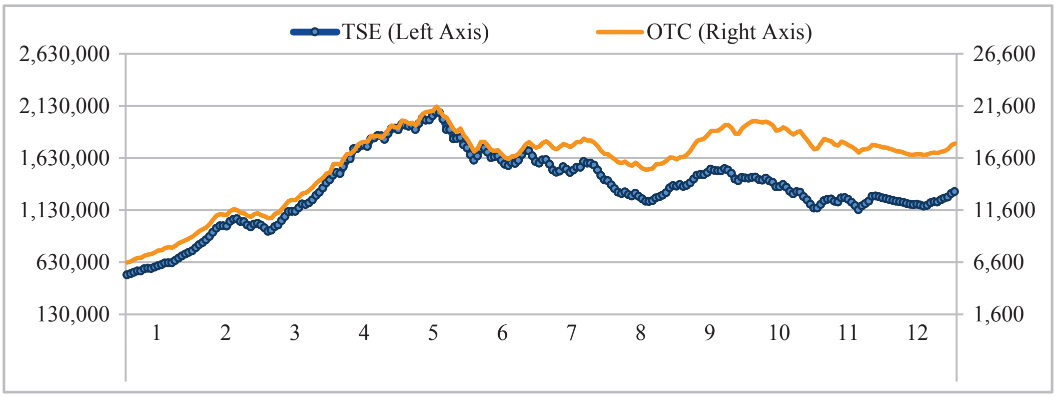
1. Interest-free

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 1.135 million on 11/18/1399. In other words, while in the first 5 months of 1399, the index quadrupled, in the next six months plunged by about 45 percent. The overall index reached 1.308 million at the end of 1399. Thus, the growth rate of the overall index of the TSE in 1399 was 155 percent, much higher than the inflation rate.

The overall index of Over the Counter (OTC) which usually has experienced similar trend compared to the overall index of TSE, changed direction since 1399Q3 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 200 percent in the first 5 months of 1399 and plummeted by 28 percent in the next 3 months. Thus, although OTC growth in 1399H1 was slightly lower than the TSE, its decline in 1399H2 was significantly less than the TSE to create a gap between their movement trends. The growth rate of OTC overall index during 1399 was about 173 percent, 18 percentage points higher than that of in the TSE. Figure 5 depicts the daily developments of TSE and OTC indices during 1399.

Figure 5- TSE and OTC Overall Indices in 1399



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

According to the TSE's monthly reports, during 1399, the number of equities traded totaled approximately 2.2 trillion, 104.0 percent more than that of in 1398. Considering dramatic growth in prices, the value of transactions experienced much higher growth rate and surged by 421 percent. Besides equity, the value of transactions of other instruments of the market, including exchange traded funds (ETFs), grew at almost the same rate, bringing the growth rate of the total value of transactions to 425 percent in 1399. However, the growth rate of the value of debt market transactions was less than other components (119 percent). The transaction of IRR232 trillion of debt securities in 1399 was only 0.9 percent of the total value of transactions in TSE, while in 1398, about 2.1 percent of the total value of transactions was related to debt securities. TSE's market capitalization hit IRR51,601 trillion at the end of 1399, 176 percent above that at the end of 1398. The market capitalization had touched IRR71,600 trillion at the end of 04/1399 and even exceeded this figure in early 05/1399. The growth rate of equally-weighted index during 1399 was 143 percent, which is slightly less than the growth rate of overall index, indicating lower returns of small-sized companies stocks than larger firms stocks in 1399. Comparing the increase in financial index (179.9 percent) and industry index (152.0 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 13 gives more details on these statistics for the TSE.

Table 13- 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)
1399	2,215.5	24,363.1	26,886.9	1,307.7	439.8	1,782.1	1,154.3	51,600.5
1398	1,086.2	4,673.7	5,126.4	512.9	177.1	636.7	458.0	18,731.7
Percentage Change	104.0	421.3	424.5	155.0	148.3	179.9	152.0	175.5

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

Along with the boom in the secondary market in 1399, the primary market was also booming. Financing through the TSE was IRR932 trillion in 1399 (139 percent more than that of in 1398), out of which 69 percent was financing through listed companies capital raise (regardless of capital raise from the revaluation of fixed assets), 16 percent IPOs, 14 percent financing through debt, and 1 percent financing through embedded put option.

On the last day of 1399, the P/E trailing 12 amonths on the TSE reached 16.4, still much higher than other asset markets. This ratio was 10.3 at the end of 1398. Therefore, despite the decline in stock prices in 1399H2, the average growth rate of stock prices has been higher than the average growth rate of returns of listed companies.

8. Other Economic Developments

The signing of Iran–China 25-year Cooperation Program on 01/07/1400 between the foreign ministers of Iran and China caused widespread controversy. The details of this program have not been released yet. This cooperation will be in the fields of oil, gas and petrochemical industries, infrastructure and in the fields of military, security, cultural and judicial, although it is not clear what projects will be financed through which process and how they will be exploited.

Therefore, the main criticism of this program is based on the evaluation of China's performance in similar cooperation with some Asian and African countries. In this case, there is a strong concern about China's Debt-trap diplomacy. The construction and development of the port of Hambantota in Sri Lanka is cited as an example of this kind of diplomacy. The project was proposed by the Sri Lankan government, and despite government estimates that the port will be unprofitable, a request for investment was sent to neighboring countries such as India. The results of Indian studies also showed that the project was not profitable. The Sri Lankan government, however, insisted on implementing this plan in the direction of populism. Finally, Exim Bank of China agreed to pay a USD307 million loan with an annual interest rate of less than 2 percent, provided that a Chinese company builds it. The plan resulted in heavy losses, so Sri Lanka again applied for a loan from China. China agreed to repay the USD575 million loan, provided the annual interest rate on the previous loan increased to more than 6 percent. The end result of this process was the disposal of the port to a Chinese company for 99 years. So the unfortunate result of this plan was not because of China's performance, but because of the wrong policy of the Sri Lankan government. It cannot even be claimed that China has benefited from long-term ownership of a loss-making port. In fact, many of China's Belt and Road Initiative projects have no economic justification. Even the acquisition of assets following Chinese loans is rare, and in most cases, there was no choice but to forgive part of (or even all of) the loan.

The main concern, therefore, is the lack of publication of economic feasibility studies for projects that governments seek to implement, either through domestic or external funding. No text has been published on the Iran–China 25-year Cooperation Program yet.

Middle East Bank Headquarters
No. 2, 5th St., Ahmad Qasir(Bucharest) Ave., Tehran, Iran
Tel. (+98 21) 4217 8000 Fax. (+9821) 8870 1095
www.middleeastbank.ir info@middleeastbank.ir