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# Recent Economic Developments in Iran

A Quarterly Report



No. 23 | July 2021

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## **Recent Economic Developments in Iran, A Quarterly Report** No. 23, July 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.

**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**

**1400Q1** = 03/21/2021 – 06/21/2021, roughly **2021Q2**

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## Iran's Economy at a Glance

	1398	1399Q1	1399Q2	1399Q3	1399Q4	1399	1400Q1
<b>Labor Force Participation &amp; Unemployment Rates (percent)</b>							
Participation (10 Years and Over)	44.1	41.0	41.8	41.4	40.9	41.3	-
Unemployment (10 Years and Over)	10.7	9.8	9.5	9.4	9.7	9.6	-
Unemployment (Youth Aged 15-24)	26.0	24.5	23.1	23.7	23.6	23.7	-
<b>Real Growth Rates of GDP and Its Subsectors at Constant 1390 Prices (percent)</b>							
Gross Domestic Product (GDP)	-6.5	-2.5	5.4	3.8	7.7	3.6	-
Manufacturing and Mining	2.3	2.9	8.0	7.1	9.9	7.1	-
Oil	-38.7	-16.7	22.3	9.1	35.8	11.2	-
Agriculture	8.8	4.9	4.1	5.2	3.4	4.5	-
Services	-0.2	-1.3	1.3	0.1	-0.2	0.0	-
GDP (Excluding Oil)	1.1	-0.2	3.5	3.0	3.6	2.5	-
Gross Fixed Capital Formation (at market prices)	-5.9	-0.3	-0.1	2.2	8.2	2.5	-
<b>Oil (daily average - thousand barrels)</b>							
Production*	2,194	1,966	1,942	1,986	2,198	2,023	-
<b>Point-to-Point Inflation Rates (percent)</b>							
Growth Rate of Consumer Price Index (1395=100)	34.8	21.1	30.6	44.2	47.7	36.4	48.0
Growth Rate of Producer Price Index (1395=100)	34.3	18.0	39.7	58.8	67.5	46.7	-
<b>Balance of Payments (USD millions)</b>							
Oil Exports	29,016	3,865	4,693	6,056	-	-	-
Non-Oil Exports	30,375	5,073	6,499	8,025	-	-	-
Imports of Goods	52,236	9,150	11,824	11,963	-	-	-
Goods Account (Net)	7,155	-212	-632	2,119	-	-	-
Non-Oil Goods Account (Net)	-21,855	-4,077	-5,325	-3,938	-	-	-
Current Account	3,753	-622	-1,206	1,124	-	-	-
Capital Account	-6,669	-2,903	-990	-1,267	-	-	-
Change in Foreign Reserves	1,298	-1,006	-878	-950	-	-	-
<b>Foreign Exchange Rates (USD/IRR daily average)</b>							
Free Market	128,278	162,376	220,861	272,950	244,027	225,054	233,820
Official	42,000	42,000	42,000	42,000	42,000	42,000	42,000
NIMA (Remittance)	111,813	144,430	187,365	251,914	241,106	206,204	217,582
<b>Monetary and Credit Aggregates (end of period - IRR trillions)</b>							
Monetary Base (M0)	3,528.5	3,833.5	3,720.6	4,075.4	4,559.5	4,559.5	-
CBI Claims on Banks	1,106.9	1,132.9	1,291.9	1,268.4	1,203.0	1,203.0	-
CBI Claims on Public Sector (Net)	156.3	394.3	172.7	123.0	-219.4	-219.4	-
CBI Net Foreign Assets	3,475.7	3,669.1	3,631.8	3,838.3	4,427.2	4,427.2	-
Liquidity (M2)	24,721.5	26,571.7	28,958.9	31,300.2	34,761.7	34,761.7	-
Money (M1)	4,273.0	5,020.5	6,007.0	6,170.3	6,906.6	6,906.6	-
Sight Deposits	3,661.6	4,442.5	5,407.4	5,528.1	6,174.6	6,174.6	-
Non-Sight Deposits (Quasi-Money)	20,448.5	21,551.2	22,951.9	25,129.9	27,852.1	27,852.1	-
<b>Government Budget and Fiscal Position (IRR trillions)</b>							
The data in this section is not available							
<b>Tehran Stock Exchange (end of period)</b>							
Overall Index (TEDPIX)	512,900	1,270,627	1,595,160	1,439,124	1,307,657	1,307,657	1,168,592
Financial Index	636,700	1,855,151	2,087,957	2,001,939	1,782,068	1,782,068	1,622,677
Industrial Index	458,000	1,109,532	1,415,024	1,264,532	1,154,258	1,154,258	1,027,589
Market Capitalization (IRR trillions)	18,732	47,597	60,035	57,059	51,601	51,601	46,660

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 by CBI regarding the national accounts of 1399 indicate an expansion in Iran's Economy during the winter and the whole year. In 1399Q4, the growth rate of all main groups of economic activity, except for services sector, has been positive. Similarly, in the report of the SCI, positive economic growth rates have been recorded in the fourth quarter and the whole of 1399. It should be noted that the SCI's report is calculated at market prices and the CBI's report is presented at base prices. There are also differences in the classification of main economic activities between the two reports.

According to the CBI, the economy's total value-added during the fourth quarter and the whole of 1399 amounted to IRR9,585 trillion and IRR34,340 trillion at current prices, respectively, indicating a 7.7 percent and 3.6 percent expansion in GDP at constant prices, respectively. Much of this growth has occurred in the oil sector in 1399Q4 and in the manufacturing and mining in the whole of 1399. The non-oil growth rate in 1399Q4 and the whole of 1399 was 3.6 percent and 2.5 percent, respectively. Meanwhile, according to the SCI's report, the GDP at the current market prices in 1399Q4 and the whole of 1399 amounted to IRR16,346 trillion and IRR50,299 trillion, respectively, indicating a 6.8 percent and 0.7 percent expansion at constant prices, respectively. In this report, the non-oil growth rate in 1399Q4 was 3.3 percent, although registered zero percent in the whole of 1399, which is very different from the same figure in the CBI's report.

According to the CBI, the growth rate of the oil sector, which was negative in all quarters of 1398 and the first quarter of 1399, became positive since 1399Q2, reaching 35.7 percent in 1399Q4, so that the growth of this sector in the whole of 1399 reached 11.2 percent. The SCI's report shows a similar trend for oil and natural gas extraction in the mining sector. According

to this report, following the positive growth rates of oil and natural gas extraction sector in the last three quarters of the year, an economic growth rate of 5.6 percent in this sector has been recorded in the whole of 1399.

Based on CBI's report, the manufacturing and mining sector also grew by 9.9 percent in 1399Q4 and 7.1 percent in the whole of 1399. In this sector, the manufacturing sub-sector has the highest growth rate (8.1 percent) in the whole of 1399 and the construction sub-sector has the highest growth rate (22.4 percent) in 1399Q4. The manufacturing and mining sector also includes the extraction of oil and natural gas in the SCI's report. In this report, the construction sub-sector has the highest growth rate among the manufacturing and mining sector components (13.3 percent in 1399Q4 and 6.3 percent in the whole of 1399). The economic growth rate of the manufacturing sub-sector was recorded 1.8 percent in 1399 in the SCI's report, which is very different from the same figure in the CBI's report.

The services group, both in the SCI's report and in the CBI's report, had the worst performance among the main groups of economic activities in 1399, which was expected following the outbreak of the Corona virus. Based on CBI's report, the services sector shrunk by 0.2 percent in 1399Q4 and its value added did not change at constant prices in the whole of 1399 compared to 1398. According to SCI's report, despite a positive growth rate of 2.6 percent in 1399Q4, the services sector has shrunk by 2.0 percent in the whole of 1399. Among the services sub-sectors, both reports acknowledge that the largest contraction was in public services.

On the other hand, based on CBI, the agriculture sector experienced an economic growth rate of 4.5 percent in 1399, while it was 3.5 percent in SCI's report. The main economic sectors' growth rates in the quarters of 1398 and 1399 are shown in table 1, Based on CBI's report.

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

	1398					1399					Share in Growth in the whole of 1399
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	
Agriculture	8.5	9.8	7.2	7.8	8.8	4.9	4.1	5.2	3.4	4.5	0.4
Oil	-47.4	-50.4	-10.1	-35.6	-38.7	-16.7	22.3	9.1	35.8	11.2	1.4
Manufacturing and Mining	-0.1	0.4	7.1	2.2	2.3	2.9	8.0	7.1	9.9	7.1	1.9
Services	-0.3	-1.7	2.0	-0.5	-0.2	-1.3	1.3	0.1	-0.2	0.0	0.0
<b>Non-oil Gross Domestic Product</b>	<b>0.4</b>	<b>0.5</b>	<b>3.8</b>	<b>0.1</b>	<b>1.1</b>	<b>-0.2</b>	<b>3.5</b>	<b>3.0</b>	<b>3.6</b>	<b>2.5</b>	<b>-</b>
<b>Gross Domestic Product</b>	<b>-11.0</b>	<b>-9.1</b>	<b>1.7</b>	<b>-6.4</b>	<b>-6.5</b>	<b>-2.5</b>	<b>5.4</b>	<b>3.8</b>	<b>7.7</b>	<b>3.6</b>	<b>3.6</b>

Source: Central Bank of Iran, National Accounts reports

Based on CBI revised data, the fall in private consumption, which had led to a continuous decline in household welfare, continued slowly in 1399. The private consumption declined by 4.6 percent and 0.5 percent in 1399Q1 and 1399Q3, respectively, however it rose by 1.1 percent in 1399Q2 and by 2.8 percent in 1399Q4. So, private consumption has shrunk by 0.4 percent in the whole of 1399. Although, according to the SCI's report, not only private consumption did not shrink in 1399, but also experienced a growth rate of 1.6 percent. Accordingly, despite recording negative growth rates for this variable in the first three Quarters of 1399, a significant growth rate of 9.2 percent was recorded for

it in 1399Q4. However, both reports acknowledge that changes in private consumption did not play a significant role in positive economic growth rate in the whole of 1399, which was expected due to the outbreak of the Corona virus.

In contrast and based on CBI, the government consumption expenditures contracted by 11.5 percent and 2.3 percent in 1399Q4 and the whole of 1399, respectively, while according to the SCI, this variable grew by 6.2 percent in 1399.

Both reports show that the positive economic growth rate in 1399 was mainly due to the increase in gross fixed capital formation, especially in the construction sector.

Based on CBI, gross fixed capital formation growth rate of 8.2 percent in 1399Q4 led to a growth rate of 2.5 percent in the whole of 1399. Gross fixed capital formation in machinery at constant prices grew by only 0.9 percent in 1399, while it was 3.1 percent in the form of construction. In the SCI's report, the growth rate of gross fixed capital formation in machinery was calculated negative 0.1 percent in 1399, while it was 6.3 percent in the form of construction, which led to a growth rate of 2.5 percent of total gross fixed capital formation in 1399. It seems that the positive economic growth rate in 1399 was largely due to investment in the form of construction in order to maintain purchasing power,

given that the increase in housing prices was higher than the inflation rate in 1399.

Regarding the foreign trade, simultaneous decline in exports and imports of goods and services in 1399 can be seen in both reports. However, the net export of goods and services in the CBI's has a slight positive growth rate and in the SCI's report has a significant negative growth rate of 31.1 percent. The growth rates of gross domestic expenditures and its components are demonstrated in Table 2, based on CBI. Iran's economic growth rate in 1400 is forecasted by the International Monetary Fund at 2.5 percent and the World Bank at 1.7 percent.

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	Q4	Year
<b>Private Consumption</b>	-8.0	-9.5	-1.8	-11.3	-7.7	-4.6	1.1	-0.5	2.8	-0.4
<b>Public Consumption</b>	-9.0	-6.8	-3.3	-4.9	-6.0	7.3	1.9	-3.7	-11.5	-2.3
<b>Gross Fixed Capital Formation</b>	-4.9	-0.9	2.1	-17.5	-5.9	-0.3	-0.1	2.2	8.2	2.5
Machinery	-18.9	-9.7	-15.1	1.7	-10.0	-8.8	4.9	2.4	3.5	0.9
Construction	3.3	1.7	10.6	-24.7	-4.3	3.6	-1.4	2.1	10.6	3.1
<b>Net Exports of Goods and Services</b>										
Exports	-38.6	-39.7	-4.9	-26.2	-29.9	-30.7	-9.3	-0.9	23.4	-5.4
Imports	-50.5	-48.0	-28.6	-11.4	-38.1	-44.3	-31.3	-23.9	-17.6	-29.2
<b>Gross Domestic Product (at market prices)</b>	-11.7	-9.1	1.8	-6.8	-6.8	-2.5	5.3	3.9	6.7	3.4

Source: Central Bank of Iran, National Accounts reports

## Investment

According to the Ministry of Industry, Mine and Trade, during the first month of 1400, the number of establishment permits of manufacturing units totaled 2,094, and about IRR278.9 trillion investment is forecasted to be needed for them, recording 162.1 percent and 329.5 percent climb compared to the same month in the preceding year, respectively. About IRR24.6 trillion of the projected investment is related to two large industrial enterprises - one in East Azerbaijan province and the other in Qom province. The operation permits, including creation and development

plans operation permits, reached 347 in number, 74.4 percent higher than that in the first month of 1399. Nevertheless, their corresponding investment grew by only 13.7 percent, registered IRR4.3 trillion. In other words, given the current inflation rate, the investment for issued operation permits has experienced a real negative growth rate.

The projected investment for establishment permits, as well as realized investment for issued operation permits, are depicted in Table 3.

Table 3 – The Investment for Issued Permits (IRR trillion)

	First Month of 1399	First Month of 1400	Percentage Change
<b>Projection for Establishment Permits</b>	64.9	278.9	329.5
<b>Operation Permits</b>	37.7	42.9	13.7

Source: Ministry of Industry, Mine and Trade, the preliminary report of the performance of the first month of 1400

## Oil

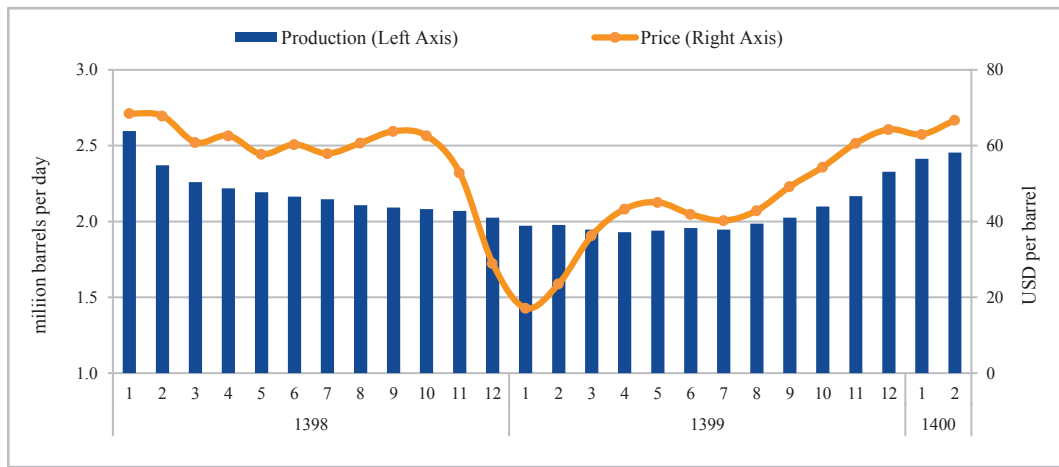
The oil industry, which had been one of the most vital sectors of the Iranian economy through the recent half-century and had constituted the majority of the government's income, has been significantly damaged in the aftermath of international sanctions. According to the CBI, the oil sector value-added in current prices made up merely 5.6 percent, 4.9 percent, 5.2 percent and 5.6 percent of Iran's GDP in 1399Q1 to 1399Q4, respectively. Therefore, its share was 5.3 in the whole of 1399, while it was about 13.5 percent, 13.0 percent and 7.4 percent in 1396 to 1398, respectively. In other words, share of the oil sector in GDP has had an upward trend since the second half of 1399, although it

is still significantly lower than its historical trend. 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 2.5 million barrels per day in May 2021 (approximately 02/1400), showing a 24.1 percent and 3.6 percent increase compared to the same month in 2020 and 2019, respectively. 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 and especially after the new US administration took office, Iran’s exports increased and the figure surged to about 700 thousand barrels per day during April 2021 (approximately 01/1400). However, Iran’s oil exports fell sharply in May (registered about 0-600,000 barrel per day) due to a drop in demand from China (the main buyer of Iran’s oil) following the increase in the level of reserves. The average price of Iran’s heavy oil, which was mostly more

than USD60 per barrel during 1398, registered merely USD17 in the first month of 1399 due to outbreak of Coronavirus as a severe global concern. However, oil prices gradually rose in the following months. Based on OPEC, the price of each barrel of Iranian heavy oil averaged USD38 in 2020. With rising the global demand due to general vaccination in many countries and lifting Coronavirus-related restrictions, the Iran’s oil price also commenced increasing to reach USD66.7 during May 2021 (approximately 02/1400). 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.

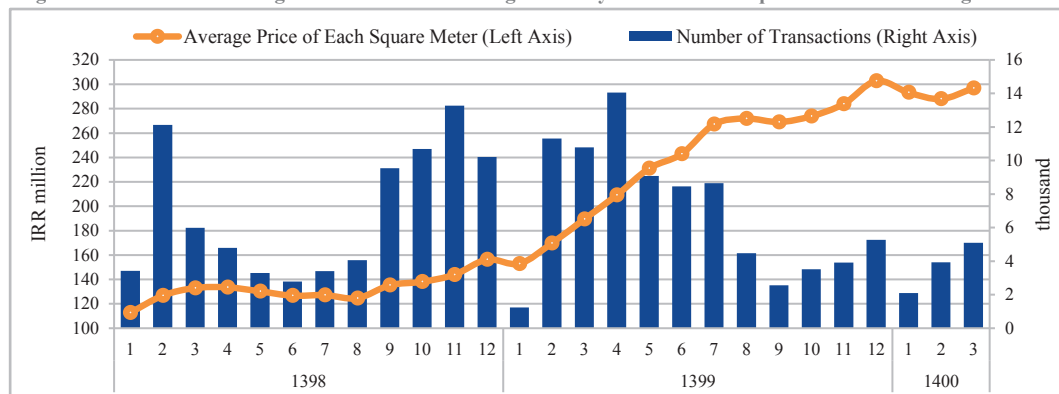
### Housing

The housing market, which experienced an almost uninterrupted increase in prices in 1399, had a slower price growth rate in 1400Q1. The average price of a square meter of residential units in Tehran registered IRR298 million in 03/1400, indicating a growth rate of 56.6 percent during a year, while the annual growth rates of prices in different months of 1399H2 were about 100 percent. Nevertheless however, the growth rate of housing prices is still 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 03/1400, nearly 5,102 transactions were registered in the Tehran

housing market, which was 52.7 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 09/1399 and indicates a stagflation in housing market. More than half of these transactions (56 percent) were recorded for small units with an area of less than 80 square meters. For 60.8 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 1399Q4 declined by 0.9 percentage point compared to 1398Q4 - despite the consequences of the Corona-virus epidemic – although it increased by 0.3 percentage points compared to 1399Q3. Meanwhile, the share of underemployment (less than 44 hours per week employment) increased by 0.4 percentage point (compared to 1398Q4) to 10.8 percent. 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 1399Q4, the unemployment rate was 8.4 percent for men and 16.5 percent for women.

Thus, the male unemployment decreased by 0.8 percentage point and the female unemployment declined by 0.7 percentage point compared to 1398Q4. A noteworthy point is the decrease of 567 thousand active women compared to 1398Q4, despite the increase of 364 thousand women in working age. In comparison, the population of active men decreased by 44 thousand and the population of men in working age increased by 333 thousand during this period. The number of unemployed in this quarter amounted to 2.5 million, 1.7 million of which were youth aged 18-35, and about 961 thousand hold a tertiary degree. These figures represent the unemployment rate of 16.8 percent for youth and 14.1 percent for highly-educated people. The unemployment rate for highly-educated women was 23.5 percent. In 1399Q4,

the share of highly-educated employees in total employees increased by 0.2 percentage points compared to the same period of the preceding year to 25.3 percent and their share among the unemployed people decreased by 0.2 percentage points to 38.8 Percent. Thus, the employment of highly-educated people has improved slightly, 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 611 thousand people in 1399Q4 compared to 1398Q4, despite the addition of about 697 thousand people to the population aged 15 and over in the same period. the participation rate in 1399Q4 was only 40.9 percent, 1.5 percentage point less than the figure in the same period of preceding year. The rate for women was only 13.3 percent, and yet only 3.5 million of the small population of 4.2 million women willing to work managed to find a suitable job. Besides, the employment ratio went down in this quarter by 0.9 percentage points, reaching 36.9 percent. Among approximately 23.1 million individuals who had an occupation in this quarter, 50.4 percent employed in the services sector, 33.8 percent employed in the industry sector and the rest in the agriculture sector. Table 4 compares the major statistics of the labor market in 1399Q4 and 1398Q4.

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

		1398Q4			1399Q4		
		Total	Male	Female	Total	Male	Female
Economic Participation Rate, Population Aged 15 and Over	Rate (percent)	42.4	69.4	15.3	40.9	68.5	13.3
	Number (million)	26.2	21.5	4.7	25.6	21.4	4.2
Share of Employment, Population Aged 15 and Over	Share (percent)	37.8	63.0	12.7	36.9	62.8	11.1
	Number (million)	23.4	19.5	3.9	23.1	19.7	3.5
Unemployment Rate, Population Aged 15 and Over	Rate (percent)	10.6	9.2	17.2	9.7	8.4	16.5
	Number (million)	2.8	2.0	0.8	2.5	1.8	0.7
Unemployment Rate, Population Aged 18-35	Rate (percent)	17.8	14.9	29.0	16.8	14.0	29.0
	Number (million)	2.0	1.3	0.7	1.7	1.2	0.6
Unemployment Rate, for Highly-Educated Population	Rate (percent)	15.6	11.2	24.7	14.1	10.0	23.5
	Number (million)	1.1	0.5	0.6	1.0	0.5	0.5
Share of the Underemployment (percent)		10.4	11.5	4.9	10.8	11.9	4.6

Source: Statistical Center of Iran, Summary result of Labor Force Survey in the 1399Q4

## 2. Prices and Inflation

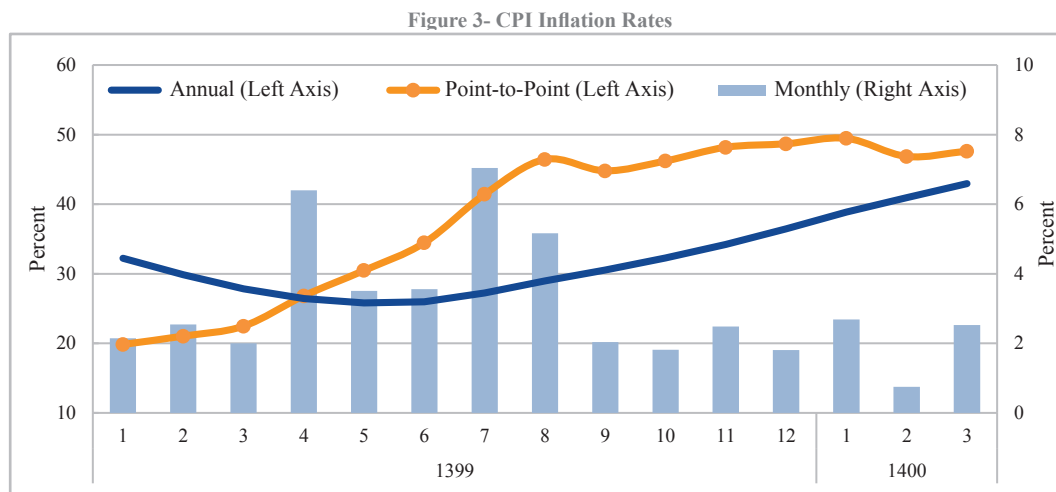
According to the latest SCI's report, the consumer price index (CPI) with the base year of 1395 stood at 316.2 in 03/1400, indicating 47.6 percent point-to-point and 2.5 percent monthly inflation rate. The annual inflation rate continued to rise to 43.0 percent, which has been unprecedented in recent years. The group with highest inflation in this period was food and beverages, which experienced a growth rate of 3.2 percent compared to preceding month.

Meanwhile, non-food goods and services group grew by 2.2

percent compared to the preceding month.

From 09/1399 to 03/1400, except 02/1400, the point-to-point inflation rate had ascending trend in line with annual inflation rate. However, The monthly inflation rate was volatile, fluctuating between 1.8 percent to 2.7 percent. Moreover, the considerable growth rate of M2 (liquidity) and M0 (monetary base), especially in the first two months of 1400 could lead to higher inflation rates in the coming months. Figure 3 illustrates the different types of CPI inflation rate for all Iranian households.





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

Reviewing the inflation report of the SCI at 03/1400 indicates that the price index of goods increased more significantly than services, as the annual inflation rate of them were 53.0 percent and 28.7 percent, respectively. It is worth noting that durable goods saw the highest annual inflation rate (88.3 percent) in this month, although its effect on changing the general level of prices was negligible, due to the small weight in the consumption basket (5.6 percent). Out of 12 major groups in the consumption basket of goods and services, four groups “Housing, Water, Electricity, Gas and other fuels”, “Food and Beverages”, “Transport” and “Health” had the highest weight in the basket respectively, accounting for 78.6 percent. In addition, the highest annual inflation rate (64.8 percent) related to “Transport” and the lowest (18.7 percent) belonged to “Communication”. The highest and lowest point-to-point inflation rates experienced in “Furnishings” (66.0 percent) and “Communication” (11.8 percent), respectively. Since the communication group mainly includes non-tradable services, a slight increase in prices was expected in this group. Meanwhile, the official increase in public transport prices in the early months of 1400 led to a significant increase in the price index of transport group. The highest monthly inflation rate in 03/1400 belonged to “clothing and footwear” (4.2 percent) which was 1.7 percentage

points higher than the monthly increase in overall index. This group had also experienced high inflation rates in the previous months. Furthermore, the monthly growth rate of food and beverages price index, which was recorded negative 0.9 percent in 02/1400, raised again and reached 2.3 percent to take second place after clothing and footwear group in 03/1400. Among the components of food and beverages group, the highest and lowest monthly inflation rates were related to “vegetables” (6.9 percent) and “red and poultry meats” (1.2 percent), respectively. The annual and point-to-point inflation rates in this group were also recorded 51.8 percent and 62.7 percent in 03/1400, respectively. On the other hand, on the basis of provinces, the highest and lowest monthly inflation rates belonged to Qazvin province (4.1 percent) and Hamadan province (1.2 percent), respectively. Moreover, the highest and lowest annual inflation rates in the period under review were related to Kurdistan province (48.6 percent) and Qom province (39.2 percent), respectively. The annual inflation rates of different cost deciles were different, fluctuating between 42.3 percent for fifth and sixth deciles and 49.1 percent for tenth decile in 03/1400. Table 5 exhibits CPI inflation rates in major groups of the consumption basket in 03/1400, with a descending order of weight in the basket.

**Table 5 -Inflation Rates of Major Groups in the Consumption Basket in 03/1400 (percent)**

	Weight in the Basket	Price Percentage Change		
		Monthly	Point-to-point	Annual
Housing, Water, Electricity, Gas and Other Fuels	35.5	1.4	28.5	27.1
Food and Beverages	26.6	3.2	62.7	51.8
Transport	9.4	2.9	50.4	64.8
Health	7.1	2.7	42.9	35.1
Clothing and Footwear	4.8	4.2	57.5	45.8
Others	4.2	3.0	50.5	44.5
Household Equipment	3.9	2.4	66.0	56.8
Communication	2.9	-0.7	11.8	18.7
Education	1.9	0.6	23.7	22.3
Recreation and Culture	1.7	2.2	55.2	50.3
Restaurants and Hotels	1.4	3.0	61.5	40.3
Tobacco	0.6	1.8	45.3	44.7
<b>Overall</b>	<b>100.0</b>	<b>2.5</b>	<b>47.6</b>	<b>43.0</b>

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

### 3. Balance of Payments

At the time of finalizing this report, the latest published data for balance of payments by the CBI pertain to the first nine months of 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 USD2.8 billion in the first nine months of 1399. However, the corresponding figure for the same period of preceding year was negative USD4.2 billion. Reviewing the details reveals that USD6.2 billion current account surplus in the first nine months of 1398 has turned into USD704 million deficit in the first nine months of 1399, while the net capital account deficit decreased by 59.6 percent and registered USD5.2 billion. Furthermore, errors and omissions increased by 22.8 percent and reached from USD2.5 billion in the first nine months of 1398 to USD3.0 billion in the first nine months of 1399.

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 85.7 percent to reach USD1.3 billion in the first nine months of 1399. The country's total goods trade (sum of export and import values) was 20.5 percent less than that of the first nine months of 1398, although the decline in exports was more significant than the decline in imports, and this was the major factor of decline in

the goods account. In the first nine months of 1399, the value of goods imports declined by 12.8 percent and registered USD23.9 billion, while the value of goods exports decreased by 26.7 percent to reach USD34.2 billion. In the period under review, the oil exports decreased by 37.8 percent to USD14.6 billion, which was less than USD19.6 billion non-oil exports. Also, the non-oil exports declined by 15.5 percent.

On the other hand, oil imports in the first nine months of 1399 were almost zero and non-oil imports reached USD32.9 billion. Therefore, the oil trade balance surplus declined considerably by 37.8 percent and reached USD14.6 billion, while the non-oil trade balance deficit fell by 8.4 percent and amounted to USD13.3 billion. The services account deficit decreased by 38.8 percent and registered USD2.1 billion. The income account had a deficit of USD379 million during this period, while it had recorded a surplus of USD174 million in the same period of 1398. Meanwhile, The current transfers account surplus rose slightly by 2.8 percent in the first nine months of 1399. 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 USD120.9 billion. Recently, the International Monetary Fund estimated Iran's foreign exchange reserves at about USD115 billion. Table 6 presents the components of balance of payments in the first nine months of 1399 and 1398.

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

	First Nine Months of 1399	First Nine Months of 1398	Percentage change
Current Account	6.156	-704	-111.4
Goods Account	8.922	1,275	-85.7
Exports (FOB)	46.686	34.211	-26.7
Oil	23.490	14.614	-37.8
Non-oil	23.197	19.597	-15.5
Imports (FOB)	37.765	32.937	-12.8
Gas and Oil Products	6	0	-100.0
Others	37.759	32.937	-12.8
Services Account	-3.415	-2.089	-38.8
Income Account	174	-379	-318.1
Current Transfers Account	476	489	2.8
Net Capital Account	-12.777	-5.159	-59.6
Errors and Omissions	2.467	3.029	22.8
<b>Overall Balance</b>	<b>-4.154</b>	<b>-2.834</b>	<b>-31.8</b>

Source: Central Bank of Iran, Economic Trends, No 102

The latest data on the foreign trade by the IRI Customs Administration covered the first 2 months of 1400 while finalizing this report. In this time span, the country's trade has increased mainly due to the lifting the coronavirus-related restrictions in many countries, and this has been more severe in the case of exports. In this period, 5.4 million tons of goods valued at USD6.5 billion was imported to the country and the country's exports have been 16.9 million tons valued at USD6.3 billion. Therefore, the imports have experienced 16.5 percent drop compared to the

same period of its preceding year in terms of weight, while it rose by 29.5 percent in terms of value. In addition, exports increased by 17.0 percent and 47.8 percent, in terms of weight and value, respectively. As a result of the developments of the foreign trade, the deficit of non-oil trade balance in the first 2 months of 1400 decreased significantly by 73.1 percent and reached USD205 million from USD763 million in the same period of 1399. The statistics of country's foreign trade in the first 2 months of 1399 and 1400 are shown in Table 7.

Table 7- Foreign Trade in first 2 months of 1399 and 1400

	First 2 Months of 1399		First 2 Months of 1400		Percentage Change	
	Weight (1000 tons)	Value (USD million)	Weight (1000 tons)	Value (USD million)	Weight	Value
Imports	6,424	5,038	5,362	6,525	-16.5	29.5
Exports	14,432	4,275	16,881	6,320	17.0	47.8
<b>Non-oil Trade Balance</b>	<b>8,008</b>	<b>-763</b>	<b>11,519</b>	<b>-205</b>	<b>43.8</b>	<b>-73.1</b>

Source: IRI Customs Administration, Preliminary report of foreign trade data in the first 2 months of 1400

Unfortunately, the IRI Customs Administration has omitted the major items of imports and exports in its preliminary reports. However, for the first 2 months of 1400, 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 21.6 percent of the country's total exports in the first 2 months of 1400 (USD1.365 billion) were a subset of Chapter 27, indicating 8.4 percentage point decrease compared to the whole of 1399.

In the first 2 months of 1400, China with USD2.1 billion of imports from Iran has been the first exports destination – as in previous years - accounting for 32.5 percent of Iran's total exports. This share was 25.9 percent in 1399, 23.0 percent in 1398 and 20.8 percent in 1397. Iraq, which in 1399, 1398 and 1397 had a 21.3 percent, 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 2 months of 1399, with imports of USD953 million and a share of 15.1 percent. In the period under study, UAE's non-oil imports from Iran totaled USD849 million. The share of exports to UAE in this period registered 13.4 percent in Iran's total exports, indicating no changes compared to the whole of 1399, while in the year 1398, UAE ranked as the 4th exports destination with share of 10.9 percent. Turkey accounts for 6.1 percent of Iran's total exports valued at USD388 million in the first 2 months of 1400. The turkey's share of Iran's total export was 7.3 percent in 1399 (4th place), while this country

was in the 3rd place in 1398 with a share of 12.2 percent of Iran's total exports. Afghanistan with USD365 million of imports from Iran, accounts for 5.8 percent of total exports of the country in the time span under study. Its share of Iran's total exports was 6.6 percent in 1399. All in all, the top 5 importers from Iran have accounted for 72.9 percent of total Iran's exports in the first 2 months of 1400, less than the 74.4 percent share in the whole of 1399.

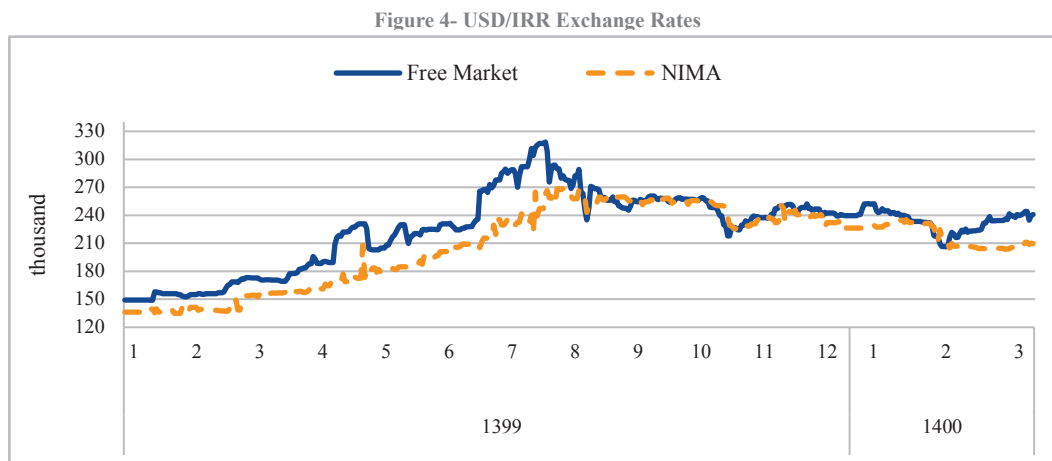
On the other hand, China has lost its position as the first exporter to Iran in the first 2 months of 1400, and UAE has replaced it with USD1.843 billion exports to Iran during this period. UAE's share in total Iran's imports rose from 25.1 percent in the whole of 1399 to 28.3 percent in the first 2 months of 1400. China has had 2nd place of exporting countries to Iran with USD1.488 billion and its share in total Iran's imports drop from 25.3 percent in 1399 to 22.8 percent in the first 2 months of 1400. Turkey ranked as the 3rd exporter to Iran (exports of USD642 million) in the period under review - as in 1399 - with share of 6.1 percent in total Iran's imports, which is 5.2 percentage point less than that of in 1399. Germany, which was the 5th largest source of imports of Iran in 1399, Has taken the 4th place in the first 2 months of 1400 with USD285 million of exports to Iran and share of 4.4 percent in total Iran's imports. Switzerland exported USD283 million goods to Iran in the first 2 months of 1400 and accounted for 4.3 percent of the Iran's total imports. So, in period under review, Switzerland is in 5th place instead of India in 1399. All in all, the top 5 exporters to Iran have accounted for 69.6 percent of total Iran's imports in the first 2 months of 1400, less than the 72.0 percent share in the whole of 1399.

Based on CBI reports, Iran's total foreign debt grew slightly by 1.2 percent to USD9.1 billion at the end of 1399. Out of this figure, about USD7.2 billion belongs to medium- and long-term debt that fell by 4.2 percent. However, in this period, short-term debts of the country boosted by 27.7 percent to USD2.0 billion.

## 4. Foreign Exchange Market

The downward trend of the USD/IRR exchange rate in the free market which had had been prevailing since the beginning of 1400, reversed course from second half of 02/1400. The USD/IRR exchange rate in the free market which registered 239.6 thousand at the beginning of 1400, reached the low of 206.4 thousand on 01/18/1400. After that, the USD/IRR exchange rate in the free market rose to high of 244.3 thousand on 03/27/1400. This rate was related to authorized foreign exchanges, and in unauthorized foreign exchanges, the USD/IRR exchange rate was higher than these figures. The average USD/IRR exchange rate in 1400Q1 was 4.2 percent less than that of in 1399Q4, however it was 44.0 percent more than that of in the same month of preceding year.

The remittance USD/IRR exchange rate in the secondary market (NIMA) which had narrowed its gap with the free market rate from 1399H2, Again moved away from the free market rate in 03/1400, so the free market rate was 18.4 percent higher than the secondary market rate on 03/19/1400. The USD/IRR exchange rate in free market was 7.5 percent higher than that in secondary market in 1400Q1 on average. However, the fixed 42 thousand USD/IRR official exchange rate led to a significant gap (456.7 percent) between this rate and the USD/IRR exchange rate in the free market in 1400Q1. Figure 4 shows the USD/IRR exchange rates in secondary and free markets during the year 1399 and 1400Q1.



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

In line with the increase in oil revenues and the shortage of some essential goods, the allocation of foreign currencies at the official rates has intensified in 1400. Despite the ban on the allocation of more than USD8 billion foreign currencies at the official rates by the CBI during the whole of 1400 under the budget law of this year, the Supreme National Security Council authorized the CBI to allocate USD8 billion in this regard in the first half of 1400. Accordingly, from the beginning of the year to mid-04/1400, more than USD5.5 billion foreign currencies has been allocated at the official rates for the imports of essential goods. Corn imports had the largest share of that (USD1.218 billion), followed by crude vegetable oils (USD1.097 billion), medicine and medical equipment (USD 926 million, out of which USD200 million for imports of COVID-19 vaccine), oilseeds (USD883 million), barley (USD580 million), soybean meal (USD483 million) and wheat (USD225 million). In other words, instead of eliminating the policy of price control as the main cause of shortages of essential goods, the distribution of economic rents through the allocation of foreign currencies at the official rates has increased. It is noteworthy that only USD4.5 billion of that financed from oil revenues or credit.

In addition to allocating foreign currencies at the official rates,

there is also a government intervention approach in the secondary market (NIMA), although CBI officials do not acknowledge this and believe in establishing a supply and demand mechanism in this market. For example, according to the deputy head of the CBI's Export Department, exporters can use their foreign currencies through imports in exchange for their exports, or sell them by transferring export licenses outside the NIMA at agreed rates, if they do not wish to sell the foreign currencies at NIMA rates. However, forcing exporters to return foreign currencies (export proceeds) to the country is a government intervention. In addition, according to the policy package for return of export revenues in 1397-1400, exporters of petrochemical, steel and oil products (these products have a significant share in Iran's non-oil exports) are required to supply their foreign currencies (export revenues) in NIMA.

Thus, the recurrence of the gap between the free market and the NIMA rates cannot be considered as a result of the market mechanism. Naturally, this gap in the market mechanism will be minimized, due to arbitrage. Continuation of the current intervention approach will exacerbate the problem of non-return of export revenues to the country and intensify the foreign exchange crisis.

## 5. Monetary and Credit Aggregates

Monetary policy refers to a set of policies, which are implemented by central banks, using the tools related to the money and credit markets to achieve specific macroeconomic goals. Foreign exchange and credit policies are also a subset of monetary policy. In Iran, not all of the monetary policy instruments are entirely under the control of the CBI. These policies affect variables such as growth rate of liquidity or the monetary base, so meticulous monitoring of them is very important. The CBI, notwithstanding, do not publicly release the details of these statistics soon enough and on a regular basis, while almost all reputable central banks around the world release the monetary data in weekly basis and with a few days delay. Unfortunately, these statistics release with several months of delay in Iran. At the time of preparing this report, official statistics on the balance sheet of the CBI for early months of 1400 have not been published and the only reference that can be used is the summary report which was disclosed by the CBI and called “macroeconomic developments analysis and CBI’s proceedings report, 02/1400”.

According to this report, during the first two months of 1400, the monetary base and liquidity increased by 7.4 percent and 3.6 percent, respectively. Moreover, the annual growth rate of monetary base and liquidity showed 30.6 percent and 38.8 percent at the end of 02/1400, respectively. So high-powered money (M0) and liquidity (M2) stood at IRR4,895.1 trillion and IRR36,016.2 trillion at the end of 02/1400, respectively. The M2 money multiplier, therefore, reached 7.4 at the end of 02/1400, which shows a negative growth rate of 3.5 percent compared to 12/1399, while its annual growth rate was 6.3 percent. Furthermore, among the components of liquidity, the money and quasi-money in the twelve months leading up to 02/1400 grew by 47.2 percent and 36.9 percent, respectively. Due to the government’s failure to sell debt securities in the first two months of 1400 and the government’s withdrawal about IRR400.0 trillion from the CBI’s revolving fund in order to finance current expenditures, the growth rate of monetary base was more than the growth rate of liquidity in this period. Table 8 indicates the developments of M2 and M0.

Table 8- Monetary Base and Liquidity (IRR trillions - percent)

	End of the period				Percentage Change of 02/1399 compared to 12/1398	Percentage Change of 02/1400 compared to	
	12/1398	02/1399	12/1399	02/1400		02/1399	12/1399
<b>Liquidity</b>	<b>24,721.5</b>	<b>25,948.3</b>	<b>34,761.7</b>	<b>36,016.2</b>	<b>5.0</b>	<b>38.8</b>	<b>3.6</b>
Money	4,273.0	4,718.1	6,909.6	6,945.0	10.4	47.2	0.5
Quasi-Money	20,448.5	21,230.1	27,852.1	29,071.2	3.8	36.9	4.4
<b>Monetary base</b>	<b>3,528.5</b>	<b>3,748.2</b>	<b>4,559.5</b>	<b>4,895.1</b>	<b>6.2</b>	<b>30.6</b>	<b>7.4</b>
<b>M2 Money Multiplier</b>	<b>7.0</b>	<b>6.9</b>	<b>7.6</b>	<b>7.4</b>	<b>-1.2</b>	<b>6.3</b>	<b>-3.5</b>

Source: Central Bank of Iran, Macroeconomic Developments Analysis and CBI’s Proceedings Report, 02/1400

The banking system’s extended facilities totaled IRR4,976.9 trillion in the first Quarter of 1400. The largest share of these facilities belonged to the two sectors of “services” and “industry and mining” with 41.9 percent and 31.7 percent, respectively, followed by the “commerce” sector, with 16.0 percent. Regarding the purposes, the majority of facilities was extended in the form of working capital (IRR3,466.4 trillion), made up 69.6 percent of the total. The services and the industry and mining sectors had the largest share of working capital facilities with IRR1,477.7 trillion and IRR1,269.7 trillion,

respectively. Following that, creation, development and purchasing private goods were three main purposes of extended facilities with a cumulative share of 24.5 percent of the total extended facilities. The main destination of extended facilities in the form of development and in the form of creation belonged to services sector (IRR 221.4 trillion and IRR 209.5 trillion, respectively), and also in the form of purchasing private goods belonged to commerce sector (IRR 268.5 trillion). Extended facilities in 1400Q1 by different economics sectors and their purposes are depicted in Table 9.

Table 9- Banks' Extended Facilities in 1400Q1 by Sectors and Purpose (percent of total)

	Agriculture	Industry and Mining	Housing and Construction	Commerce	Services	Other	Total in 1400Q1	Total in 1399Q1	Percentage change of 1400Q1 to 1399Q1
<b>Total (IRR trillion)</b>	<b>285.1</b>	<b>1,576.2</b>	<b>230.2</b>	<b>798.6</b>	<b>2,085.1</b>	<b>1.7</b>	<b>4,976.9</b>	<b>2,247.8</b>	<b>121.4</b>
Creation	16.8	12.3	22.0	4.7	10.0	2.8	10.8	11.2	114.3
Working Capital	72.4	80.6	34.6	54.0	70.9	90.3	69.6	62.6	146.4
Repair	0.5	1.0	17.4	0.1	0.7	0.8	1.5	2.5	31.6
Development	6.9	5.4	6.5	7.2	10.6	5.9	8.0	8.4	11.9
Purchase of Private Goods	0.7	0.4	0.0	33.6	0.4	0.0	5.7	9.6	31.9
Purchase of House	0.1	0.3	18.9	0.3	0.6	0.1	1.2	2.2	26.2
Others	2.6	0.0	0.6	0.1	6.8	0.1	3.0	3.6	89.6
Share of each sector of the total facilities	5.7	31.7	4.6	16.0	41.9	0.0	100.0	100.0	-

Source: Central Bank of Iran, Banking Source: Central Bank of Iran, Extended Facilities by Sectors and Purposes during the First Quarter of 1400

## 6. Government Fiscal Performance

At the time of preparing this report, the performance statistics of government budgets for early months of 1400 (1400Q1) have not been published and the only reference is the statements of officials in the local media. Tax revenues (excluding import tax) have been approved IRR2,706.3 trillion in the 1400 budget law, consisting of 45.4 percent indirect tax (tax on goods and services) and 54.6 percent direct tax (tax in legal entities, income tax and wealth tax). Accordingly, tax revenues of 1400Q1 (excluding import tax) have been estimated about IRR676.6 trillion in the 1400 budget law. According to the statements of the tax deputy head of Iranian National Tax Administration, government tax revenues (excluding revenues from import taxes) reached IRR590.0 trillion in 1400Q1, indicating 87.2 performance compared to the approved figure. Moreover, 89.4 percent of approved direct tax and 84.6 percent of approved indirect tax (tax on goods and services) realized in 1400Q1. On the other hand, based on the SCI's quarterly report for the 1399Q1, government tax revenues (excluding revenues from import taxes) stood at IRR512.0 trillion in 1399Q1 and

so tax revenues in 1400Q1 grew by 15.2 percent compared to 1399Q1. In contrast, the tax deputy head of Iranian National Tax Administration acknowledged that the growth rate of tax revenues (excluding revenues from import taxes) in the first quarter of 1400 was 70.0 percent higher than 1399Q1, considering this rate, tax revenues (excluding revenues from import taxes) should be about IRR350 trillion in 1399Q1. It seems more logical and reliable in the aftermath of the COVID-19 outbreak.

Moreover, approved figure for tax revenues (excluding revenues from import taxes) in 1399Q1 was IRR449.4 trillion. Therefore, based on SCI's quarterly report, performance of tax revenues (excluding revenues from import taxes) reached 114.0 percent in 1399Q1, which is not compatible with the special circumstances arising from the pandemic of coronavirus. Table 10 compares the details of government tax revenues in 1400Q1 with the approved figures for the same period as well as the performance of 1399Q1 (based on the SCI's quarterly report for 1399Q1).

Table 10- Government Tax Revenues (IRR trillion)

	1399Q1	1400Q1 approved	1400Q1	Performance (percent of approved)	1400Q1 to 1399Q1
<b>Total Tax Revenues (Excluding Import Tax)</b>	<b>512.4</b>	<b>676.6</b>	<b>590.0</b>	<b>87.2</b>	<b>15.2</b>
Direct Tax	317.8	369.2	330.0	89.4	3.8
Tax on goods and services	194.5	307.4	260.0	84.6	33.7

Source: SCI, Iran Economy (A Quarterly Report); 1400 Budget Law; ISNA, "Tax revenues at the border of IRR600.0 trillion"

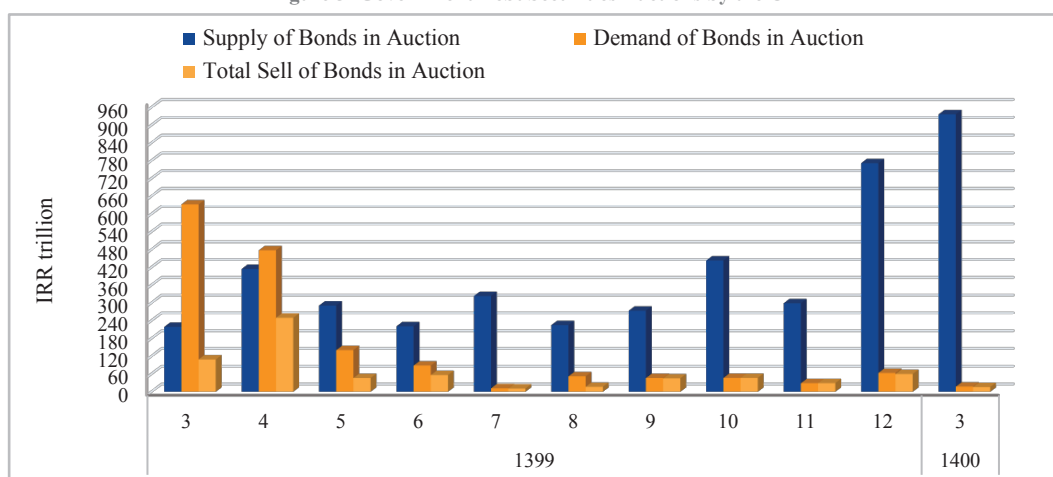
The US unilateral withdrawal from nuclear deal (JCPOA) at the beginning of 1397 led to re-imposition of sanctions on Iran from 08/1397 and caused inevitable decline in oil revenues of government for upcoming years. Due to increase in the government budget deficit from 1398 to 1400, the government debt securities were issued more than the approved figures in Sixth Development plan. Based on the permission of the Supreme Economic Coordination Council, the issuance of the government debt securities reached IRR2,024.7 trillion in 1399, 29.5 percent higher than approved figure in the 1399 budget law. In the budget law of 1400, the issuance of government debt securities increased by 50.5 percent compared to the budget law of 1399 and stood at IRR1,325.0 trillion.

The CBI, in cooperation with Ministry of Economics Affairs and Finance, held weekly auctions of government bonds in the interbank market (money market) and the capital market in 03/1400 in four rounds. So, the CBI supplied about IRR936.0

trillion government securities until the end of 03/1400, while encountered with slight demand of IRR17.4 trillion from the banks and non-bank institutions. Ultimately though, the Ministry of Economics Affairs and Finance, as the decision-maker, agreed to sell IRR16.0 trillion. Furthermore, IRR9.9 trillion of government debt securities were purchased in the process of initial public offering in the capital market during the period under review.

Accordingly, the total government debt securities sold in the both markets (money and capital markets) registered IRR25.9 trillion in 1400Q1. In comparison, government debt bonds demand was IRR632.3 trillion in 1399Q1, out of which IRR109.0 trillion fulfilled. It is noteworthy that the average yield to maturity rate of government debt securities registered 20.8 percent in the auctions of 03/1400. Figure 5 illustrates the details on the auctions of government debt securities by the CBI from 03/1399 to 03/1400.

Figure 5- Government Debt Securities Auctions by the CBI



Source: Central Bank of Iran, weekly reports of government debt securities auctions

Additionally, based on the Iran Fara Bourse Co. (OTC market), the government issued IRR645 trillion Islamic treasury bonds in the first two months of 1400, however, those were still in

the process of allocation to contractors and did not trade in the secondary market yet. Table 11 reveals the information of issued Islamic treasury bonds in 1400Q1.

Table 11- Issued Islamic treasury bonds in 1400Q1 (IRR trillion)

	Value	Issue Date
TB917	100.0	01/14/1400
TB918	45.0	01/14/1400
TB001	100.0	02/22/1400
TB002	100.0	02/22/1400
TB004	50.0	02/22/1400
TB005	100.0	02/22/1400
TB006	150.0	02/22/1400
<b>Total</b>	<b>645.0</b>	-

Source: the Iran Fara Bourse Co. (OTC), issuance reports

According to the IPO (Iranian Privatization Organization), the total privatization revenues amounted to merely IRR2.1 trillion in 1400Q1, indicating 1 percent performance compared to the approved figure for the same time (IRR959.0 trillion). Unfortunately, statistics on current and development expenditures are not available in 1400Q1.

However, Due to the government's failure to sell debt securities in CBI's auctions and to realize the disposal of state-owned companies in this period, the performance of the budget uses was more than the budget sources, so that the government has borrowed about IRR400 trillion from the CBI's revolving fund in the first two months of 1400.

## 7. Capital Market

At the beginning of 1399, many ordinary people started to invest largely in the stock market due to continually rising prices following the increase in foreign exchange rates, ignoring the risks involved. So, Iran's capital market grew unprecedentedly and unexpectedly. The overall index of Tehran Stock Exchange (TSE) that was 508.7 thousand at the beginning of 1399, increased by 150 percent during 1399Q1 and reached 1,270.6 thousand at the end of 03/1399.

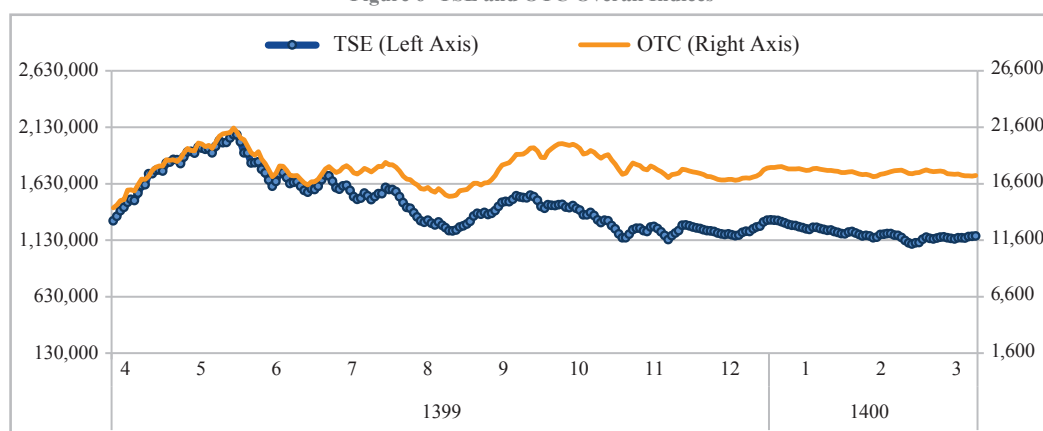
The index touched a high of 2,011.5 thousand on 05/12/1399, followed by a dramatic fall and registered 1,169.7 thousand in the mid-12/1399. However, it reversed course later and reached 1,307.7 thousand on the last working day of the year.

The fall of overall index resumed again from the beginning of 1400, due to sanctions-related uncertainty as well as the low liquidity of stock market (due to the imposition of an asymmetric daily price allowable fluctuation range between negative 2 percent to positive 6 percent). So, the overall index fell by 6.8 percent at the end of 01/1400 compared to the first working day of the year and reached 1,219.7 thousand. In the following, despite enforcing the price volatility range as before (negative 5 percent to positive 5 percent), the overall index drop by 15.3 percent during the first 70 days of 1400. To support

the stock market, some decisions were made and announced by Supreme Economic Coordination Council in 02/1400: the allocation of one percent of the resources of NDF to the Capital Market Stabilization Fund, lifting the ban on extending banking facilities to investment companies and investment holdings and brokerages, giving five years of official residency in Iran to foreigners with an investment of at least USD250 thousand in stock market, allocation of 80.0 percent of the resources of Stock Transfer Tax to the Capital Market Stabilization Fund and also granting tax exemption for accumulated profits of listed companies, if used for capital raising. Finally, the low level of stock prices of many companies alongside stability of foreign exchange rates in higher levels led to a rise in the overall index. So, it grew by 5.3 percent at the end of 03/1400 compared to the first week of the month and stood at 1,168.6 thousand.

In 1400Q1, the Over the Counter (OTC) market had similar trend and its overall index fell by 3.9 percent at the end of 1400Q1 compared to the beginning of the year, moved from about 18.0 thousand to 17.3 thousand. Figure 5 depicts the daily developments of TSE and OTC indices during the period under review.

Figure 6- TSE and OTC Overall Indices



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



According to the TSE's monthly reports, the number of equities traded in the first quarter of 1400 fell by 37.5 percent compared to the same quarter in 1399, registered 305.3 billion. Considering dramatic decrease in prices, the value of transactions experienced much higher fall rate and dropped by 63.1 percent and reached IRR1,862.9 trillion. The TSE's market capitalization stood at IRR46,659.7 trillion at the end of 1400Q1. The equally-weighted

index drop by 15.8 percent during 1400Q1 and 9.5 percent during a year ended in 03/1400, which was higher than that for the overall index in annual terms. Therefore, the equities of small-sized companies experienced a higher decrease in prices compared to the large firms on average, although in the last quarter (1400Q1) the rate of price reductions of them had converged. Table 12 gives more details on these statistics for the TSE.

Table 12- 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)
1400Q1	305.3	1,862.9	2,636.7	1,165.7	370.0	1,622.7	1,027.6	46,659.7
1399Q1	488.8	5,049.3	5,232.3	1,270.6	409.2	1,855.2	1,109.5	47,597.7
Percentage Change	-37.5	-63.1	-49.6	-8.3	-9.6	-12.5	-7.4	-2.0

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

Listed Companies on TSE financed IRR272.9 trillion in 1400Q1, out of which about 86.2 percent was through raising capital (receivables and cash inflows, or savings and accumulated profits) and 9.5 percent through issuing debt bonds and subordinate sale

option securities. Also, three companies listed their equities on the stock market for the first time, leading to total financing IRR11.8 trillion. Table 13 summarizes this information compared to 1399Q1.

Table 13- Financing methods of companies listed on the TSE

	1399Q1		1400Q1		Percentage Change in Value
	Value (IRR trillion)	Share (percent)	Value (IRR trillion)	Share (percent)	
<b>Total</b>	<b>99.7</b>	<b>100.0</b>	<b>272.9</b>	<b>100.0</b>	<b>173.6</b>
Initial Public Offering	57.6	57.8	11.8	4.3	-79.5
Raising Capital (except for asset revaluation)	42.1	42.2	235.2	86.2	458.7
Issuing Debt Bonds	0.0	0.0	10.0	3.7	-
Issuing Subordinate Sale Option Bonds	0.0	0.0	15.9	5.8	-

Source: Tehran Stock Exchange, Monthly Market Analysis, 03/1400

## 8. Other Economic Developments

The thirteenth presidential election of Islamic Republic of Iran was held on 03/28/1400, the result was the election of Seyyed Ebrahim Raisi as the next president of Iran. Based on economic plan of the president-elect, the inflation rate will reach half of the inflation rate of 1399 by 1402, after which it will be in single digits. However, this plan does not specify any mechanism to achieve this goal. Meanwhile, there are several decisions in this plan that result in increasing pressure on inflation rate, such as: granting a monthly credit of IRR2 million for the three lower income deciles and IRR1.5 million for the next two deciles at an annual interest rate of 2 percent and subsidizing households that are unable to repay, granting health cards to all Iranians to pay for services from hospitals, laboratories and pharmacies through insurance and interest-free facilities, halving out-of-pocket health care payments, Strengthening the resources of the Capital Market Stabilization Fund and settling government debts to banks, without mentioning how these programs are financed. In addition, it has been promised that corporate taxes for goods-producing sector will be reduced to 10 percent. The president-elect also believes that the connection between

essential goods and imports should be cut so that foreign exchange rates fluctuations do not affect people's livelihoods. Apart from the impossibility of implementing this plan due to limited resources (for example, limited water resources for the production of all agricultural products) and increased production costs following the waiver of trade benefits, for this purpose, the export of basic goods also must be cut. The market for tradable goods is influenced by the global market and the foreign exchange rate.

With rising foreign exchange rates, even if the import of essential goods is cut off, the export of domestically produced essential goods will increase so that their domestic prices will be in line with world prices at the new foreign exchange rates. Export bans and price controls will only result in cessation of production, shortages of essential goods in the market, and government coercion to import these items. This process has also been experienced in the case of various goods under the previous president. Accepting market rules and not interfering with the government in different markets could lead to a much better outcome for the new president.

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