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Recent Economic Developments in Iran

A Quarterly Report



No. 24 | October 2021

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Recent Economic Developments in Iran, A Quarterly Report

No. 24, October 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.

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**

1400Q2 = 06/22/2021 - 09/22/2021, roughly **2021Q3**

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Iran's Economy at a Glance

	1399Q1	1399Q2	1399Q3	1399Q4	1399	1400Q1	1400Q2
Labor Force Participation & Unemployment Rates (percent)							
Participation (10 Years and Over)	41.0	41.8	41.4	40.9	41.3	41.4	41.1
Unemployment (10 Years and Over)	9.8	9.5	9.4	9.7	9.6	8.8	9.6
Unemployment (Youth Aged 15-24)	24.5	23.1	23.7	23.6	23.7	22.1	25.7
Real Growth Rates of GDP and Its Subsectors at Constant 1395 Prices (percent)							
Gross Domestic Product (GDP)	-0.3	3.5	3.0	5.4	2.9	6.2	-
Manufacturing and Mining	7.0	6.0	7.3	10.0	7.6	2.1	-
Oil	-10.7	12.6	8.6	27.2	8.7	23.3	-
Agriculture	4.6	3.9	4.9	4.1	4.3	-0.9	-
Services	-2.5	1.0	-0.1	0.8	-0.2	7.0	-
GDP (Excluding Oil)	0.7	2.9	2.4	3.4	2.4	4.7	-
Gross Fixed Capital Formation (at market prices)	17.3	-5.5	1.7	10.5	5.0	-3.5	-
Oil (daily average - thousand barrels)							
Production*	1,966	1,942	1,986	2,198	2,023	2,440	-
Point-to-Point Inflation Rates (percent)							
Growth Rate of Consumer Price Index (1395=100)	21.1	30.6	44.2	47.7	36.4	47.6	43.7
Growth Rate of Producer Price Index (1395=100)	18.0	39.7	58.8	67.5	46.7	42.0	-
Balance of Payments (USD millions)							
Oil Exports	3,865	4,693	6,056	6,429	21,043	-	-
Non-Oil Exports	5,073	6,499	8,025	9,208	28,805	-	-
Imports of Goods	9,150	11,824	11,963	13,676	46,612	-	-
Goods Account (Net)	-212	-632	2,119	1,961	3,236	-	-
Non-Oil Goods Account (Net)	-4,077	-5,325	-3,938	-4,468	-17,806	-	-
Current Account	-622	-1,206	1,124	-3	-708	-	-
Capital Account	-2,903	-990	-1,267	-1,159	-6,318	-	-
Change in Foreign Reserves	-1,006	-878	-950	193	-2,641	-	-
Foreign Exchange Rates (USD/IRR daily average)							
Free Market	162,376	220,861	272,950	244,027	225,054	233,820	260,867
Official	42,000	42,000	42,000	42,000	42,000	42,000	42,000
NIMA (Remittance)	144,430	187,365	251,914	241,106	206,204	217,582	225,797
Monetary and Credit Aggregates (end of period - IRR trillions)							
Monetary Base (M0)	3,833.5	3,720.6	4,075.4	4,559.5	4,559.5	5,009.0	-
CBI Claims on Banks	1,132.9	1,291.9	1,268.4	1,203.0	1,203.0	1,134.4	-
CBI Claims on Public Sector (Net)	394.3	172.7	123.0	-219.4	-219.4	408.2	-
CBI Net Foreign Assets	3,669.1	3,631.8	3,838.3	4,427.2	4,427.2	4,790.9	-
Liquidity (M2)	26,571.7	28,958.9	31,300.2	34,761.7	34,761.7	37,054.0	-
Money (M1)	5,020.5	6,007.0	6,170.3	6,906.6	6,906.6	7,261.9	-
Sight Deposits	4,442.5	5,407.4	5,528.1	6,174.6	6,174.6	6,546.9	-
Non-Sight Deposits (Quasi-Money)	21,551.2	22,951.9	25,129.9	27,852.1	27,852.1	29,792.1	-
Government Budget and Fiscal Position (IRR trillions)							
The data in this section is not available							
Tehran Stock Exchange (end of period)							
Overall Index (TEDPIX)	1,270,627	1,595,160	1,439,124	1,307,657	1,307,657	1,168,592	1,386,451
Financial Index	1,855,151	2,087,957	2,001,939	1,782,068	1,782,068	1,622,677	1,558,751
Industrial Index	1,109,532	1,415,024	1,264,532	1,154,258	1,154,258	1,027,589	1,269,899
Market Capitalization (IRR trillions)	47,597	60,035	57,059	51,601	51,601	46,660	53,427

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

* According to OPEC reports from secondary sources

1. Real Sector

The newest statistics published by CBI regarding the national accounts of 1400 indicate an expansion in Iran's Economy during the spring. In 1400Q1, the growth rate of all main groups of economic activity, except for agriculture sector, has been positive. Similarly, in the report of the SCI, positive economic growth rate has been recorded in the first quarter of 1400. It should be noted that the SCI's report is calculated at market prices and the CBI's report is presented at basic prices. There are also differences in the classification of main economic activities between the two reports. Moreover, the base year is 1395 in the CBI's report and 1390 in the SCI's report.

According to the CBI, the economy's total value-added during the first quarter of 1400 amounted to IRR12,576 trillion at current prices, indicating a 6.2 percent expansion in GDP at constant prices. Much of this growth has occurred in the services and oil sectors in 1400Q1 by 3.9 percentage point and 1.9 percentage point share of GDP growth rate, respectively. The 7.0 percent growth rate of the services sector in 1400Q1 indicates the recovery of this sector in the aftermath of the outbreak of coronavirus. The positive growth rate of the oil sector has also been due to the recent US presidential election (easing of sanctions) and the expansion of global vaccination against the coronavirus (increasing global demand for crude oil). This sector had shrunk by 10.7 percent in 1399Q1. Moreover, the non-oil growth rate in 1400Q1 was 4.7 percent. Meanwhile, according to the SCI's report, the GDP at the current market prices amounted to IRR17,088 trillion in 1400Q1, indicating a 7.6 percent expansion at constant prices. In this report, the non-oil growth rate in 1400Q1 was 4.6 percent.

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, registering 23.3 percent in 1400Q1. The SCI's report shows a similar trend for oil and natural gas extraction in the mining sector (27.5 percent expansion in 1400Q1).

Based on CBI's report, the manufacturing and mining sector also grew by 2.1 percent in 1400Q1. In this sector, the "electricity, gas, steam and air conditioning" sub-sector has the highest growth rate (6.3 percent) in 1400Q1 and the construction sub-

sector has the lowest growth rate (negative 12.3 percent) in 1400Q1. 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 in 1400Q1 (12.2 percent). The economic growth rate of the manufacturing sub-sector was recorded 5.5 percent in 1400Q1, which is 0.6 percentage point less than that of in the CBI's report.

Based on CBI's report, the services sector grew by 7.0 percent in 1400Q1. Among the services sub-sectors, "professional, scientific and technical activities" had the highest growth rate (57.9 percent) and "financial and insurance activities" shrunk by 16.8 percent. However, financial and insurance activities sub-sector had recorded a growth rate of 8.7 percent in 1399. In addition, the growth rates of the "accommodation and food service activities", "human health and social work activities", "information and communication technology" and "transportation and storage" sub-sectors have been significant in 1400Q1 (28.8 percent, 27.3 percent, 16.4 percent and 14.9 percent, respectively).

This indicates that the services sector is recovering from the negative consequences of the coronavirus outbreak. According to SCI's report, the services sector has grown by 4.5 percent in 1400Q1, due to the positive growth rates of all its sub-sectors, except "financial intermediation activities". The financial intermediation activities sub-sector shrunk by 4.3 percent in 1400Q1, while the "other services activities" has the highest growth rate (24.1 percent). Among the services sub-sectors, both reports acknowledge that the financial intermediation activities sub-sector has shrunk in 1400Q1, however the corresponding figures are different.

On the other hand, based on CBI, the contraction of the agriculture sector was 0.9 percent in 1400Q1, while it was 4.5 percent in SCI's report. According to the CBI, drought and 13.6 percent decrease in farming production has been the main cause of contraction in this sector. The main economic sectors' growth rates in the quarters of 1399 and 1400Q1 are shown in table 1, Based on CBI's report.

Table 1- The Growth Rates of GDP and Its Subgroups at 1395 Constant Prices (percent)

	1399					1400	Share in Growth in 1400Q1
	Q1	Q2	Q3	Q4	Year	Q1	
Agriculture	4.6	3.9	4.9	4.1	4.3	-0.9	-0.1
Oil	-10.7	12.6	8.6	27.2	8.7	23.3	1.9
Manufacturing and Mining	7.0	6.0	7.3	10.0	7.6	2.1	0.5
Services	-2.5	1.0	-0.1	0.8	-0.2	7.0	3.9
Non-oil Gross Domestic Product	0.7	2.9	2.4	3.4	2.4	4.7	-
Gross Domestic Product	-0.3	3.5	3.0	5.4	2.9	6.2	6.2

Source: Central Bank of Iran, National Accounts Reports

Based on CBI preliminary data, the fall in private consumption, which had led to a continuous decline in household welfare, stopped from 1399Q4, so that the growth rate of private consumption was 3.0 percent in that period, however it registered negative 0.5 percent in the whole of 1399. According to the CBI, the private consumption grew by 2.2 percent in 1400Q1 at constant prices, while it was 8.3 percent in SCI's report.

In contrast and based on the CBI, the government consumption did not grow in 1400Q1, while according to the SCI, this variable grew by 4.6 percent during the same time.

Based on CBI, gross fixed capital formation growth rate that was positive in second half of 1399, reversed course to negative 3.5 percent in 1400Q1. Gross fixed capital formation in machinery at constant prices grew by 15.8 percent in 1400Q1 (due to the

increase in both imports and production of capital goods), while it decreased by 10.3 percent in the form of construction (due to reduced private sector investment). In the SCI's report, the growth rate of gross fixed capital formation in machinery was 8.4 percent in 1400Q1, while it was 13.0 percent in the form of construction (Contrary to the CBI's report).

Regarding the foreign trade, simultaneous increase in exports and imports of goods and services in 1400Q1 (35.6 percent and 30.5 percent, respectively) recorded in CBI's reports. However, corresponding growth rates were positive 4.2 percent and negative 78.8 percent in the SCI's report. The growth rates of gross domestic expenditures and its components are demonstrated in Table 2, based on CBI.

Table 2- The Growth Rates of GDP and Its Components on the Expenditures Side at 1395 Constant Prices (percent)

	1399				Year	1400
	Q1	Q2	Q3	Q4		Q1
Private Consumption	-3.9	-0.4	-0.5	3.0	-0.5	2.2
Public Consumption	9.3	6.3	-4.5	-11.4	-1.1	0.0
Gross Fixed Capital Formation	17.3	-5.5	1.7	10.5	5.0	-3.5
Machinery	-8.9	6.2	5.3	6.0	3.1	15.8
Construction	30.7	-9.9	0.9	17.5	6.8	-10.3
Net Export of Goods and Services						
Export	-34.3	-20.1	-5.8	24.3	-10.4	35.6
Import	-43.9	-30.8	-22.7	-16.9	-28.7	30.5
Gross Domestic Product (at market prices)	-1.6	2.7	1.3	4.6	1.8	7.4

Source: Central Bank of Iran, National Accounts Reports

Investment

According to the Ministry of Industry, Mine and Trade, during the first five months of 1400, the number of establishment permits of manufacturing units totaled 14,850, and about IRR5,022.8 trillion investment is forecasted to be needed for them, recording 0.2 percent and 184.4 percent climb compared to the same period in the preceding year, respectively. The operation permits, including

creation and development plans operation permits, reached 2,657 in number, 3.6 percent higher than that in the first five months of 1399. Their corresponding investment grew by 173.0 percent, registering IRR1,079.2 trillion. 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 5 Months of 1399	First 5 Months of 1400	Percentage Change
Projection for Establishment Permits	1,766.0	5,022.8	184.4
Operation Permits	395.3	1,079.2	173.0

Source: Ministry of Industry, Mine and Trade, the preliminary report of the performance of the first five months 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 5.8 percent of Iran's GDP in 1400Q1, which is 0.7 percentage point higher than that of in 1399Q1, while it was

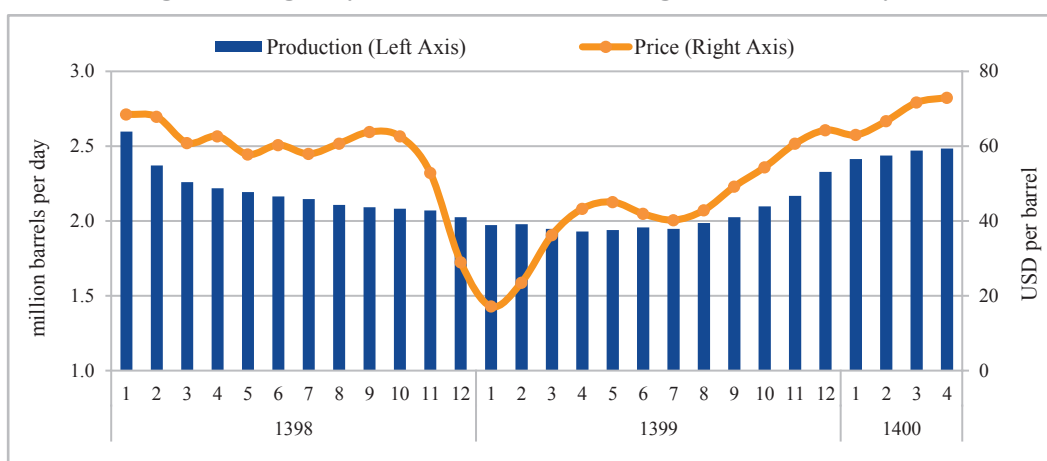
about 13.5 percent, 13.0 percent and 7.4 percent in 1396 to 1398, respectively. In other words, share of the oil sector in GDP has had an upward trend since the second half of 1399, although it is still significantly lower than its historical trend. Due to the severe sanctions, the release of oil sector 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 July 2021 (approximately 04/1400), showing a 28.8 percent and 12.0 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 600 thousand barrels per day during June

2021 (approximately 03/1400).

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 USD73.0 during July 2021 (approximately 04/1400). 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.

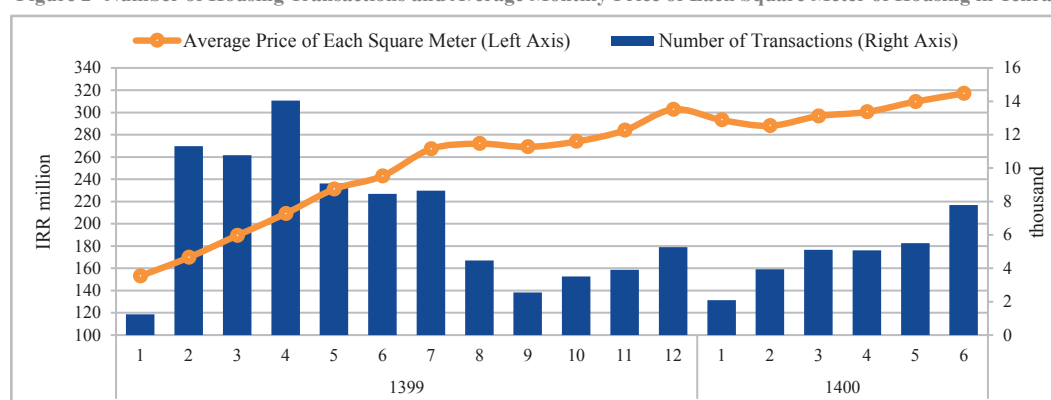
Housing

The housing market experienced an almost uninterrupted increase in prices in 1399. The average price of a square meter of residential units in Tehran registered IRR303 million in 12/1399, indicating a significant growth rate of 93.7 percent during a year and 6.6 percent during a month. The annual growth rates of housing prices were more than the annual inflation rates during 1399, indicating the real growth of housing prices and the decrease in purchasing power of consumers of this durable good.

However, housing price growth rate slowed in 1400Q1, so that the average price of a square meter of traded residential units in Tehran registered IRR298 million in 03/1400, indicating 56.6 percent growth rate compared to the same month of preceding year. In 1400Q2, housing prices began to rise again. So, the average price of a square meter of traded residential units in Tehran increased by 4.7 percent and 30.5 percent in 06/1400 compared to 12/1399 and 06/1399,

respectively, registering IRR317 million. The annual growth rate of housing prices was 13.2 percentage point less than point-to-point inflation rate in 06/1400. In the period under review, nearly 7,789 transactions were registered in the Tehran housing market, which was 8.0 percent lower than that of in the same period of preceding year and 41.6 percent higher than that of in 05/1400. This monthly growth rate of transactions has been unprecedented in recent months. More than half of these transactions (56.3 percent) were recorded for small units with an area of less than 80 square meters (more than that of in recent months). For 61.1 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 Market

Based on the SCI's report, the unemployment rate of the population aged 15 and above in 1400Q2 increased by 0.1 percentage point and 0.8 percentage point compared to 1399Q2 and 1400Q1, respectively, registering 9.6 percent. Meanwhile, the share of underemployment (less than 44 hours per week employment) increased by 0.2 percentage point (compared to 1399Q2) to 9.5 percent. Also, other indices of the labor market - such as participation rate and share of employment - are not in the desired range and even worsened compared to the same period of preceding year.

In 1400Q2, the unemployment rate was 8.1 percent for men and 17.7 percent for women. Thus, the male and female unemployment rates increased by 0.6 percentage point and 1.9 percentage point compared to 1399Q2, respectively. A noteworthy point is the decrease of 152 thousand active women compared to 1399Q2, despite the increase of 369 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 340 thousand during this period. The number of unemployed in this quarter amounted to 2.5 million, 1.8 million of which were youth aged 18-35, and more than 1.0 million hold a tertiary degree. These figures represent the unemployment rate of 17.6 percent for youth (0.7 percentage point more than that of in 1399Q2) and 14.4 percent for highly-educated people. The

unemployment rate for highly-educated men and women was 9.7 percent and 25.0 percent, respectively. In 1400Q2, the share of highly-educated employees in total employees increased by 1.2 percentage points compared to the same period of the preceding year to 25.6 percent and their share among the unemployed people decreased by 0.1 percentage points to 40.6 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. Due to frustration with finding a suitable job, the active population decreased by 118 thousand people in 1400Q2 compared to 1399Q2, despite the addition of about 709 thousand people to the population aged 15 and over in the same period. The participation rate in 1400Q2 was only 41.1 percent, 0.7 percentage point less than the figure in the same period of preceding year. The rate for women was only 13.5 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 0.6 percentage points, registering 37.2 percent. Among approximately 23.5 million employed in this quarter, 48.8 percent employed in the services sector, 33.8 percent employed in the industry sector and the rest (17.4 percent) in the agriculture sector. Table 4 compares the major statistics of the labor market in 1400Q2 and 1399Q2.

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

		1399Q2			1400Q2		
		Total	Male	Female	Total	Male	Female
Economic Participation Rate, Population Aged 15 and Over	Rate (percent)	41.8	69.5	14.1	41.1	68.8	13.5
	Number (million)	26.0	21.6	44.0	25.9	21.7	4.2
Share of Employment, Population Aged 15 and Over	Share (percent)	37.8	63.8	11.8	37.2	63.3	11.1
	Number (million)	23.5	19.9	3.7	23.4	19.9	3.5
Unemployment Rate, Population Aged 15 and Over	Rate (percent)	9.5	8.1	16.5	9.6	8.1	17.7
	Number (million)	2.5	1.8	0.7	2.5	1.7	0.8
Unemployment Rate, Population Aged 18-35	Rate (percent)	16.9	14.0	29.4	17.6	14.6	31.0
	Number (million)	1.8	1.2	0.6	1.8	1.2	0.6
Unemployment Rate, for Highly-Educated Population	Rate (percent)	14.9	10.9	23.9	14.4	9.7	25.0
	Number (million)	1.0	0.5	0.5	1.0	0.5	0.5
Share of the Underemployment (percent)		9.3	10.1	4.8	9.5	10.4	4.2

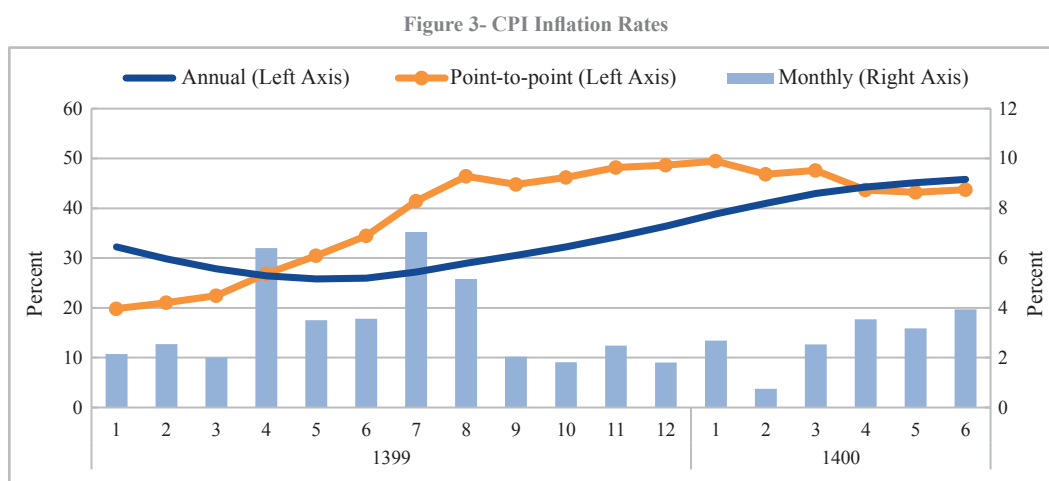
Source: Statistical Center of Iran, Summary Result of Labor Force Survey in 1400Q2

2. Prices and Inflation

According to the latest SCI's report, the consumer price index (CPI) with the base year of 1395 stood at 351.1 in 06/1400, indicating 43.7 percent point-to-point and 3.9 percent monthly inflation rate. This monthly inflation rate is unprecedented in the last 10 months. The annual inflation rate continued to rise to 45.8 percent, 0.6 percentage point higher than that of in 05/1400. During this period, the highest price increase among the main groups of the consumption basket was related to food and beverages, experienced a growth rate of 5.1 percent compared to preceding month. Meanwhile, the price index for

non-food and services group grew by 3.3 percent compared to the preceding month.

Despite the stability of the point-to-point inflation rate during 1400Q2 (about 43.7 percent), the monthly inflation rate had an upward trend, so that it increased by 1.4 percentage points at the end of 1400Q2 compared to the end of 1400Q1 following the continuous expansion of M2 (liquidity) and M0 (monetary base), especially in the first five months of 1400. 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 of the CPI's report of the SCI at 06/1400 indicates that the price index of goods increased more significantly than services, as the annual inflation rate of them were 57.4 percent and 29.2 percent, respectively. It is worth noting that durable goods saw the highest annual inflation rate (78.7 percent) in this month, although its effect on changing the general level of prices was negligible, due to the light weight in the consumption basket (5.5 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 78.7 percent. In addition, the highest annual inflation rate (60.9 percent) related to "Furnishings, Household Equipment and Routine Household Maintenance" and the lowest (16.8 percent) belonged to "Communication". The highest and lowest point-to-point inflation rates experienced in "Restaurants and Hotels" (65.6 percent) and "Communication" (5.5 percent), respectively. Since the communication group mainly includes

non-tradable services, a slight increase in prices was expected in this group.

The highest monthly inflation rate in 06/1400 belonged to "Food and Beverages" (5.1 percent) which was 1.2 percentage point higher than the monthly increase in overall index. Furthermore, the monthly growth rate of food and beverages price index, which was recorded negative 0.9 percent in 02/1400, has been steadily increasing since then. Among the components of food and beverages group, the highest and lowest monthly inflation rates were related to "Milk, Cheese and Eggs" (10.0 percent) and "Red and Poultry Meats" (0.8 percent), respectively. Also, the sub-group of vegetables (vegetables and pulses) with the monthly inflation rate of 9.9 percent had the second highest price increase. The annual and point-to-point inflation rates in "Food and Beverages" (with 26.6 percent weight in the basket) were also recorded 59.9 percent and 62.4 percent in 06/1400, respectively. Table 5 exhibits CPI inflation rates in major groups of the consumption basket in 06/1400, with a descending weight in the basket order.

Table 5- Inflation Rates of Major Groups in the Consumption Basket in 06/1400 (percent)

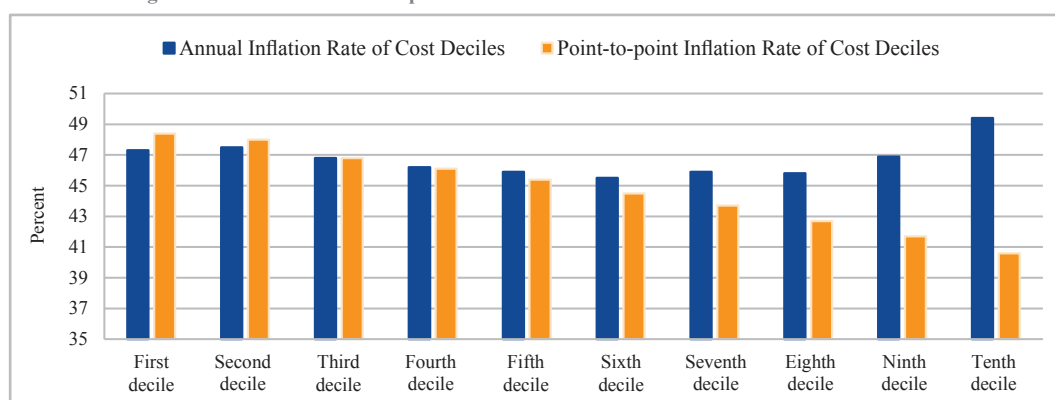
	Weight in the Basket	Price Percentage Change		
		Monthly	Point-to-point	Annual
Housing, Water, Electricity, Gas and Other Fuels	35.5	4.2	26.1	26.9
Food and Beverages	26.6	5.1	62.4	59.9
Transport	9.4	3.5	37.9	57.6
Health	7.1	2.1	43.5	39.9
Clothing and Footwear	4.8	2.8	53.9	51.1
Others	4.2	2.4	42.4	46.6
Household Equipment	3.9	2.6	52.0	60.9
Communication	2.9	1.3	5.5	16.8
Education	1.9	2.2	18.8	21.4
Recreation and Culture	1.7	2.0	42.1	52.4
Restaurants and Hotels	1.4	4.2	65.6	50.6
Tobacco	0.6	2.7	34.2	45.2
Overall	100.0	3.9	43.7	45.8

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

Moreover, on the basis of provinces, the highest and lowest monthly inflation rates belonged to Yazd province (5.3 percent) and Sistan and Baluchestan Province (2.1 percent), respectively. Also, the highest and lowest annual inflation rates in the period under review were related to Ilam province (53.1 percent) and Qom province (43.1 percent), respectively. On the other hand, the annual inflation rates of different cost deciles were volatile, fluctuating between 45.5 percent for sixth decile and 49.4 percent for tenth decile in 06/1400. The difference between these two

rates has decreased by 1.5 percentage points compared to the preceding month. In addition, the point-to-point inflation rate is in the range of 40.6 percent for the first decile to 48.4 percent for the last decile. It is noteworthy that the tenth decile is faced with the highest annual inflation rate and the lowest point-to-point inflation rate. In fact, according to the SCI's report, inflation is shifting in favor of the upper class. Figure 4 shows the annual and point-to-point inflation rates for the various cost deciles in 06/1400.

Figure 4- Annual and Point-to-point Inflation Rates for the Various Cost Deciles in 06/1400



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 is related to 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 USD2.6 billion in 1399. However, the corresponding figure for the same period of preceding year was negative USD1.3 billion. Reviewing the details reveals that the current account surplus of USD3.8 billion in 1398 has turned into a deficit of USD0.7 billion in 1399, while the net capital account

deficit decreased by 5.3 percent and registered USD6.3 billion. Furthermore, errors and omissions increased by 4.1 percent and reached from USD4.2 billion in 1398 to USD4.4 billion in 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 54.8 percent to reach USD3.2 billion in 1399. The country's total goods trade (sum of export and import values) was 13.6

percent less than that 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 1399, the value of goods imports declined by 10.8 percent and registered USD46.6 billion, while the value of goods exports decreased by 16.1 percent to reach USD49.8 billion. In the period under review, the oil exports decreased by 27.5 percent to USD21.0 billion, which was less than USD28.8 billion non-oil exports. Also, the non-oil exports declined by 5.2 percent. On the other hand, oil imports in 1399 were almost zero and

non-oil imports reached USD46.6 billion. Therefore, the oil trade balance surplus declined by 27.5 percent and reached USD21.0 billion, while the non-oil trade balance deficit fell by 18.5 percent and amounted to USD17.8 billion. The services account deficit decreased by 1.3 percent and registered USD4.0 billion. The income account had a deficit of USD0.6 billion during this period, while it did not have a deficit in 1398. Meanwhile, the current transfers account surplus rose slightly by 2.7 percent in 1399. Table 6 presents the components of balance of payments in 1396-1399.

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

	1396	1397	1398	1399	Percentage change of 1399 to 1398
Current Account	14.9	26.7	3.8	-0.7	-118.9
Goods Account	22.2	32.6	7.2	3.2	-54.8
Exports (FOB)	96.0	93.4	59.4	49.8	-16.1
Oil	62.8	60.7	29.0	21.0	-27.5
Non-oil	33.3	32.7	30.4	28.8	-5.2
Imports (FOB)	73.8	60.8	52.2	46.6	-10.8
Gas and Oil Products	2.7	1.4	0.0	0.0	-98.3
Others	71.1	59.4	52.2	46.6	-10.8
Services Account	-8.8	-7.4	-4.1	-4.0	-1.3
Income Account	0.8	0.8	0.0	-0.6	-
Current Transfers Account	0.7	0.6	0.6	0.7	2.7
Net Capital Account	-19.4	-16.0	-6.7	-6.3	-5.3
Errors and Omissions	-3.6	-0.8	4.2	4.4	4.1
Overall Balance	-8.1	9.9	1.3	-2.6	-303.5

Source: Central Bank of Iran, Economic Trends, No 103

The latest data on the foreign trade by the IRI Customs Administration covered the first 6 months of 1400 while finalizing this report. In this time span, the country's trade has increased mainly due to the lifting of the coronavirus-related restrictions in many countries, and this has been more severe in the case of exports. In this period, 19.1 million tons of goods valued at USD23.1 billion was imported to the country and the country's exports have been 60.0 million tons valued at USD21.8 billion. Therefore, the imports rose by 14.8 percent and 36.7 percent compared to the

same period of its preceding year in terms of weight and value, respectively. In addition, exports increased by 29.7 percent and 61.4 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 6 months of 1400 decreased significantly by 73.1 percent and reached USD3.4 billion from USD1.3 billion in the same period of 1399. The statistics of country's foreign trade in the first 6 months of 1399 and 1400 are shown in Table 7.

Table 7- Foreign Trade in the First 6 Months of 1399 and 1400

	First 6 Months of 1399		First 6 Months of 1400		Percentage Change	
	Weight (1000 tons)	Value (USD million)	Weight (1000 tons)	Value (USD million)	Weight	Value
Imports	16,666	16,913	19,138	23,121	14.8	36.7
Exports	46,271	13,511	59,996	21,806	29.7	61.4
Non-oil Trade Balance	29,605	-3,402	40,858	-1,315	38.0	-61.3

Source: IRI Customs Administration, Preliminary Report of Foreign Trade Data in the First 6 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 6 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 26.6 percent of the country's total exports in the first 6 months of 1400 (USD5.8 billion) were a subset of Chapter 27, indicating 0.9 percentage point and 3.4 percentage point decrease compared to the first 6 months of 1399 and the whole of 1399, respectively.

In the first 6 months of 1400, China with USD6.6 billion of imports from Iran has been the first exports destination – as in previous years – accounting for 30.1 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 6 months of 1399, with imports of USD3.8 billion and a share of 17.6 percent. In the period under study, Turkey's non-oil imports from Iran totaled USD2.3 billion. The share of exports to Turkey in this period registered 10.6 percent in Iran's total exports. This country also ranked as the 3rd exports destination with share of 12.2 percent in 1398, while in 1399, ranked as the 4th exports destination with share of 7.3 percent. UAE accounts for 10.3 percent of Iran's total exports valued at USD2.2 billion in the first 6 months of 1400. Afghanistan with USD999 million of imports from Iran, accounts for 4.6 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.

Among the five main exports destination of Iran in the first 6 months of 1400, only the shares of China and Turkey in Iran's total exports have increased compared to the same period of preceding year. All in all, the top 5 importers from Iran have accounted for 73.2 percent of total Iran's exports in the first 6 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 6 months of 1400, and UAE has replaced it with USD7.3 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 31.6 percent in the first 6 months of 1400. China has had 2nd place of exporting countries to Iran with about USD5 billion and its share in total Iran's imports drop from 25.3 percent in 1399 to 21.8 percent in the first 6 months of 1400. Turkey ranked as the 3rd exporter to Iran (exports of USD2.4 billion) in the period under review - as in 1399 - with share of 10.5 percent in total Iran's imports, which is 0.8 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 6 months of 1400 with USD905 million of exports to Iran and share of 3.9 percent in total Iran's imports. Switzerland exported USD900 million goods to Iran in the first 6 months of 1400 and accounted for 3.9 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 71.7 percent of total Iran's imports in the first 6 months of 1400, less than the 72.0 percent share in the whole of 1399.

Based on CBI reports, Iran's total foreign debt declined by 3.3 percent to USD8.8 billion at the end of 05/1400. Out of this figure, about USD6.4 billion belongs to medium- and long-term debt that fell by 11.4 percent. However, in this period, short-term debts of the country boosted by 26.1 percent to USD2.5 billion.

4. Foreign Exchange Market

The downward trend of the USD/IRR exchange rate in the free market continued in the first 45 days of 1400, while reversed course after that. 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 02/18/1400. After that, this rate increased, so that the USD/IRR exchange rate in the free market grew to 282.0 thousand on 06/06/1400, which was unprecedented after the recent US presidential election. The USD/IRR exchange rate decreased to 275.2 thousand at the end of 1400Q2, which was 14.8 percent more than that of at the first day of the year.

The remittance USD/IRR exchange rate in the secondary market (NIMA) had narrowed its gap with the free market rate from 1399H2. It was even slightly higher than the free market rate in some days of 02/1400, while from 03/1400 onwards, with the rise of the USD/IRR exchange rate in the free market, the gap reappeared. The remittance USD/IRR exchange rate in the secondary market was about 22 percent higher than the USD/IRR exchange rate in the free market during the first week of 06/1400. The gap registered 19.1 percent at the end of 1400Q2. Figure 5 shows the USD/IRR exchange rates in secondary and free markets during 1399 and 1400H1.

Figure 5- USD/IRR Exchange Rates



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, USD9.5 billion of foreign currencies has been allocated at the official rates (USD8.0 billion for the imports of essential goods and USD1.5 billion for the imports of corona

vaccine) in 1400H1. In fact, the allocation of foreign currencies at the official rates in 1400Q1 was equal to that of in the whole of 1399.

In the first five months of 1400, USD7.2 billion of foreign currencies allocated at the official rates, out of which USD1.408 billion was related to corn imports, USD1.257 billion was related to crude vegetable oils, USD1.611 billion was related to medicine and medical equipment, USD939 million was related to oilseeds, USD580 million was related to barley, USD571 million was related to soybean meal and USD 564 million was related to wheat.

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 IRR5,159 trillion and IRR39,214 trillion at the end of 05/1400, respectively, showing 42.1 percent and 39.1 percent annual growth rates. During the first five months of 1400, the monetary base and liquidity increased by 12.4 percent and 12.8 percent, respectively. The M2 money multiplier, therefore, reached 7.6 at the end of 05/1400, indicating negative 2.1 percent growth rate compared to the same period of preceding year.

Considering the CBI's balance sheet, the main source of the mentioned climb in M0 over the year under review was the

considerable rise in CBI net foreign assets, due to the 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. Along with the increase in net foreign assets of the CBI (29.3 percent), the increase in net CBI claims on public sector (207.4 percent), the increase in CBI claims on banks (6.8 percent) and the increase in other items (8.7 percent) have contributed to the growth of the monetary base during this period. Table 8 indicates the developments of M2 and M0.

Table 8- Liquidity and Monetary Base (IRR trillion)

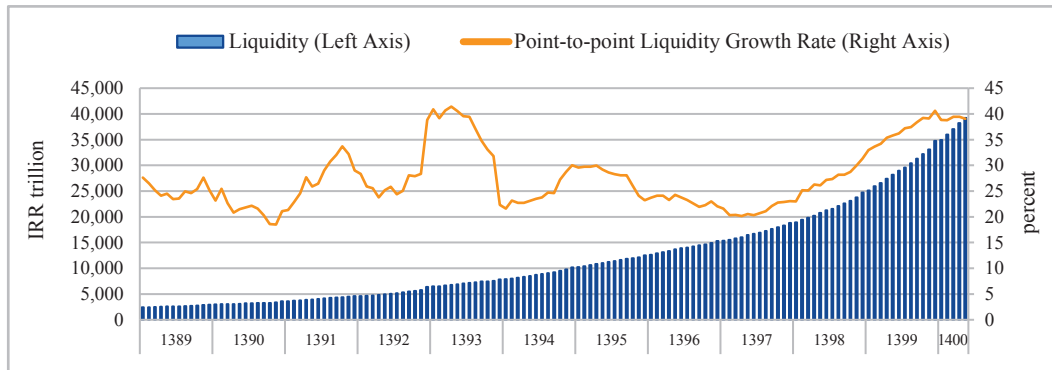
	End of the Period			Percentage Change of 05/1400 Compared to 12/1399	Percentage Change of 05/1400 Compared to 05/1399	Share of Liquidity in 05/1400 (percent)
	05/1399	12/1399	05/1400			
Liquidity	28,199.3	34,761.7	39,214.3	12.8	39.1	100.0
Money	5,730.0	6,909.6	7,815.7	13.1	36.4	19.9
Notes and Coins with the Public	593.1	735.0	726.6	-1.1	22.5	1.9
Sight Deposits	5,136.9	6,174.6	7,089.1	14.8	38.0	18.1
Quasi-Money	22,469.3	27,852.1	31,398.6	12.7	39.7	80.1
Gharz-al-hasaneh Savings Deposits	1,689.6	2,268.2	2,364.6	4.3	40.0	6.0
Short-term Deposits	8,439.1	10,149.2	11,276.4	11.1	33.6	28.8
One-year Deposits	11,412.0	11,001.4	10,422.1	-5.3	-8.7	26.6
Two-year Deposits	346.0	3,727.3	6,455.3	73.2	1,765.7	16.5
Three-year Deposits	0.5	0.3	0.2	-33.3	-60.0	0.0
Four-year Deposits	4.2	4.0	3.9	-2.5	-7.1	0.0
Five-year Deposits	74.4	62.8	59.8	-4.8	-19.6	0.2
Miscellaneous Deposits	503.5	638.9	816.3	27.8	62.1	2.1
Monetary base	3,632.0	4,588.9	5,159.4	12.4	42.1	13.2
CBI Foreign Assets (net)	3,722.7	4,703.7	4,815.2	2.4	29.3	-
CBI Claims on Public Sector (net)	114.3	-224.8	351.4	256.3	207.4	-
CBI Claims on Banks	1,163.1	1,171.4	1,242.4	6.1	6.8	-
CBI Other Items (net)	-1,368.1	-1,061.4	-1,249.6	-17.7	8.7	-
M2 Money Multiplier	7.8	7.6	7.6	0.3	-2.1	86.8

Source: Central Bank of Iran, Selected Economic Indicators

Exploring the balance sheet of the whole banking system indicates the 36.4 percent jump in the volume of money (M1) and 39.7 percent escalation in quasi-money at the end of 05/1400, led to 39.1 percent increase in the liquidity (M2).

The inflationary consequences of this level of liquidity growth rate are inevitable, as has been experienced in recent years. Figure 6 illustrates the trend of liquidity and its annual growth rates.

Figure 6- Trend of Liquidity and Its Annual Growth Rates

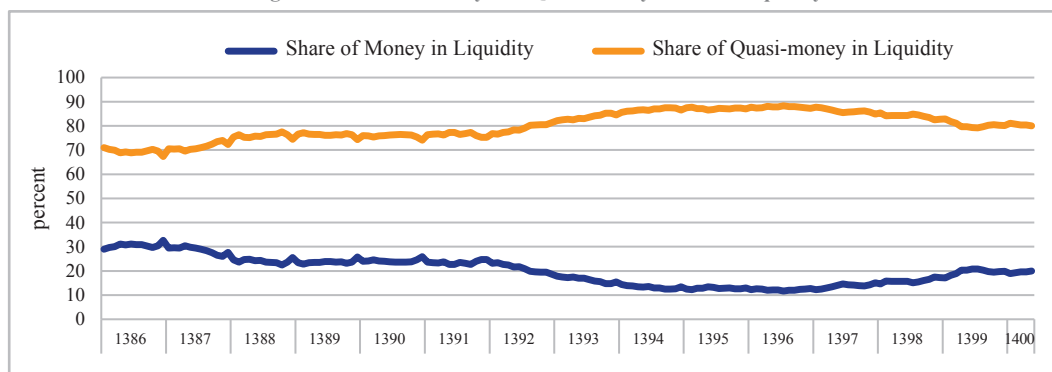


Source: Central Bank of Iran, Selected Economic Indicators

In the wake of a faster increase in money than that in quasi-money, the liquidity of money was also rising in recent years, which results in a higher power to cause inflation. It mainly stems from the higher return rate in other markets than money-market rates, making long-term deposits less attractive. The share of money (M1) in the liquidity (M2) has reached from

17.3 percent at the end of 1398 to 19.9 percent at the end of 05/1400. This rate has a downward trend from 1394 to 1396, registering 12.7 percent at the end of 1396. It reversed course and reached 15.1 percent at the end of 1397. Since 09/1399, it has been fluctuating in the range of 18.9 to 19.9 percent. Figure 7 shows the trend of money and quasi-money share of liquidity.

Figure 7- Trend of Money and Quasi-money Share of Liquidity



Source: Central Bank of Iran, Selected Economic Indicators

Sight deposits increased by 38.0 percent during the year ending 05/1400, bringing its share of money (M1) to 90.7 percent and of liquidity (M2) to 18.1 percent. In contrast, the share of notes and coins with the public in money and liquidity was 9.3 percent and 1.9 percent at the end of 05/1400, respectively. On the other hand, due to the restoration of two-year deposits as the only long-term investment option in the money market and the gap of about 2 to 4 percentage points between the interest rate of one-year and two-year deposits, the volume of these long-term deposits increased by about 1,765 percent, extending its share of quasi-money to 16.5 percent.

The balance of banks and non-bank credit institutions assets (or liabilities), excluding off-balance sheet items, grew by 48.5 percent to IRR64,877.6 trillion at the end of 05/1400, indicating 15.7 percent growth rate during the first five months of 1400. The major part of this balance (66.8 percent) belongs to non-public banks and non-bank credit institutions, followed by the

commercial state-owned banks (18.4 percent) and the specialized state-owned banks (14.8 percent). On the assets side, the main contributing factor was the claims on the non-public sector as extended facilities (42.5 percent), which rose by 48.3 percent at the end of 05/1400. Foreign assets, with the share of 21.2 percent, ranked second, registering the considerable growth rate of 98.4 percent among the items in the assets side. Notes and coins, on the other hand, constituted merely 0.1 percent of the assets and decreased by 10.5 percent compared to the end of 05/1400. On the liabilities side of the balance sheet, non-public sector deposits accounted for the highest share (59.3 percent) and grew by 39.4 percent. Meanwhile, loans and deposits of the public sector and capital account increased by 26.8 percent and 170.4 percent, respectively. In fact, the government's capital raising in state-owned banks has led to an increase in the capital account of the banking system. Table 9 indicates the assets and liabilities of banks and non-bank credit institutions.

Table 9- Assets and Liabilities of Banks and Non-bank Credit Institutions (IRR trillion)

	Balance at the End of Period			Share of Banks and Non-bank Credit Institutions at the End of 05/1400			05/1400 Percentage Change Compared to	
	05/1399	12/1399	05/1400	Public Commercial	Public Specialized	Non-public and Non-bank	12/1399	05/1399
Assets (excluding below the line items)	43,698.3	56,061.1	64,877.6	11,941.4	9,583.8	43,352.4	15.7	48.5
Foreign Assets	6,930.7	9,192.8	13,751.2	1,951.4	3,379.6	8,420.2	49.6	98.4
Notes and Coins	104.1	67.6	93.2	31.3	11.4	50.5	37.9	-10.5
Deposits with the CBI	2,934.8	3,786.3	4,339.6	815.7	332.4	3,191.5	14.6	47.9
Claims on Public Sector	3,514.9	4,116.5	4,543.4	1,167.7	739.0	2,636.7	10.4	29.3
Claims on Non-public Sector	18,600.3	24,065.4	27,590.1	4,259.1	4,063.7	19,267.3	14.6	48.3
Others	11,613.5	14,832.5	14,560.1	3,716.2	1,057.7	9,786.2	-1.8	25.4
Liabilities (excluding below the line items)	43,698.3	56,061.1	64,877.6	11,941.4	9,583.8	43,352.4	15.7	48.5
Deposits of Non-public Sectors	27,606.2	34,026.7	38,487.7	7,330.7	3,543.5	27,613.5	13.1	39.4
Claims of the CBI	1,163.1	1,171.4	1,242.4	81.0	470.9	690.5	6.1	6.8
Loans and Deposits of Public Sector	366.9	336.5	465.4	251.7	163.4	50.3	38.3	26.8
Capital Account	-504.8	-69.8	355.3	228.3	304.5	-177.5	609.0	170.4
Foreign Exchange Loans and Deposits	5,597.4	8,019.0	11,771.1	1,764.4	2,944.8	7,061.9	46.8	110.3
Others	9,469.5	12,577.3	12,555.7	2,285.3	2,156.7	8,113.7	-0.2	32.6

Source: Central Bank of Iran, Selected Economic Indicators

At the end of 1400Q1, the balance of extended facilities in the banking system reached IRR31,746.0 trillion, rising by 53.4 percent from the similar point in 1399. The balance of deposits in banks and non-bank credit institutions increased by 47.1 percent in the same period to reach IRR43,149.4 trillion.

Meanwhile, the average legal reserve ratio was 9.7 percent at the end of 1400Q1. Therefore, the ratio of extended facilities to deposits (after deduction of the legal reserves) increased to 81.5 percent at the end of 1400Q1 from 80.2 percent at the end of 1399. Table 10 illustrates these statistics in more detail.

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

	1397Q4	1398Q4	1399Q1	1399Q4	1400Q1	Percentage Change of 1400Q1 Compared to	
						1399Q4	1399Q1
Extended Facilities (EF - in IRR trillion)	15,090.2	19,355.8	20,695.7	27,922.7	31,746.0	13.7	53.4
Deposits (in IRR trillion)	20,673.4	27,162.8	29,326.1	38,754.6	43,149.4	11.3	47.1
Deposits Less Required Reserves (DLRR - in IRR trillion)	18,568.3	24,381.1	26,597.9	34,824.0	38,947.5	11.8	46.4
Legal Reserve Ratio (percent)	10.2	10.2	9.3	10.1	9.7	-	-
EF to DLRR Ratio (percent)	81.3	79.4	77.8	80.2	81.5	-	-

Source: Central Bank of Iran, Banking Statistics

The flow of the banking system's extended facilities totaled IRR9,007.8 trillion in the first 5 months of 1400, registering a growth rate of 78.0 percent. Two sectors of "services" and "manufacturing and mining" absorbed the highest portions of these facilities, 41.3 percent and 30.6 percent respectively, followed by the "commerce" sector, with 16.1 percent. Regarding the purposes, the majority of facilities (60.6 percent) was extended in the form of working capital (IRR6,103.6 trillion), out of which 77.5 percent granted to the two sectors of "manufacturing and mining" and "services". Following working capital, creation, development and purchasing private

goods were three main purposes of extended facilities with shares of 11.3 percent, 8.1 percent and 6.1 percent of the total extended facilities, respectively. The main destination of extended facilities

in the form of development and in the form of creation belonged to services sector (IRR372.2 trillion and IRR401.5 trillion, respectively), and also in the form of purchasing private goods belonged to commerce sector (IRR517.7 trillion). Table 11 compares different economic sectors in terms of extended facilities and the corresponding purposes during the first 5 months of 1400.

Table 11- Banks' Extended Facilities in the First 5 Months of 1400 by Sectors and Purpose (percent of total)

	Agriculture	Manufacturing and Mining	Housing and Construction	Commerce	Services	Other	Total	Percentage Change of Total Compared to the First 5 Months of 1399
Total (IRR trillion)	619.8	2,755.6	460.0	1,453.8	3,716.6	1.9	9,007.8	78.0
Creation	18.3	12.6	20.6	4.1	10.8	3.9	11.3	70.0
Working Capital	71.1	79.5	35.4	52.7	68.4	86.1	67.8	98.5
Repair	0.5	1.2	17.0	0.2	0.8	0.9	1.6	13.6
Development	6.4	6.0	10.3	7.1	10.0	8.7	8.1	79.0
Purchase of Private Goods	0.8	0.4	0.0	35.6	0.5	0.0	6.1	5.3
Purchase of House	0.1	0.2	15.9	0.2	0.5	0.4	1.1	-9.5
Others	2.8	0.0	0.7	0.1	9.1	0.1	4.0	66.0

Source: Central Bank of Iran, Extended Facilities by Sectors and Purposes During the First 5 Months 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. What is cited in this report is based on statistics provided by unofficial sources. Accordingly, the general uses in 1400Q1 stood at IRR1,893.0 trillion, which was 16.6 percent more than IRR1,362.8 trillion general sources, led to the withdrawal of IRR530.3 trillion from the CBI's revolving fund. Thus, the performance of general sources and general uses was 42.7 percent and 59.3 percent, respectively, compared to the approved figure for 1400Q1. The tax revenues reached IRR620 trillion in 1400Q1, indicating 76.3 percent performance compared to the approved figure. So, given IRR1,423 trillion current expenditures, the deficit of operating balance stood at IRR625 trillion in the first quarter of 1400. Moreover, due to US sanctions and the global Corona virus outbreak (reduced demand for crude oil and gas condensate) as well as the government's inability for disposal of movable and immovable properties, the disposal of non-financial assets was only 2.9 percent of the approved figure for 1400Q1. On the other hand, realization of IRR455 trillion in the acquisition of non-financial assets (development expenditures) in the first quarter of 1400 was 3.3 percent higher than the approved figure for the same period.

This was due to the significant issue of Islamic treasury bonds. Accordingly, the net disposal of non-financial assets suffered a deficit of IRR426.3 trillion in 1400Q1. The operating and non-financial balance deficit (as one measure of budget deficit) was

financed through the net disposal of financial assets and the use of CBI's revolving fund – IRR521.0 trillion and IRR530.3 trillion, respectively. According to the Iranian Privatization Organization, the disposal of state-owned companies was estimated at IRR1,066.3 trillion for the first five months of 1400 in the budget law, of which only about 0.2 percent (IRR2.2 trillion) was realized. Table 12 shows the government fiscal performance in 1400Q1.

According to the law, the government could use up to 3 percent of the general budget (about IRR412 trillion in 1400) from the CBI's revolving fund, although due to the government's decree on 03/29/1400, this figure increased to 4 percent of the general budget (about IRR549 trillion in 1400), helping government to finance budget deficit.

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.

Table 12- Government Fiscal Performance in 1400Q1 (IRR trillion - percent)

	1400 Budget Law	1400Q1 Approved	1400Q1 Performance	Performance of 1400Q1 Compared to the Approved Figure
Revenues	4,549.0	1,137.2	798.0	70.2
Tax Revenues	3,252.4	813.1	620.0	76.3
Other Revenues	1,296.6	324.2	178.0	54.9
Expenses (current)	9,189.2	2,297.3	1,423.0	61.9
Operating Balance	-4,640.2	-1,160.0	-625.0	53.9
Disposal of Non-financial Assets	3,955.5	988.9	28.8	2.9
Receipts from Crude Oil and Oil Products	3,492.7	873.2	25.0	2.9
Receipts from Sales of Movable and Immovable Assets	452.8	113.2	3.0	2.7
Receipts from Disposal of Projects Related to Acquisition of Non-financial Assets	10.0	2.5	0.8	30.0
Acquisition of Non-financial Assets (development expenditures)	1,762.6	440.7	455.0	103.3
Net Disposal of Non-financial Assets	2,192.8	548.2	-426.3	-
Disposal of Financial Assets	4,274.7	1,068.7	536.0	50.2
Sale of Islamic Securities	1,325.0	331.3	486.0	146.7
Disposal of state-owned companies	2,559.0	639.8	2.0	0.3
Principal of Loan Receipt and Use of Foreign Loans	12.7	3.2	1.5	47.1
Last Year's Payment Return	16.0	4.0	8.0	199.9
Use of National Development Fund	362.0	90.5	38.5	42.5
Acquisition of Financial Assets	1,827.4	456.9	15.0	3.3
Net Disposal of Financial Assets	2,447.3	611.8	521.0	85.2
Total Sources	12,779.2	3,194.8	1,362.8	42.7
Total Uses	12,779.2	3,194.8	1,893.0	59.3
Overall Balance (difference between total sources and total uses)	0.0	0.0	530.3	-

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

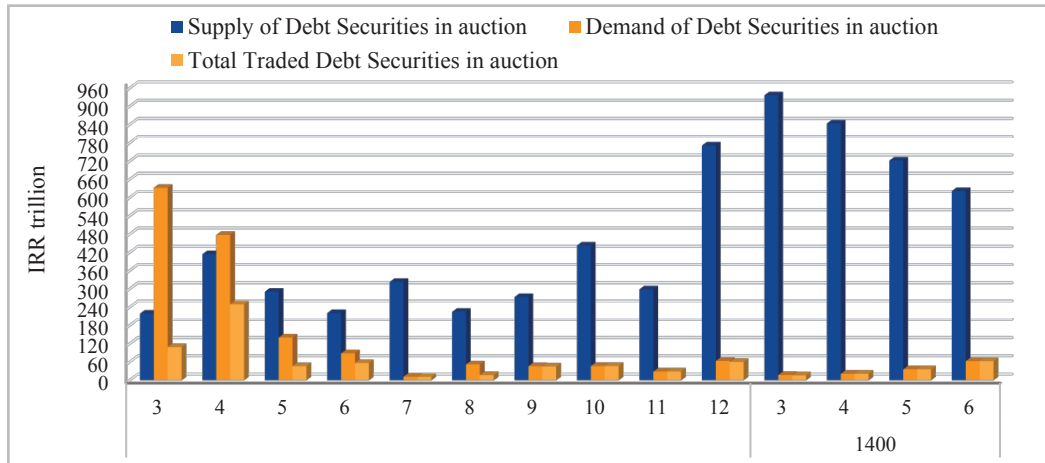
The CBI, in cooperation with Ministry of Economic Affairs and Finance, held weekly auctions of government bonds in the interbank market (money market) and the capital market from 03/1400 to 06/1400 in 18 rounds. So, the CBI supplied about IRR3,009.6 trillion worth of Government Murabaha Sukuk and IRR115.0 trillion worth of standard salaf parallel bonds until the end of 06/1400, while encountered with meagre demand of IRR138.3 trillion from the banks and non-bank institutions. Ultimately though, the Ministry of Economic Affairs and Finance, as the decision-maker, agreed to sell IRR136.9 trillion. Furthermore, IRR295.5 trillion worth 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 IRR432.5 trillion in 1400H1, out of which 55.8 percent (IRR241.4 trillion) was related to the last two offers (06/23/1400 and 06/30/1400). In comparison, the demand for government debt bonds in both the money and capital markets in 1399H1 was IRR1,339.0 trillion, out of which IRR698.0 trillion were traded. The significant decline in government bond sales, even with higher nominal

interest rates than last year, is related to the decline in demand for fixed-income investment instruments following rising inflation expectations.

Therefore, the government needs to issue bonds with short-term maturities and higher interest rates to finance the budget deficit, which carries fiscal risks. In the medium term, macroeconomic stability can increase the attractiveness of the debt market to provide more financing. Otherwise, stable and significant financing will not be expected, even with increasing rates of return and decreasing maturity. It should be noted that the rate of return to maturity is gradually increasing. In the second half of the year, this rate may increase significantly and bond maturities may decrease, because the government has fully used the treasury revolving fund in the first half of the year to finance the budget deficit. Figure 8 illustrates the details on the auctions of government debt securities by the CBI from 03/1399 to 06/1400.

Additionally, based on the Ministry of Economic Affairs and Finance, the government issued IRR810 trillion Islamic treasury bonds and allocated to contractors in the first half of 1400.

Figure 8- Government Debt Securities Auctions by the CBI



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

7. Capital Market

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 dropped by 15.3 percent during the first 70 days of 1400. After the withdrawal of a significant part of investors from the capital market and the fall of prices to low levels, due to the foreign exchange rate stability, the allocation of one percent of the resources of NDF to the Capital Market Stabilization Fund, lifting the ban on banking facilities to investment companies and investment holdings and brokerages and also allocation of 80.0 percent of the resources of Stock Transfer Tax to the Capital Market Stabilization Fund, the overall index grew by 5.3 percent at the end of 03/1400 compared

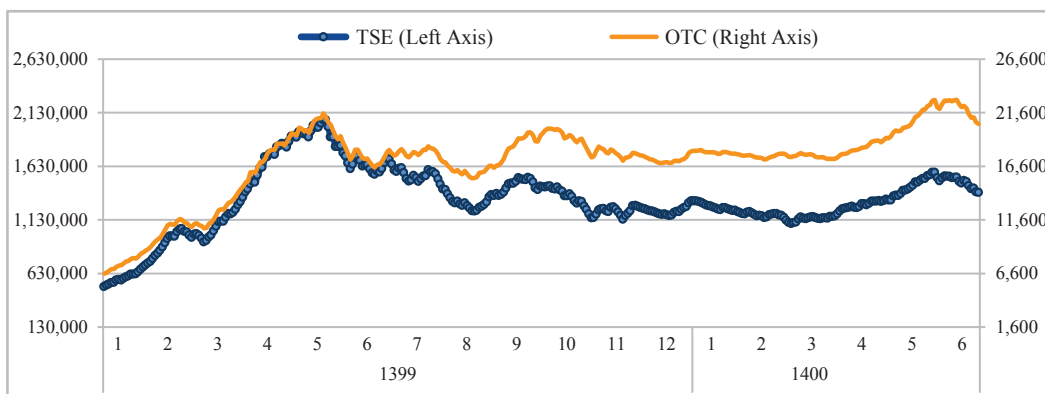
to the 03/05/1400 and stood at 1,168.6 thousand.

The growth rate of the overall index intensified during 1400Q2 and following the arrival of the general meetings of shareholders and the distribution of profits, the overall index reached 1,573.4 thousand on 06/07/1400, 34.6 percent higher than that of at the end of 1400Q1.

However, frenetic sales by shareholders intensified after the overall index reached the resistance level of 1,600 thousand and following the national currency appreciation in the free market and the possibility of lifting the car import ban. Thus, at the end of 1400Q2, the overall index decreased by 11.9 percent compared to 06/07/1400, registering 1,386.5 thousand.

The Over the Counter (OTC) market had similar trend and its overall index grew by 31.7 percent on 06/07/1400 compared to the beginning of 1400Q2, decreased after that by 9.8 percent to 20.5 thousand at the end of 1400Q2. Figure 9 depicts the daily developments of TSE and OTC indices during the period under review.

Figure 9- 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 half of 1400 fell by 27.7 percent compared to the same period of preceding year, registered 788.6 billion. Considering dramatic decrease in prices, the value of equities transactions experienced much higher fall rate and dropped by

62.9 percent and reached IRR5,275.2 trillion. Although the value of transactions in debt securities and exchange-traded funds (ETFs) grew by 276.0 percent and 146.0 percent, respectively, due to their low market share, the value of total transactions decreased by 53.3 percent during the same period. The TSE's

market capitalization decreased by 11.0 percent and stood at IRR53,427.8 trillion at the end of 1400Q2. The equally-weighted index dropped by 5.5 percent during 1400H1 and 0.1 percent during a year ended in 06/1400, which was less than that for

the overall index in annual terms (13.1 percent). Therefore, the equities of small-sized companies experienced a lower decrease in prices compared to the large companies on average. 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 Traded Equities	Value of Traded Equities	Total Value of Transactions	Market Capitalization	Equally-weighted Index	Overall Index	Financial Index	Industrial Index
	(billion shares)	(IRR trillion)	(IRR trillion)	(IRR trillion)	(thousand)	(thousand)	(thousand)	(thousand)
1400H1	788.6	5,275.2	6,950.6	53,427.8	415.5	1,386.5	1,558.8	1,269.9
1399H1	1,090.1	14,206.7	14,872.1	60,035.9	415.9	1,595.2	2,088.0	1,415.0
Percentage Change	-27.7	-62.9	-53.3	-11.0	-0.1	-13.1	-25.3	-10.3

Source: Tehran Stock Exchange, Comprehensive Monthly Market Report, various issues

Listed Companies on TSE financed IRR475.6 trillion in 1400H1, out of which about 80.9 percent was through raising capital (receivables and cash inflows, or savings and accumulated profits) and 10.6 percent through issuing debt bonds and subordinate sale

option securities. Also, six companies listed their equities on the stock market for the first time (IPO), leading to total financing IRR40.4 trillion. Table 14 summarizes this information compared to 1399H1.

Table 14- Financing Methods of Listed Companies on the TSE

	1399H1		1400H1		Percentage Change in Value
	Value (IRR trillion)	Share (percent)	Value (IRR trillion)	Share (percent)	
Total	217.3	100.0	475.6	100.0	118.9
Initial Public Offering	111.8	51.4	40.4	8.5	-63.9
Raising Capital (except for asset revaluation)	105.5	48.6	384.7	80.9	264.5
Issuing Debt Bonds	10.0	4.6	24.7	5.2	147.0
Issuing Subordinate Sale Option Bonds	10.2	4.7	25.9	5.4	154.4

Source: Tehran Stock Exchange, Monthly Market Analysis, 06/1400

8. Other Economic Developments

A plan to facilitate car imports and improve competition in the Iranian car market has been on the agenda of various parliamentary sessions, even before the ban on car imports from 1397 onwards. Recently, the parliament amended a note to the plan to allow the import of cars in exchange for the export of cars and car-related goods or without the transfer of foreign currency. This plan should not create new foreign currency obligation for the government. However, this was opposed by the Guardian Council, and the plan has not been finalized at the time of writing this report.

The main opposition to the plan - including the Guardian Council - is to support domestic production. However, the Minister of Industry, Mine and Trade and the CBI officials have also expressed opposition to the plan due to the balance of payments deficit. This is while the regulation of the implementation of this plan has been entrusted to the Ministry of Industry, Mine and Trade and it has also been stated that there is no need for the supply of foreign currency by the CBI. Proponents claim that the plan does not pose a threat to domestic car production, as it is up to the National Competition Council to set a ceiling on the number of cars imported, as well as the type of cars allowed for import, based on domestic supply shortages. However, the people (and their fundamental right to choose) are not considered as the main beneficiaries of this issue in the discourse of proponents and opponents alike.

Recently, home appliance manufacturers have taken a similar path to domestic car makers and imposed a ban on the import of

home appliances. Although the import of home appliances has been banned since 1397, border residents were allowed to import these items from 1398 to make the import of home appliances possible with an additional cost. According to the secretary of the Association of Home Appliance Manufacturers of Iran, manufacturers are seeking to continue the import ban in the Seventh Development Plan Law until the industry matures. The experience of the automotive industry shows that this request can be extended even after the Seventh Development Plan. Excessive and inefficient employment can force the government to continue to support that indefinitely. In this regard, increasing the welfare of a group of people working in this sector leads to significant losses to the economy and other people.

If other industries in the country imitate this process, Iran's economy will be completely closed soon. Domestic production will continue to shrink due to separation from global competition, resulting in lower levels of welfare. In fact, in this process, people will first lose the right to choose and consequently productivity and prosperity. After that, even if the import ban is lifted, the available options commensurate with the purchasing power of the people will be very limited. Assuming that car imports are allowed, what percentage of Iranians will be able to buy new imported cars? It is clear that for a significant part of the Iranian people, car imports will be desirable only because of its effect on reducing the prices of domestically produced cars, and not because of availability of more options.

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