

Recent Economic Developments in Iran

A Quarterly Report



Autumn 1400
(roughly 2021Q4)

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Recent Economic Developments in Iran, A Quarterly Report **Autumn 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.

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**

1400Q3 = 09/23/2021 - 12/21/2021, roughly **2021Q4**

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Iran's Economy at a Glance

	1399Q1	1399Q2	1399Q3	1399Q4	1399	1400Q1	1400Q2	1400Q3
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	40.9
Unemployment (10 Years and Over)	9.8	9.5	9.4	9.7	9.6	8.8	9.6	8.9
Unemployment (Youth Aged 15-24)	24.5	23.1	23.7	23.6	23.7	22.1	25.7	23.6
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	1.0	-
Manufacturing and Mining	7.0	6.0	7.3	10.0	7.6	2.1	-5.3	-
Oil	-10.7	12.6	8.6	27.2	8.7	23.3	7.4	-
Agriculture	4.6	3.9	4.9	4.1	4.3	-0.9	-1.9	-
Services	-2.5	1.0	-0.1	0.8	-0.2	7.0	4.2	-
GDP (Excluding Oil)	0.7	2.9	2.4	3.4	2.4	4.7	0.5	-
Gross Fixed Capital Formation (at market prices)	17.3	-5.5	1.7	10.5	5.0	-3.5	-13.1	-
Oil (daily average - thousand barrels)								
Production*	1,966	1,942	1,986	2,198	2,023	2,440	2,481	-
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	35.2
Growth Rate of Producer Price Index (1395=100)	18.0	39.7	58.8	67.5	46.7	73.0	58.9	-
Balance of Payments (USD millions)								
Oil Exports	3,865	4,693	6,056	6,429	21,043	8,702	-	-
Non-Oil Exports	5,073	6,499	8,025	9,208	28,805	8,582	-	-
Imports of Goods	9,150	11,824	11,963	13,676	46,612	13,025	-	-
Goods Account (Net)	-212	-632	2,119	1,961	3,236	4,260	-	-
Non-Oil Goods Account (Net)	-4,077	-5,325	-3,938	-4,468	-17,806	-4,442	-	-
Current Account	-622	-1,206	1,124	-3	-708	3,534	-	-
Capital Account	-2,903	-990	-1,267	-1,159	-6,318	-3,174	-	-
Change in Foreign Reserves	-1,006	-878	-950	193	-2,641	699	-	-
Foreign Exchange Rates (USD/IRR daily average)								
Free Market	162,376	220,861	272,950	244,027	225,054	233,820	260,867	278,131
Official	42,000	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	235,583
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	5,189.2	-
CBI Claims on Banks	1,132.9	1,291.9	1,268.4	1,203.0	1,203.0	1,134.4	1,273.5	-
CBI Claims on Public Sector (Net)	394.3	172.7	123.0	-219.4	-219.4	408.2	36.9	-
CBI Net Foreign Assets	3,669.1	3,631.8	3,838.3	4,427.2	4,427.2	4,790.9	4,956.3	-
Liquidity (M2)	26,571.7	28,958.9	31,300.2	34,761.7	34,761.7	37,054.0	40,676.0	-
Money (M1)	5,020.5	6,007.0	6,170.3	6,906.6	6,906.6	7,261.9	8,164.9	-
Sight Deposits	4,442.5	5,407.4	5,528.1	6,174.6	6,174.6	6,546.9	7,437.8	-
Non-Sight Deposits (Quasi-Money)	21,551.2	22,951.9	25,129.9	27,852.1	27,852.1	29,792.1	32,511.1	-
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	1,318,467
Financial Index	1,855,151	2,087,957	2,001,939	1,782,068	1,782,068	1,622,677	1,558,751	1,404,304
Industrial Index	1,109,532	1,415,024	1,264,532	1,154,258	1,154,258	1,027,589	1,269,899	1,218,339
Market Capitalization (IRR trillions)	47,597	60,035	57,059	51,601	51,601	46,660	53,427	52,695

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

* 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 and summer, and during the 1400H1 consequently. In 1400Q2, the growth rates of "agriculture" and "manufacturing and mining" groups have been negative, while the growth rate of "oil" and "services" groups have been positive. Similarly, in the report of the SCI, positive economic growth rates have been recorded in 1400Q1, 1400Q2 and 1400H1. 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 second quarter of 1400 amounted to IRR17,570.1 trillion at current prices, indicating a 1.0 percent expansion in GDP at constant prices. Much of this growth has occurred in the services sector by 2.1 percentage point share of GDP growth rate, indicating the recovery of this sector in the aftermath of the outbreak of coronavirus. The share of GDP growth rate of the oil sector was also 0.5 percentage point. Moreover, the non-oil growth rate in 1400Q2 was 0.5 percent and 2.4 percent in 1400Q1 and 1400H1, respectively.

Meanwhile, according to the SCI's report, the GDP at the current market prices amounted to IRR20,239 trillion in 1400Q2, indicating a 4.2 percent expansion at constant prices. In this report, the non-oil growth rate was 3.3 percent in 1400Q2.

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 7.4 percent in 1400Q2, which was less than that of in 1400Q1. In other words, Iran's oil production, which jumped significantly after the Democratic Party's victory in the recent US presidential election, will not be able to grow further without reimplementation of nuclear deal (JCPOA). So, the growth of this sector will probably stop in the coming quarters. The SCI's report shows a similar trend for oil and natural gas extraction in the mining sector (27.5 percent and 10.0 percent expansion in 1400Q1 and 1400Q2, respectively).

Based on CBI's report, the manufacturing and mining sector

shrank by 5.3 percent and 1.9 percent in 1400Q2 and 1400H1, respectively. In this sector, the "water supply, wastewater and water treatment" sub-sector has the highest growth rate (5.5 percent) and the construction sub-sector has the lowest growth rate (negative 16.9 percent) in 1400H1. The manufacturing and mining sector also includes the extraction of oil and natural gas in the SCI's report. In this report, the mining sub-sector has the highest growth rate among the manufacturing and mining sector components in 1400H1 (16.3 percent), due to an 18.3 percent expansion of the extraction of oil and natural gas value-added at constant prices. The economic growth rate of the manufacturing sub-sector was recorded 3.8 percent in 1400H1, which is 1.9 percentage point less than that of in the CBI's report.

Based on CBI's report, the services sector grew by 4.2 percent and 5.7 percent in 1400Q2 and 1400H1, respectively. In 1400H1, among the services sub-sectors, "professional, scientific and technical activities" had the highest growth rate (30.7 percent) and "financial and insurance activities" shrunk by 11.6 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" and "information and communication" sub-sectors have been significant in 1400H1 (27.9 percent, 21.6 percent and 15.9 percent, respectively). According to SCI's report, the services sector has grown by 5.1 percent and 4.8 percent in 1400Q2 and 1400H1, respectively, due to the positive growth rates of all its sub-sectors. The financial intermediation activities sub-sector grew by only 1.5 percent in 1400H1, while its growth rate was negative in CBI's report. According to SCI's report, the "social and personal service activities" had the highest growth rate (23.8 percent) among the services sub-sectors in 1400H1.

On the other hand, based on CBI report, the contraction of the agriculture sector was 2.0 percent in 1400H1, while it was 4.3 percent in SCI's report. According to the CBI, drought and a 11.3 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 1400H1 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 1400Q2
	Q1	Q2	H1	Q3	Q4	Year	Q1	Q2	H1	
Agriculture	4.6	3.9	4.1	4.9	4.1	4.3	-2.2	-1.9	-2.0	-0.4
Oil	-10.7	12.6	-0.1	8.6	27.2	8.7	23.3	7.4	15.1	0.5
Manufacturing and Mining	7.0	6.0	6.5	7.3	10.0	7.6	1.9	-5.3	-1.9	-1.2
Services	-2.5	1.0	-0.7	-0.1	0.8	-0.2	7.3	4.2	5.7	2.1
Non-oil Gross Domestic Product	0.7	2.9	1.9	2.4	3.4	2.4	4.7	0.5	2.4	-
Gross Domestic Product	-0.3	3.5	1.8	3.0	5.4	2.9	6.2	1.0	3.3	1.0

Source: Central Bank of Iran, National Accounts reports

Based on CBI's data, the fall in private consumption, which had led to a continuous decline in household welfare, stopped from 1399Q4. The growth rate of private consumption which was negative 2.2 percent in 1399H1, registered 3.3 percent in 1400H1. Also, according to the SCI's report, the decline in private consumption has stopped since 1399Q4, so that this variable experienced a significant growth rate of 12.0 percent in the first half of 1400. Moreover, the government consumption growth rate was positive in 1400H1 in both reports (3.4 percent based on CBI and 5.1 percent based on SCI).

Based on CBI, gross fixed capital formation growth rate that was positive in 1399, reversed course to negative 8.9 percent in 1400H1. This decrease in investment was more severe in 1400Q2 (13.1 percent). Previously, CBI reports divided capital formation into two categories: construction and machinery, while in the new report, a third category entitled "other capital formation" has been added, which includes research and development costs, mineral exploration, precious objects and other items. Gross

fixed capital formation in machinery at constant prices grew by 9.0 percent (due to the increase in both imports and production of capital goods), while it decreased by 16.2 percent and 2.7 percent in the form of construction and "other", respectively, in 1400H1. Investment in the form of construction declined in both the private and public sectors. In the SCI's report, the growth rate of gross fixed capital formation in machinery and construction was 3.8 percent and 7.1 percent, respectively, in 1400H1. Thus, in contrast to the CBI's report, according to the SCI, the total gross fixed capital formation at constant prices not only did not decrease in the first half of 1400, but also experienced a growth rate of 5.4 percent.

Regarding the foreign trade, simultaneous increase in exports and imports of goods and services in 1400H1 (15.0 percent and 24.3 percent, respectively) recorded in the CBI's report. However, corresponding growth rates were 18.2 percent and 10.5 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		1400		
	H1	Year	Q1	Q2	H1
Private Consumption	-2.2	-0.5	2.1	4.4	3.3
Public Consumption	7.7	-1.1	0.0	6.5	3.4
Gross Fixed Capital Formation	3.6	5.0	-3.8	-13.1	-8.9
Machinery	-0.6	3.1	14.6	5.0	9.0
Construction	5.3	6.8	-10.3	-21.4	-16.2
Other	3.2	-11.8	-3.5	-1.9	-2.7
Net Export of Goods and Services					
Export	-27.1	-10.4	35.6	-1.4	15.0
Import	-37.2	-28.7	30.5	19.4	24.3
Gross Domestic Product (at market prices)	0.7	1.8	7.3	1.2	4.0

Source: Central Bank of Iran, National Accounts report

Investment

According to the Ministry of Industry, Mine and Trade, during the first eight months of 1400, the number of establishment permits of manufacturing units totaled 25,288, and about IRR8,444.5 trillion investment is forecasted to be needed for them, recording 0.8 percent and 147.3 percent climb compared to the same period in the preceding year, respectively. The operation permits, including

creation and development plans operation permits, reached 4,682 in number, 1.7 percent higher than that in the first eight months of 1399. Their corresponding investment grew by 14.2 percent, registering IRR1,574.1 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 8 Months of 1399	First 8 Months of 1400	Percentage Change
Projection for Establishment Permits	3,415.0	8,444.5	147.3
Operation Permits	1,378.7	1,574.1	14.2

Source: Ministry of Industry, Mine and Trade, the preliminary report of the performance of the first eight 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 6.2 percent of Iran's GDP in 1400Q2, which is 1.8 percentage point higher than that of in 1399Q2,

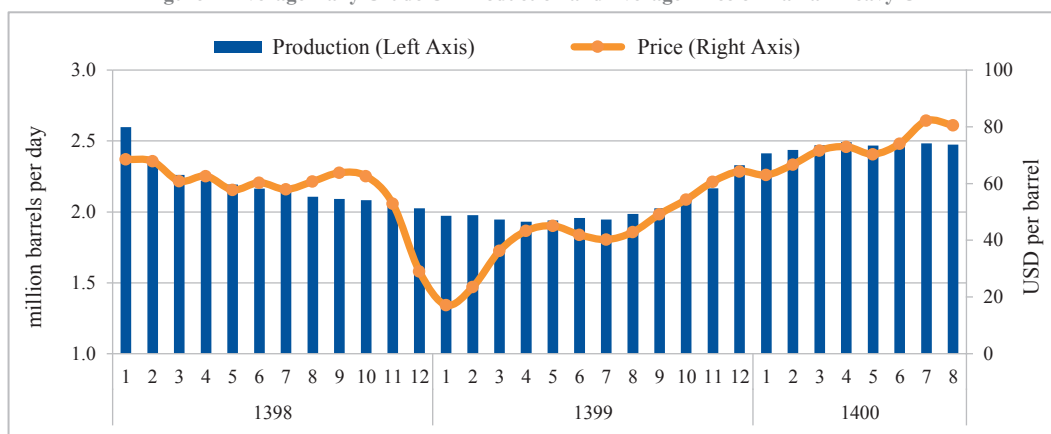
while it was about 13.5 percent, 13.0 percent and 7.4 percent in 1396 to 1398, respectively. In other words, share of the oil sector in GDP has had an upward trend since the second half of 1399, although it is still significantly lower than its historical trend. Assuming the current situation to be continued, it is unlikely that this share will increase further in the coming quarters. 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 November 2021 (approximately 08/1400), showing a 24.6 percent and 17.4 percent increase compared to the same month in 2020 and 2019, respectively. The Iran's oil export statistics have become off the record in recent 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 1.2 million barrels per day in 2021 on

average. However, the range of these estimates is very wide, ranging from 400 thousand barrels per day to 1.5 million barrels per day, indicating the difficulty of tracking oil tankers.

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 USD38.0 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 USD80.5 during November 2021 (approximately 08/1400). 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

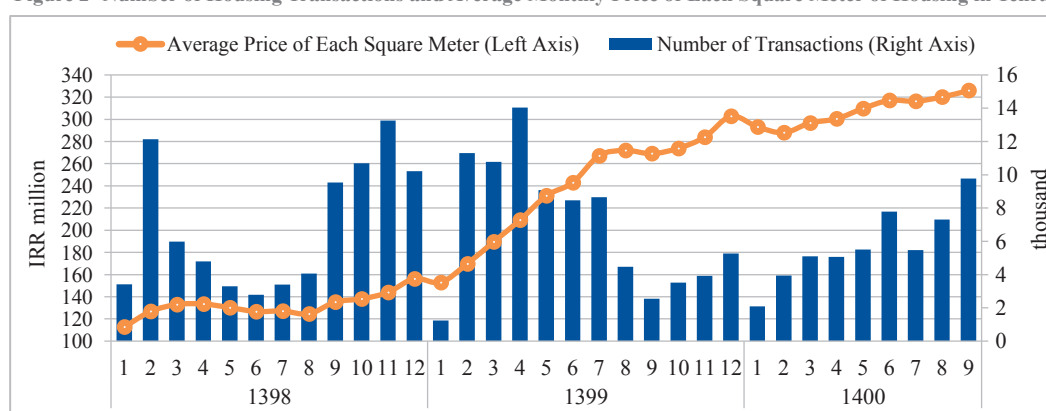
Note: OPEC statistics are based on Gregorian calendar years, and their conversion into Persian calendar years is only approximate.

Housing

The housing market experienced relative price stability and a significant decline in transactions in 1400H1, although the number of transactions increased in 1400Q3. 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. However, housing price growth rate slowed in 1400H1, so that the average price of a square meter of traded residential units in Tehran registered IRR317 million in 06/1400, indicating only 4.7 percent and 30.5 percent growth rate compared to 12/1399 and 06/1399, respectively. In 1400Q3, housing prices continued to rise slowly. So, the average price of a square meter of traded residential units in Tehran increased by 7.7 percent and 21.1 percent in 09/1400 compared to 12/1399 and 09/1399, respectively, registering IRR326 million. The annual growth rate of housing prices was 14.1 percentage point less than point-to-point inflation rate in 09/1400. In the period under review, nearly 9,772 transactions

were registered in the Tehran housing market, which was about four times of the same period of preceding year and 33.8 percent higher than that of in 08/1400. In the last two years, the growth rate of housing prices was much higher than the growth of the index for rental housing, which had increased the price-to-earnings ratio in this market. The significant rise in the index of rental housing in recent months and the re-reduction of the price-to-earnings ratio have led to an increase in the number of housing transactions in 09/1400. More than half of these transactions (58.0 percent) were recorded for small units with an area of less than 80 square meters (more than that of in recent months). For 61.9 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 1400Q3 decreased by 0.5 percentage point and 0.7 percentage point compared to 1399Q3 and 1400Q2, respectively, registering 8.9 percent. Meanwhile, the share of underemployment (less than 44 hours per week employment) increased by 0.7 percentage point (compared to 1399Q3) to 10.6 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 1400Q3, the unemployment rate was 7.6 percent for men and 15.7 percent for women. Thus, the male and female unemployment rates decreased by 0.5 percentage point and 0.2 percentage point compared to 1399Q3, respectively. A noteworthy point is the decrease of 241.9 thousand active women compared to 1399Q3, despite the increase of 371.7 thousand women in working age. In comparison, the population of active men increased by 231.3 thousand and the population of men in working age rose by 34.3.5 thousand during this period. The number of unemployed in this quarter amounted to 2.3 million, 1.6 million of which were youth aged 18-35, and 974.5 thousand hold a tertiary degree. These figures represent the unemployment rate of 16.1 percent for youth (0.4 percentage point less than that of in 1399Q3) and 13.8 percent for highly-educated people. The unemployment rate for highly-educated

men and women was 10.1 percent and 22.6 percent, respectively. In 1400Q3, the share of highly-educated employees in total employees increased by 0.8 percentage points compared to the same period of the preceding year to 25.8 percent and their share among the unemployed people increased by 2.1 percentage points to 42.3 percent. The SCI's report does not provide an estimate of the total population of highly-educated people and its changes, although the simultaneous increase in their share among the unemployed and employed is a sign of an increase in the population share of this group.

Due to frustration with finding a suitable job, the active population decreased by 10.6 thousand people in 1400Q3 compared to 1399Q3, despite the addition of 715.1 thousand people to the population aged 15 and over in the same period. the participation rate in 1400Q3 was only 40.9 percent, 0.5 percentage point less than the figure in the same period of preceding year. The rate for women was only 13.1 percent, and yet only 3.5 million of the small population of 4.1 million women willing to work managed to find a suitable job. Besides, the employment ratio went down in this quarter by 0.2 percentage points, registering 37.3 percent. Among approximately 23.5 million employed in this quarter, 49.9 percent employed in the services sector, 34.7 percent employed in the industry sector and the rest (15.4 percent) in the agriculture sector. Table 4 compares the major statistics of the labor market in 1400Q3 and 1399Q3.

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

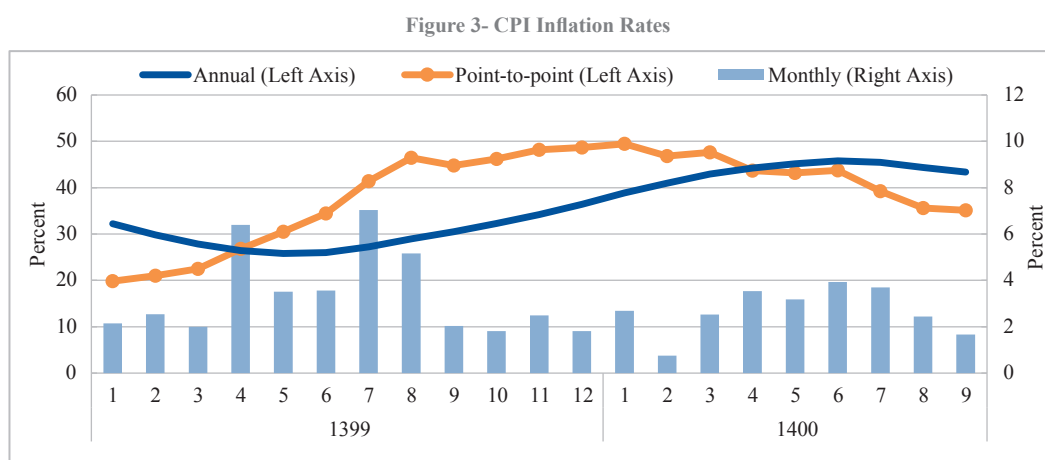
		1399Q3			1400Q3		
		Total	Male	Female	Total	Male	Female
Economic Participation Rate, Population Aged 15 and Over	Rate (percent)	41.4	68.8	14.1	40.9	68.7	13.1
	Number (million)	25.8	21.5	4.4	25.8	21.7	4.1
Share of Employment, Population Aged 15 and Over	Share (percent)	37.5	63.2	11.8	37.3	63.5	11.1
	Number (million)	23.4	19.7	3.7	23.5	20.0	3.5
Unemployment Rate, Population Aged 15 and Over	Rate (percent)	9.4	8.1	15.9	8.9	7.6	15.7
	Number (million)	2.4	1.7	0.7	2.3	1.6	0.7
Unemployment Rate, Population Aged 18-35	Rate (percent)	16.5	13.6	28.7	16.1	13.4	28.0
	Number (million)	1.8	1.2	0.6	1.6	1.1	0.5
Unemployment Rate, for Highly-Educated Population	Rate (percent)	14.3	10.3	23.4	13.8	10.1	22.6
	Number (million)	1.0	0.5	0.5	1.0	0.5	0.5
Share of the Underemployment (percent)		9.9	10.9	4.3	10.6	11.7	4.6

Source: Statistical Center of Iran, Summary result of Labor Force Survey in 1400Q3

2. Prices and Inflation

According to the latest SCI's report, the consumer price index (CPI) with the base year of 1395 stood at 379.2 in 09/1400, indicating 35.2 percent point-to-point and 1.7 percent monthly inflation rate. This monthly inflation rate was the lowest rate in the last seven months. Moreover, it experienced a 2.3 percentage point drop during 1400Q3. The annual inflation rate continued to rise to 45.8 percent during the first half of the year, but reversed course in the following months to reach 43.4 percent in 09/1400. In this month, the highest price increase among the main groups of the consumption basket was related to non-food items and services, registering a growth rate of 1.8 percent

compared to the preceding month. Meanwhile, the price index for food and beverages group grew by 1.4 percent compared to the preceding month. The point-to-point inflation rate - similar to the annual inflation rate trend - fell to 35.2 percent in 09/1400, indicating 8.6 percentage point decrease compared to 06/1400. Despite the decline in the point-to-point inflation rate during 1400Q3, the point-to-point growth rate of price index for non-food items and services had an upward trend, so that increased to 31.8 percent in 09/1400 (1.8 percentage point more than that of in 08/1400). 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

Based on SCI, the price index of goods increased more significantly than services in 09/1400, so that the annual inflation rates of them were 52.6 percent and 29.5 percent, respectively. It is worth noting that durable goods experienced a significant monthly inflation rate (3.8 percent) in 09/1400, although its effect on changing the general level of prices was negligible, due to the light weight in the consumption basket (5.5 percent). Moreover, the monthly inflation rate of non-durable goods was 1.5 percent in this month. Due to a 40.3 percent weight in the consumption basket of these goods, the monthly inflation rate did not exceed 2.0 percent in 09/1400.

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 (58.2 percent) was related to "Restaurants and Hotels" and the lowest (10.7 percent) belonged to "Communication". The highest and lowest point-to-point inflation rates experienced in "Restaurants and Hotels" (60.1 percent) and "Communication" (2.3 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 09/1400 belonged to "Tobacco" (3.9 percent) which was 2.2 percentage point higher than the monthly increase in overall index. Furthermore, the lowest monthly inflation rate experienced in "Housing, Water, Electricity, Gas and other fuels" and also "Communication" (1.0 percent). 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, recording 1.4 percent in 09/1400. Among the components of food and beverages group, the highest and lowest monthly inflation rates were related to "Vegetables (pulses and vegetables)" (3.5 percent) and "Fruits and Dried Fruits" (-1.1 percent), respectively. Furthermore, the monthly inflation rate of the "Red and Poultry Meat" was negative 0.2 percent in this month. The annual and point-to-point inflation rates in "Food and Beverages" (with 26.6 percent weight in the basket) were also recorded 58.3 percent and 41.8 percent in 09/1400, respectively. Table 5 exhibits CPI inflation rates in major groups of the consumption basket in 09/1400, with a descending order of weight in the basket.

Table 5- Inflation Rates of Major Groups in the Consumption Basket in 09/1400 (percent)

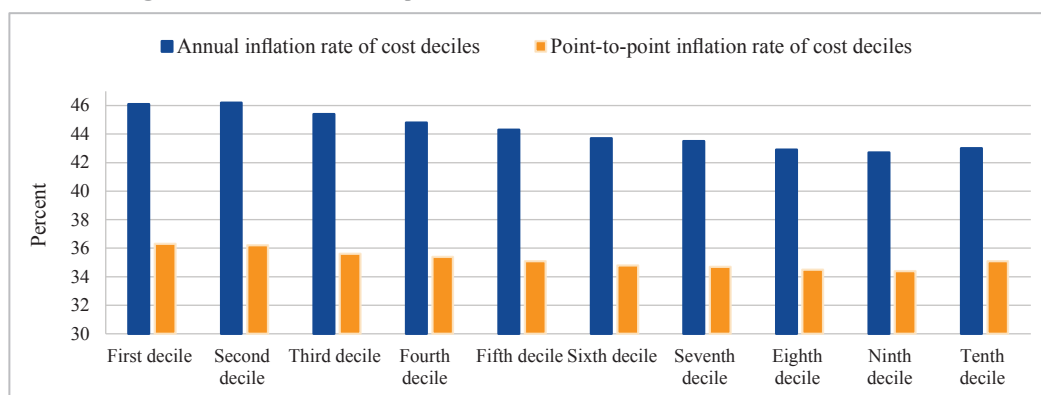
	Weight in the Basket	Price Percentage Change		
		Monthly	Point-to-point	Annual
Housing, Water, Electricity, Gas and Other Fuels	35.5	1.0	26.2	26.7
Food and Beverages	26.6	1.4	41.8	58.3
Transport	9.4	2.8	33.3	42.2
Health	7.1	1.3	34.6	40.2
Clothing and Footwear	4.8	3.1	48.8	52.3
Others	4.2	2.2	36.5	44.2
Household Equipment	3.9	2.1	36.7	55.7
Communication	2.9	1.0	2.3	10.7
Education	1.9	1.6	28.4	23.3
Recreation and Culture	1.7	2.1	32.7	47.5
Restaurants and Hotels	1.4	2.0	60.1	58.2
Tobacco	0.6	3.9	29.7	39.8
Overall	100.0	1.7	35.2	43.4

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

Moreover, the highest and lowest monthly inflation rates belonged to Hamadan province (3.0 percent) and Kurdistan Province (0.6 percent), respectively. Also, the highest and lowest annual inflation rates in the period under review were related to Ilam province (51.1 percent) and Qom province (39.2 percent), respectively. On the other hand, the annual inflation rates of different cost deciles were different, ranging between 42.7 percent for ninth decile and 46.2 percent for second decile in 09/1400. The difference between these two rates has increased by 0.3 percentage points compared to the preceding month.

Moreover, the point-to-point inflation rate was in the range of 34.4 percent for the ninth decile to 36.3 percent for the first decile. It is noteworthy that in 1400Q3, the annual inflation rate has shifted in favor of the upper deciles. In addition, the point-to-point inflation rates of three upper deciles were lower than the overall point-to-point inflation rate in 09/1400. So, the lower class has been incurred heavy expenses which led to a wider gap between high and low-income households. Figure 4 shows the annual and point-to-point inflation rates for the various cost deciles in 09/1400.

Figure 4- Annual and Point-to-point Inflation Rates for the Various Cost Deciles in 09/1400



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 1400Q1. 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 USD699 million in 1400Q1. However, the corresponding figure for the same period of preceding year was negative USD1.0 billion. Reviewing the details reveals that the current account deficit of USD622 million in 1399Q1 has turned into a surplus of USD3.5 billion in 1400Q1, while

the net capital account deficit increased by 9.3 percent and registered USD3.2 billion. Furthermore, errors and omissions decreased significantly by 86.5 percent and reached USD340 million in 1400Q1.

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, rose considerably from negative USD0.2 billion in 1399Q1 to

positive USD4.3 billion in 1400Q1. The country's total goods trade (sum of export and import values) was 67.6 percent more than that of 1399Q1, although the increase in exports was more significant than the imports, and this was the major factor of increase in the goods account. In addition to lifting corona-related restrictions around the world, the main factor in improving Iran's current account has been the significant improvement in Iran's oil exports following the recent US presidential election. In 1400Q1, the value of goods imports rose by 42.3 percent and registered USD13.0 billion, while the value of goods exports increased by 93.4 percent to reach USD17.3 billion. In the period under review, the oil exports increased by 125.1 percent to USD8.7 billion, which was more than USD8.6 billion non-oil exports. Also, the non-oil exports

increased by 69.2 percent. In fact, oil exports, which had fallen far below non-oil exports following new US sanctions, again surpassed non-oil exports in 1400Q1.

On the other hand, oil imports in 1400Q1 were almost zero and non-oil imports reached USD13.0 billion. Therefore, the oil trade balance surplus more than doubled, while the non-oil trade balance deficit rose slightly by 9.0 percent and amounted to USD4.4 billion in 1400Q1. The services account deficit and the income account deficit increased by 55.5 percent and 68.9 percent, registering USD832 million and USD49 million, respectively. Meanwhile, the current transfers account surplus stabilized in the range of USD155 million in 1400Q1, almost unchanged compared to 1399Q1. Table 6 presents the components of balance of payments in 1399Q1 and 1400Q1.

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

	1399Q1	1400Q1	Percentage change
Current Account	-622	3,534	-
Goods Account	-212	4,260	-
Exports (FOB)	8,938	17,285	93.4
Oil	3,865	8,702	125.1
Non-oil	5,073	8,582	69.2
Imports (FOB)	9,150	13,025	42.3
Gas and Oil Products	0	0	-
Others	9,150	13,025	42.3
Services Account	-535	-832	55.5
Income Account	-29	-49	68.9
Current Transfers Account	154	155	0.5
Net Capital Account	-2,903	-3,174	9.4
Errors and Omissions	2,519	340	-86.5
Overall Balance	-1,006	699	-

Source: Central Bank of Iran, Economic Trends, No 104

The latest data on the foreign trade by the IRI Customs Administration covered the first 9 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. It also seems that the new US administration's approach to easing sanctions on Iran has greatly contributed to the Iran's trade boost. In this period, 30.1 million tons of goods valued at USD36.9 billion was imported to the country and the country's exports have been 92.3 million tons valued at USD35.1 billion.

Therefore, the imports rose by 19.8 percent and 37.0 percent compared to the same period of its preceding year in terms of weight and value, respectively. In addition, exports increased by 8.2 percent and 39.8 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 9 months of 1400 decreased slightly by 1.7 percent and reached USD1.8 billion. The statistics of country's foreign trade in the first 9 months of 1399 and 1400 are shown in Table 7.

Table 7- Foreign Trade in the First 9 Months of 1399 and 1400

	First 9 Months of 1399		First 9 Months of 1400		Percentage Change	
	Weight (1000 tons)	Value (USD million)	Weight (1000 tons)	Value (USD million)	Weight	Value
Imports	25,132	26,965	30,119	36,942	19.8	37.0
Exports	85,329	25,132	92,333	35,141	8.2	39.8
Non-oil Trade Balance	60,197	-1,833	62,214	-1,801	3.4	-1.7

Source: IRI Customs Administration, Preliminary report of foreign trade data in the first 9 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 9 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 27.7 percent of the country's total exports in the first 9 months of 1400 (USD9.7 billion) were a subset of Chapter 27, indicating 2.3 percentage point decrease compared to the whole of 1399. In the first 9 months of 1400, China with USD10.2 billion of imports from Iran has been the first exports destination – as in previous years - accounting for 29.0 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 9 months of 1400, with imports of USD6.8 billion and a share of 19.3 percent. In the period under study, Turkey's non-oil imports from Iran totaled USD4.1 billion. The share of exports to Turkey in this period registered 11.8 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 9.8 percent of Iran's total exports valued at USD3.4 billion in the first 9 months of 1400. Afghanistan with USD1.4 billion of imports from Iran, accounts for 4.0 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 9 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 73.9 percent of total Iran's exports in the first 9 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 9 months of 1400, and UAE has replaced it with USD11.5 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 31.1 percent in the first 9 months of 1400. China has had 2nd place of exporting countries to Iran with about USD8.4 billion and its share in total Iran's imports drop from 25.3 percent in 1399 to 22.8 percent in the first 9 months of 1400. Turkey ranked as the 3rd exporter to Iran (exports of USD3.7 billion) in the period under review - as in 1399 - with share of 10.0 percent in total Iran's imports, which is 1.3 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 9 months of 1400 with USD1.4 billion of exports to Iran and share of 3.7 percent in total Iran's imports. Switzerland exported USD1.3 billion goods to Iran in the first 9 months of 1400 and accounted for 3.4 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 71.0 percent of total Iran's imports in the first 9 months of 1400, less than the 72.0 percent share in the whole of 1399.

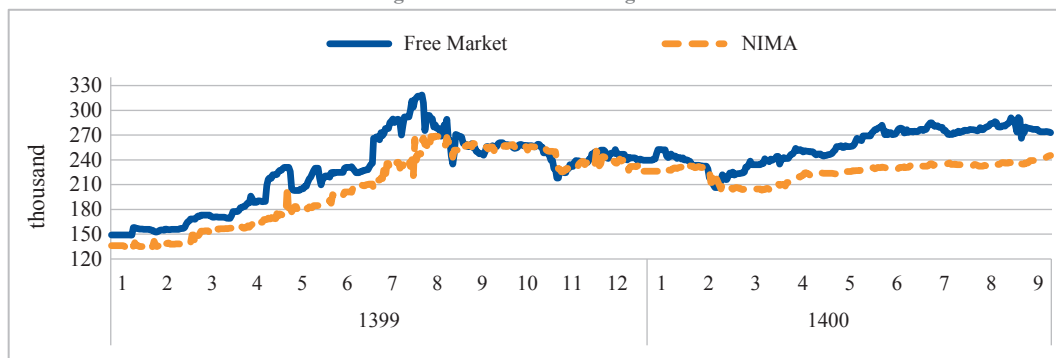
Based on CBI reports, Iran's total foreign debt declined by 1.2 percent to USD9.0 billion at the end of 06/1400. Out of this figure, about USD6.6 billion belongs to medium- and long-term debt that fell by 8.4 percent. However, in this period, short-term debts of the country boosted by 25.0 percent to USD2.5 billion.

4. Foreign Exchange Market

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 291.2 thousand on 09/08/1400, which was unprecedented after the recent US presidential election. This rate was related to authorized foreign exchanges, and in unauthorized foreign exchanges, the USD/IRR exchange rate was higher than these figures. The USD/IRR exchange rate decreased to 273.0 thousand at the end of 1400Q3. The average USD/IRR exchange rate in 1400Q3 was 6.6 percent more than that of in 1400Q2, however it was only 1.9

percent more than that of in the same quarter 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 to the first months of 1400, with the rise of the USD/IRR exchange rate in the free market from 03/1400 onwards, diverged again from the free market rate. So, the remittance USD/IRR exchange rate in the secondary market was about 23.8 percent lower than the USD/IRR exchange rate in the free market on 09/08/1400. Figure 5 shows the USD/IRR exchange rates in secondary and free markets during 1399 and the first 9 months of 1400.

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 more than USD8 billion in this regard. Accordingly, USD11.9 billion of foreign currencies has been allocated at the official rates (USD10.5 billion for the imports of essential goods and USD1.4 billion for the imports of corona vaccine) in the first 8 months of 1400. It seems that the allocation of foreign currencies at the official rates in 1400 will be about USD5 billion more than that of in 1399. In fact, the new administration, which

ostensibly opposes the allocation of foreign currencies at the official rates, has in practice done so more than the previous administration.

In the second half of 1400Q3, the CBI revoked the permitting purchase of EUR2 thousand per person per year. Thus, despite the increase in foreign exchange earnings and despite the increase in the allocation of foreign currencies at the official rates, the limited permission to buy foreign currencies was taken from the public, so that foreign exchange resources could be distributed only as economic rent. However, the CBI can remove the restriction on the purchase of foreign currencies by the individuals, if it does not insist on stabilizing the foreign exchange rate below the black market.

5. Monetary and Credit Aggregates

According to the latest accessible CBI's reports (at the time of writing this report), high-powered money (M0) stood at IRR5,189.2 trillion at the end of 1400Q2, showing 39.5 percent annual growth rate and also 13.1 percent growth rate during 1400Q2. Considering the CBI's balance sheet, the main sources of the mentioned climb in M0 over the year under review (1399Q2-1400Q2) were the considerable rise in CBI net foreign assets (36.5 percent) and also the increase in other items (21.7 percent), respectively. On the other hand, the CBI claims on public sector experienced a significant decrease (78.6 percent) compared to 1399Q2. 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 in line with the increase in crude oil revenue resulted in the growth of CBI net foreign assets.

The main reason for net CBI claims on public sector drop was a considerable rise (60.7 percent) in the government's deposits held by CBI, despite a significant increase (53.7 percent) in the government's debts (partly due to the use of CBI's revolving fund)

over the year under review. Consequently, the net government's debt to CBI stood at negative IRR229.7 trillion in 06/1400, fell by 135.2 percent compared to 06/1399. Furthermore, the net state-owned companies' debt to the CBI experienced a slight decline (1.4 percent, equivalent to IRR3.7 trillion). In addition, CBI claims on public Commercial and Specialized banks grow by 13.2 percent and 6.0 percent, respectively. On the other hand, CBI claims on Non-public and Non-bank credit institutions fell by 7.8 percent. Therefore, the share of CBI claims on these three types of institutions at the end of 06/1400, reached 8.6 percent, 37.2 percent and 54.2 percent, respectively.

In conclusion, the increase in net foreign assets of the CBI (with a share of growth of 30.6 percentage point), the rise in other items (with a share of growth of 8.0 percentage point), the decrease in net CBI claims on public sector (with a share of growth of negative 3.6 percentage point) and the fall in the CBI claims on banks (with a share of growth of negative 0.5 percentage point) have contributed to the growth of the monetary base (39.5 percent) during this period (1399Q2-1400Q2). Table 8 indicates the developments of M2 and M0 over the year under review.

Table 8- Liquidity and Monetary Base (IRR trillions)

	End of the Period			Percentage Change of 06/1400 to 06/1399	Percentage Change of 06/1400 to 12/1399
	06/1399	12/1399	06/1400		
Liquidity	28,958.9	34,761.7	40,676.0	40.5	17.0
Money	6,007.0	6,909.6	8,164.9	35.9	18.2
Notes and Coins with the Public	599.6	735.0	727.1	21.3	-1.1
Sight Deposits	5,407.4	6,174.6	7,437.8	37.5	20.5
Quasi-Money	22,951.9	27,852.1	32,511.1	41.6	16.7
Gharz-al-hasaneh Savings Deposits	1,705.3	2,268.2	2,541.5	49.0	12.0
Short-term Deposits	8,641.3	10,149.2	11,668.8	35.0	15.0
Long-term Deposits	12,082.3	14,795.8	17,409.1	44.1	17.7
Miscellaneous Deposits	523.0	638.9	891.7	70.5	39.6
Monetary base	3,720.6	4,588.9	5,189.2	39.5	13.1
CBI Foreign Assets (net)	3,631.8	4,703.7	4,956.3	36.5	5.4
CBI Claims on Public Sector (net)	172.7	-224.8	36.9	-78.6	-116.4
CBI Claims on Banks	1,291.9	1,171.4	1,273.5	-1.4	8.7
CBI Other Items (net)	-1,375.8	-1,061.4	-1,077.5	-21.7	1.5
M2 Money Multiplier	7.78	7.58	7.84	0.7	3.5

Source: Central Bank of Iran, Selected Economic Indicators

Moreover, liquidity (M2) stood at IRR40,676.0 trillion at the end of 1400Q2, showing 40.5 percent annual growth rate, while it was 36.2 percent in the corresponding period of the preceding year. Money and quasi-money as components of the liquidity grew by 35.9 percent and 41.6 percent, respectively, over the year under review. So, the share of money and quasi-money in the liquidity (M2) reached 20.1 percent and 79.9 percent, respectively, at the end of the 06/1400. The share of money (M1) in the liquidity (M2) witnessed a downward trend during 1399H2, although it reversed course during the first half of 1400, due to elimination of corona-related restrictions, as well as the persistence of negative real interest rates. It should be noted that the upward trend in the share of money (M1) in the liquidity (M2) have commenced since 1397, because of the US withdrawal from nuclear deal (JCPOA) at the beginning of 1397 and re-imposition of sanctions on Iran caused inevitable decline in oil revenues of government and consequently led to high inflation expectations. However, the M1 to M2 ratio has been almost stable about 20 percent since 1399Q3, following the new U.S presidential election, while it had reached from 17.3 percent at the end of 1398 to 19.9 percent at the end of 1399.

On the other hand, non-sight deposits (quasi-money) increased by 41.6 percent over the year under review (1399Q2-1400Q2). Finally, the M2 money multiplier reached 7.84 at the end of 06/1400, indicating 0.7 percent and 3.5 percent growth rate compared to the same period of preceding year and the end of 1399, respectively. The main factors brought about the rise in

the M2 money multiplier were the fall in the ratio of excess reserves of banks with the CBI and also the decrease in the ratio of the notes and coins to total deposits in the first half of 1400. The significant drop (58.5 percent) in the excess reserves of banks with the CBI was the result of increasing banks need to their reserves in order to extend facilities in 1400H1.

The balance of banks and non-bank credit institutions assets (or liabilities), excluding off-balance sheet items, grew by 45.6 percent to IRR67,289.7 trillion at the end of 1400Q2, indicating 20.0 percent growth rate during the first six months of 1400. On the assets side, the highest growth rates among its components were attributed to foreign assets (mainly due to foreign exchange rate change), claims on non-public sector and deposits with the CBI, respectively. On the other hand, notes and coins was the only item which was decreased (4.1 percent) compared to the end of 1399Q2. On the liabilities side of the balance sheet, the highest growth rates among its components belonged to foreign exchange loans and deposits (mainly due to foreign exchange rate change) and deposits of non-public sector. It should be noted that the majority of government deposits with the banks is related to the deposits of the foreign reserves account and the National Development Fund. Meanwhile, the capital account fell to negative IRR72.8 trillion at the end of 1400Q2. It reduced from IRR112.9 trillion to negative IRR69.8 trillion during the second half of 1399, but the decline has been intensified during the 1400H1, showing the heavy losses of 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 in 1400Q2			1400Q2 Percentage Change Compared to	
	1399Q2	1399Q4	1400Q2	Public Commercial	Public Specialized	Non-public and Non-bank	1399Q2	1399Q4
Assets (excluding below the line items)	46,203.5	56,061.1	67,289.7	12,450.9	9,906.6	44,932.2	45.6	20.0
Foreign Assets	7,297.0	9,192.8	13,778.1	1,960.3	3,440.4	8,377.4	88.8	49.9
Notes and Coins	98.5	67.6	94.5	32.4	11.9	50.2	-4.1	39.8
Deposits with the CBI	3,022.5	3,786.3	4,367.6	832.3	321.8	3,213.5	44.5	15.4
Claims on Public Sector	3,699.6	4,116.5	4,592.6	1,239.4	797.3	2,555.9	24.1	11.6
Claims on Non-public Sector	19,347.9	24,065.4	29,037.8	4,475.7	4,178.2	20,383.9	50.1	20.7
Others	12,738.0	14,832.5	15,419.1	3,910.8	1,157.0	10,351.3	21.0	4.0
Liabilities (excluding below the line items)	46,203.5	56,061.1	67,289.7	12,450.9	9,906.6	44,932.2	45.6	20.0
Deposits of Non-public Sectors	28,359.3	34,026.7	39,948.9	7,575.2	3,618.0	28,755.7	40.9	17.4
Claims of the CBI	1,291.9	1,171.4	1,273.5	109.6	473.8	690.1	-1.4	8.7
Loans and Deposits of Public Sector	353.0	336.5	469.5	249.6	161.4	58.8	33.0	39.5
Capital Account	112.9	-69.8	-72.8	213.9	357.2	-643.9	-164.5	4.3
Foreign Exchange Loans and Deposits	6,024.9	8,019.0	11,735.6	1,762.3	2,950.5	7,022.8	94.8	46.3
Others	10,061.5	12,577.3	13,935.0	2,540.3	2,354.7	9,049.0	38.5	10.8

Source: Central Bank of Iran, Selected Economic Indicators

At the end of 06/1400, the balance of extended facilities of the banking system reached IRR34,554.1 trillion, rising by 51.9 percent from the similar point in 1399. The balance of deposits in banks and non-bank credit institutions increased by 46.6 percent in the same period to reach IRR46,838.7 trillion.

Meanwhile, the average legal reserve ratio was 9.85 percent at the end of 06/1400. Therefore, the ratio of extended facilities to deposits (after deduction of the legal reserves) increased to 81.8 percent at the end of 06/1400 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

	12/1397	12/1398	06/1399	12/1399	06/1400	Percentage Change of 06/1400 Compared to	
						06/1399	12/1399
Extended Facilities (EF - in IRR trillion)	15,090.2	19,355.8	22,753.2	27,922.7	34,554.1	51.9	23.7
Deposits (in IRR trillion)	20,673.4	27,162.8	31,654.4	38,754.6	46,838.7	46.6	20.9
Deposits Less Required Reserves (DLRR - in IRR trillion)	18,568.3	24,381.1	28,975.2	34,824.0	42,223.3	45.7	21.2
Legal Reserve Ratio (percent)	10.18	10.24	9.32	10.14	9.85	-	-
EF to DLRR Ratio (percent)	81.3	79.4	78.5	80.2	81.8	-	-

Source: Central Bank of Iran, Banking Statistics

The flow of the banking system's extended facilities totaled IRR17,274.3 trillion in the first 8 months of 1400, registering a growth rate of 59.2 percent. Three sectors of "services", "manufacturing and mining" and "commerce" absorbed the highest portions of these facilities, 42.4 percent, 29.9 percent and 15.4 percent, respectively. On the other hand, two sectors of "agriculture" and "housing and construction" absorbed the lowest portions of these facilities, about 7.0 percent and 5.2 percent, respectively. Regarding the purposes, the majority of facilities (66.5 percent) was extended in the form of working capital.

About 35.4 percent of working capital extended facilities in this period granted to the sector of "manufacturing and mining". Following working capital, creation was the main purpose of extended facilities with share of 11.2 percent of the total extended facilities. The main destination of extended facilities in the form of creation belonged to services and manufacturing and mining sectors.

Table 11 compares different economic sectors in terms of extended facilities and the corresponding purposes during the first 8 months of 1400.

Table 11- Banks' Extended Facilities in the first 8 months of 1400 by Sectors and Purposes

	Agriculture	Manufacturing and Mining	Housing and Construction	Commerce	Services	Other	Total
Total (IRR trillion)	1,208.5	5,157.4	906.9	2,665.7	7,329.1	6.7	17,274.3
	Share of purpose in each sector (percent)						
Creation	20.3	13.4	22.6	3.5	9.6	4.7	11.2
Working Capital	68.3	78.9	33.4	48.7	68.0	89.7	66.5
Repair	0.4	1.3	17.6	0.3	1.9	0.6	2.2
Development	6.3	5.7	6.3	6.5	10.7	3.9	8.0
Purchase of Private Goods	1.4	0.4	0.0	40.8	0.6	0.0	6.8
Purchase of House	0.1	0.2	18.7	0.2	0.6	0.1	1.3
Others	3.2	0.1	1.3	0.1	8.6	0.9	4.0

Source: Central Bank of Iran, Extended Facilities by Sectors and Purposes during the first 8 months of 1400

6. Government Fiscal Performance

At the time of preparing this report, the performance statistics of government budget for the first half of 1400 (1400H1) have not been published. Information provided in this report is based on statistics provided by unofficial sources. According to unofficial reports, in 1400H1 the general uses stood at IRR4,150.1 trillion, which was 14.9 percent more than IRR3,610.7 trillion general sources, leading to the withdrawal of IRR539.4 trillion from the CBI's revolving fund. Thus, the performance of general sources and general uses was 56.5 percent and 65.0 percent of approved figures for 1400H1, respectively. The tax revenues reached IRR1,469.2 trillion (90.3 percent of approved figure) in 1400H1. So, given IRR3,245.9 trillion current expenditures, the deficit of operating balance stood at IRR1,294.6 trillion in the first half of 1400. Moreover, US sanctions and the global Corona virus outbreak, which reduced global demand for crude oil and gas condensate, as well as the inability of Iran's government to dispose movable and immovable properties, the disposal of non-financial assets reached only 13.4 percent of the

approved figure for 1400H1. On the other hand, the performance of IRR666.4 trillion in the acquisition of non-financial assets (development expenditures) in the first half of 1400 was about 75.6 percent of approved figure and financed mainly through the issuance of government debt securities. Accordingly, the net disposal of non-financial assets experienced a deficit of IRR401.1 trillion in 1400H1. The operating and non-financial balance deficit (the sum of operating balance and net disposal of non-financial assets), as one of the definitions of budget deficit, was financed through the net disposal of financial assets and the use of CBI's revolving fund – IRR1,156.2 trillion and IRR539.4 trillion, respectively. According to the Iranian Privatization Organization, the disposal of state-owned companies was estimated IRR1,279.5 trillion for the first half of 1400 in the budget law, of which only about 0.7 percent (IRR8.4 trillion) realized. Table 12 shows the government fiscal performance in 1400H1. Withdrawal from the National Development Fund is estimated approximately.

Table 12- Government Fiscal Performance in 1400H1 (IRR trillion)

	1400 Budget Law	1400H1 Approved	1400H1 Performance	Performance of 1400H1 (percentage of approved)
Revenues	4,549.0	2,274.5	1,951.3	85.8
Tax Revenues	3,252.4	1,626.2	1,469.2	90.3
Other Revenues	1,296.6	648.3	482.2	74.4
Expenses (current)	9,189.2	4,594.6	3,245.9	70.6
Operating Balance	-4,640.2	-2,320.1	-1,294.6	-
Disposal of Non-financial Assets	3,955.5	1,977.7	265.4	13.4
Receipts from Crude Oil and Oil Products	3,492.7	1,746.4	258.6	14.8
Receipts from Sales of Movable and Immovable Assets and Receipts from Disposal of Projects Related to Acquisition of Non-financial Assets	462.8	231.4	6.8	2.9
Acquisition of Non-financial Assets (development expenditures)	1,762.6	881.3	666.4	75.6
Net Disposal of Non-financial Assets	2,192.8	1,096.4	-401.1	-
Disposal of Financial Assets	4,274.7	2,137.4	1,394.0	65.2
Sale of Islamic Securities	1,325.0	662.5	1,140.0	172.1
Disposal of state-owned companies	2,559.0	1,279.5	8.7	0.7
Principal of Loan Receipt and Use of Foreign Loans	12.7	6.4	6.4	100.0
Last Year's Payment Return	16.0	8.0	8.0	100.0
Use of National Development Fund	362.0	181.0	230.9	127.6
Acquisition of Financial Assets	1,827.4	913.7	237.8	26.0
Net Disposal of Financial Assets	2,447.3	1,223.7	1,156.2	94.5
Total Sources	12,779.2	6,389.6	3,610.7	56.5
Total Uses	12,779.2	6,389.6	4,150.1	65.0
Overall Balance (difference between total sources and total uses)	0.0	0.0	-539.4	-

Source: 1400 Budget Law; Fars News Agency, 25/08/1400

According to the law, the government could use the CBI's revolving fund up to 3 percent of the general budget (about IRR412 trillion in 1400), 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.

Tax revenues (excluding import tax) have been approved at 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). According to the Iranian National Tax Administration, government tax revenues (excluding import tax) reached

IRR2,174 trillion in the first nine months of 1400, indicating 107.1 percent performance compared to the approved figure. Moreover, 123.1 percent of approved direct tax and 88.0 percent of approved indirect tax (tax on goods and services) realized in the first nine months of 1400. In the sub-category of direct taxes, legal entities tax experienced the highest performance (180.1 percent of approved figure). In contrast, revenues proceed from wealth tax registered the lowest performance (38.2 percent of approved figure), due to a significant decrease in stock prices in the first nine months of 1400. Table 13 compares the details of government tax revenues in the first nine months of 1400 with the approved figures for the same period.

Table 13- Performance of Tax Revenues in the first nine months of 1400 (IRR trillion-percent)

	1400 Budget Law	Approved for the First Nine Months of 1400	Performance in the First Nine Months of 1400	Performance (percentage of approved)	Share in Tax Revenues in the First Nine Months of 1400
Tax Revenues (excluding import taxes)	2,706.3	2,029.8	2,174.0	107.1	100.0
Direct Tax	1,476.9	1,107.7	1,363.0	123.1	62.7
Legal Entities	592.1	441.1	800.0	180.1	36.8
On Income	542.5	406.9	465.0	114.3	21.4
On Wealth	342.3	256.7	98.0	38.2	4.5
Indirect Tax (On Goods and Services)	1,229.5	922.1	811.0	88.0	37.3

Source: 1400 Budget Law; Fars News Agency, "the Performance details of the tax revenues in the first nine months of 1400"

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 Economic Affairs and Finance, held weekly auctions of government bonds in the interbank market (money market) and the capital market from 03/1400 to 09/1400 in 24 rounds. So, the CBI supplied about IRR3,434.1 trillion Government Murabaha Sukuk and IRR115.0 trillion Standard Salaf Parallel bonds until the end of 09/1400, while facing low demand from the banks and non-bank institutions (only IRR173.1 trillion). However, the Ministry of Economic

Affairs and Finance, as the decision-maker, agreed to sell IRR171.7 trillion. Furthermore, IRR427.6 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 IRR599.3 trillion in the first nine months of 1400, 29.0 percent less than that of in the first nine of 1399 (IRR843.7 trillion). Table 14 illustrates the details on the auctions of government debt securities by the CBI from 03/1399 to 09/1400.

Table 14- Government Debt Securities Auctions by the CBI (IRR trillion-percent)

Month	1399			1400			Point-to-point Growth Rate of Traded
	Supply	Demand	Traded	Supply	Demand	Traded	
03	219.0	632.3	109.0	936.5	17.5	16.1	-85.3
04	414.4	477.6	249.6	844.1	21.5	21.5	-91.4
05	291.0	140.6	46.5	722.1	36.3	36.3	-22.0
06	221.0	88.5	56.7	621.9	63.1	63.1	11.4
07	323.2	11.8	11.0	0.0	0.0	0.0	-
08	225.0	52.4	16.8	100.0	9.2	9.2	-45.3
09	273.6	46.4	45.4	324.5	25.6	25.6	-43.7

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

Additionally, based on Iran Fara Bourse (OTC market) reports, net cumulative purchase of government debt securities by CBI and investment funds in the secondary market stood at IRR621 trillion and IRR377 trillion, respectively, from the second half of Mordad to the end of 09/1400. Meanwhile, the net cumulative purchase of government debt securities by banks was about negative IRR419 trillion in the period under review.

In the other words, not only banks were reluctant to purchase government debt securities in the primary market (auctions held by the CBI), but also, they were the main seller of government debt securities in the secondary market. Increasing purchase of the government debt securities by CBI in the secondary market will lead to the monetary base (M0) and inflation rate rise in the coming months.

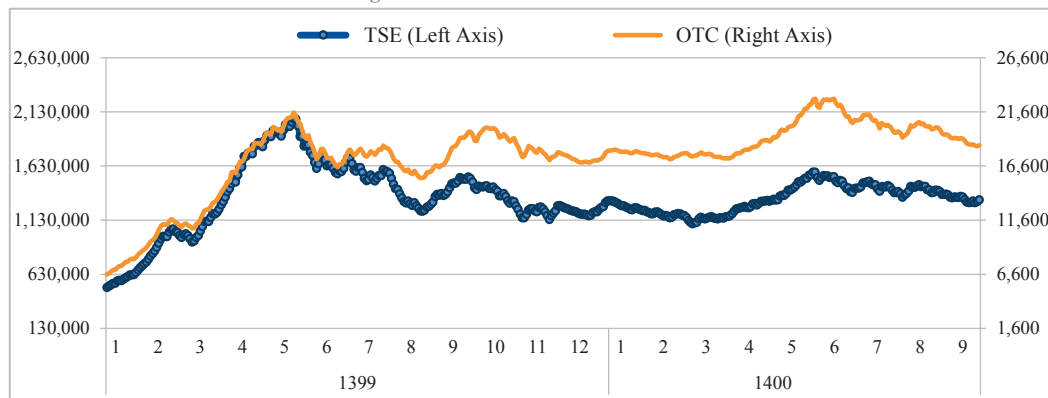
7. Capital Market

The growth rate of the overall index intensified during 1400Q2 following 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, frenzied 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. In the first half of 07/1400, due to the national currency depreciation, the overall index rose by 7.3 percent compared to the end of 1400Q2. Then, because of mounting uncertainty about nuclear negotiations and also a significant increase in the cryptocurrency prices, there was a slight decrease in the overall index (6 percent) from the first half of 07/1400 to the early 08/1400. During the third week of 08/1400, due to the official announcement of the increase in the car prices, the overall index grew by 4.2 percent. Then, due to revocation of the license of

increasing car prices, the overall index reversed course in the last week of 08/1400. Finally, a large drop in demand led to a decrease (4.9 percent) in the overall index at the end of 09/1400 compared to the preceding month. It is worth mentioning that the overall index dropped by 11.4 percent at the end of 09/1400 compared to the first half of 07/1400. In the 09/1400, some decisions were made and announced to support the stock market, which includes the raising capital of Capital Market Stabilization Fund (IRR300 trillion), allocating the sources from initial public offering of state-owned companies shares to the market making of the these offered shares, and participation of the head of the Securities and Exchange Organization of Iran in the government bond issuance committee.

The Over the Counter (OTC) market had similar trend and its overall index grew by 3.7 percent in the first half of 07/1400 compared to the end of 1400Q2, decreased after that by 13.2 percent (compared to the first half of 07/1400) to 18.5 thousand at the end of 1400Q3. Figure 6 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 nine months of 1400 fell by 35.7 percent compared to the same period of last year, registered 1,095.9 billion. Considering dramatic decrease in prices, the value of equities transactions experienced much higher fall rate and dropped by 63.5 percent and reached IRR7,256.0 trillion. The value of transactions in debt securities and exchange-traded funds grew by 170.0 percent and 73.0 percent, respectively, although the value of total transactions decreased by 53.8 percent during

the same period due to their low market share. The TSE's market capitalization decreased by 7.6 percent and stood at IRR52,694.9 trillion at the end of 1400Q3. The equally-weighted index dropped by 20.8 percent during the first nine month of 1400 and 22.2 percent during a year ended in 09/1400, which was more than that for the overall index in annual terms (8.4 percent). Therefore, the equities of small-sized companies experienced a higher decrease in prices compared to the large companies on average. Table 15 gives more details on these statistics for the TSE.

Table 15- Some Important Statistics of the TSE

	During the Period			End of the Period				
	Number of Traded Equities (billion shares)	Value of Traded Equities (IRR trillion)	Total Value of Transactions (IRR trillion)	Market Capitalization (IRR trillion)	Equally-weighted Index (thousand)	Overall Index (thousand)	Financial Index (thousand)	Industrial Index (thousand)
First Nine Months of 1400	1,095.9	7,256.0	9,868.0	52,694.9	348.2	1,318.4	1,404.3	1,218.3
First Nine Months of 1399	1,704.9	19,885.9	21,344.3	57,059.1	447.8	1,439.1	2,001.9	1,264.5
Percentage Change	-35.7	-63.5	-53.8	-7.6	-22.2	-8.4	-29.9	-3.7

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

Listed Companies on TSE financed IRR1,068.6 trillion in the first nine months of 1400, out of which about 84.9 percent was through raising capital (receivables and cash inflows, or savings and accumulated profits) and 11.3 percent through issuing debt

bonds and subordinate sale option securities. Also, six companies listed their equities on the stock market for the first time, leading to financing to a total of IRR40.4 trillion. Table 16 summarizes this information compared to the first nine months of 1399.

Table 16- Financing Methods of Listed Companies on the TSE

	First Nine Months of 1399		First Nine Months of 1400		Percentage Change in Value
	Value (IRR trillion)	Share (percent)	Value (IRR trillion)	Share (percent)	
Total	711.3	100.0	1,068.8	100.0	50.3
Initial Public Offering	128.0	18.0	40.4	3.8	-68.4
Raising Capital (except for asset revaluation)	520.1	73.1	907.8	84.9	74.5
Issuing Debt Bonds	53.0	7.5	61.6	5.8	16.2
Issuing Subordinate Sale Option Bonds	10.2	1.4	59.1	5.5	480.7

Source: Tehran Stock Exchange, Monthly Market Analysis, 09/1400

8. Other Economic Developments

According to the SCI, the share of food expenditures of urban households has increased from 23.3 percent of their total expenditures in 1396 to 25.9 percent in 1399. In the same period, the shares of net housing costs and net health care costs in the total expenditures of urban households have increased from 33.0 percent to 42.8 percent and from 10.6 percent to 11.3 percent, respectively.

Thus, a typical urban household that allocated 66.9 percent of its

total expenditures to food, housing and health in 1396, after three years has been forced to allocate 80.0 percent. However, various reports indicate a decrease in per capita consumption of many food items (including meat and dairy). It should be noted that income distribution has also become more unequal between 1396 and 1399, so that the ratio of the expenditures of the richest decile to the expenditures of the poorest decile has increased from 13.65 to 13.96.

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