

# Recent Economic Developments in Iran

A Quarterly Report



**Winter 1400**  
(roughly 2022Q1)

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## **Recent Economic Developments in Iran, A Quarterly Report** **Winter 2022**

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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.

**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**  
**1400Q4** = 12/22/2021 - 03/20/2022, roughly **2022Q1**

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## Iran's Economy at a Glance

	1399Q3	1399Q4	1399	1400Q1	1400Q2	1400Q3	1400Q4	1400
<b>Labor Force Participation &amp; Unemployment Rates (percent)</b>								
Participation (10 years and over)	41.4	40.9	41.3	41.4	41.1	40.9	40.4	-
Unemployment (10 years and over)	9.4	9.7	9.6	8.8	9.6	8.9	9.4	-
Unemployment (youth aged 15-24)	23.7	23.6	23.7	22.1	25.7	23.6	23.1	-
<b>Real Growth Rates of GDP and Its Subsectors at Constant 1395 Prices (percent)</b>								
Gross Domestic Product (GDP)	3.0	5.4	2.9	6.2	1.0	5.7	-	-
Manufacturing and Mining	7.3	10.0	7.6	1.6	-5.1	3.8	-	-
Oil	8.6	27.2	8.7	23.3	7.4	5.4	-	-
Agriculture	4.9	4.1	4.3	-2.2	-1.9	-2.5	-	-
Services	-0.1	0.8	-0.2	7.4	4.2	8.1	-	-
GDP (excluding oil)	2.4	3.4	2.4	4.7	0.5	5.8	-	-
Gross Fixed Capital Formation (at market prices)	1.7	10.5	5.0	-3.9	-12.7	2.4	-	-
<b>Oil (daily average - thousand barrels)</b>								
Production*	1,986	2,198	2,023	2,440	2,481	2,479	-	-
<b>Point-to-Point Inflation Rates (percent)</b>								
Growth Rate of Consumer Price Index (1395=100)	44.2	47.7	36.4	47.6	43.7	35.2	34.7	40.2
Growth Rate of Producer Price Index (1395=100)	58.8	67.5	46.7	73.0	58.9	48.6	-	-
<b>Balance of Payments (USD millions)</b>								
Oil Exports	6,056	6,429	21,043	8,702	9,974	9,265	-	-
Non-Oil Exports	8,025	9,208	28,805	8,582	8,849	10,635	-	-
Imports of Goods	11,963	13,676	46,612	13,025	15,010	16,172	-	-
Goods Account (net)	2,119	1,961	3,236	4,260	3,813	3,729	-	-
Non-Oil Goods Account (net)	-3,938	-4,468	-17,806	-4,442	-6,161	-5,537	-	-
Current Account	1,124	-3	-708	3,534	2,463	2,211	-	-
Capital Account	-1,267	-1,159	-6,318	-3,174	-3,166	-3,794	-	-
Change in Foreign Reserves	-950	193	-2,641	699	-747	-2,164	-	-
<b>Foreign Exchange Rates (USD/IRR daily average)</b>								
Free Market	272,950	244,027	225,054	233,820	260,867	278,131	267,507	260,081
Official	42,000	42,000	42,000	42,000	42,000	42,000	42,000	42,000
NIMA (for bills of exchange)	251,914	241,106	206,204	217,582	225,797	235,583	243,536	230,652
<b>Monetary and Credit Aggregates (end of period - IRR trillions)</b>								
Monetary Base (M0)	4,075.4	4,559.5	4,559.5	5,009.0	5,189.2	5,608.6	-	-
CBI Claims on Banks	1,268.4	1,203.0	1,203.0	1,134.4	1,273.5	1,537.4	-	-
CBI Claims on Public Sector (net)	123.0	-219.4	-219.4	408.2	36.9	-393.6	-	-
CBI Net Foreign Assets	3,838.3	4,427.2	4,427.2	4,790.9	4,956.3	4,935.7	-	-
Liquidity (M2)	31,300.2	34,761.7	34,761.7	37,054.0	40,676.0	44,269.9	-	-
Money (M1)	6,170.3	6,906.6	6,906.6	7,261.9	8,164.9	8,779.0	-	-
Sight Deposits	5,528.1	6,174.6	6,174.6	6,546.9	7,437.8	8,040.2	-	-
Non-sight Deposits (quasi-money)	25,129.9	27,852.1	27,852.1	29,792.1	32,511.1	35,490.9	-	-
<b>Government Budget and Fiscal Position (IRR trillions)</b>								
The data in this section is not available								
<b>Tehran Stock Exchange (end of period)</b>								
Overall Index (TEDPIX)	1,439,124	1,307,657	1,307,657	1,168,592	1,386,451	1,318,467	1,367,247	1,367,247
Financial Index	2,001,939	1,782,068	1,782,068	1,622,677	1,558,751	1,404,304	1,474,964	1,474,964
Industrial Index	1,264,532	1,154,258	1,154,258	1,027,589	1,269,899	1,218,339	1,260,819	1,260,819
Market Capitalization (IRR trillions)	57,059	51,601	51,601	46,660	53,427	52,695	53,604	53,604

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 first nine months of 1400. In this period, the growth rate of "agriculture" group was negative and "manufacturing and mining" group did not expand, while "oil" and "services" groups experienced positive growth rates. Similarly, in the report of the SCI, positive economic growth rates have been recorded in the first nine months 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 nine months of 1400 amounted to IRR43,166.4 trillion at current prices, indicating a 4.1 percent expansion in GDP at constant prices. Much of this growth has occurred in the services sector by 3.5 percentage point share of GDP growth rate. During this period, the growth rate of the services group was 6.5 percent, while in the first nine months of 1399 and due to the outbreak of coronavirus, the growth rate of this sector was negative 0.5 percent. The share of GDP growth rate of the oil sector was also 0.5 percentage point in the first nine months of 1400. Moreover, the non-oil growth rate in the first nine months of 1400 was 3.4 percent.

Meanwhile, according to the SCI's report, the GDP at the current market prices amounted to IRR59,463 trillion in the first nine months of 1400, indicating a 5.1 percent expansion at constant prices. In this report, the non-oil growth rate was 3.4 percent in the period under review.

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, however, the positive growth rate of this sector has had a downward trend during 1400. In fact, the growth rate of 23.3 percent in the oil sector in 1400Q1 reached 7.4 percent and 5.4 percent in 1400Q2 and 1400Q3, respectively. 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 a final nuclear deal. 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, 10.0 percent and 4.3 percent expansion in 1400Q1, 1400Q2 and 1400Q3, respectively).

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

expanded by 3.8 percent in 1400Q3, while due to the negative growth rate of this sector in 1400Q2, its growth rate in the first nine months of 1400 was zero. In this sector, the "water supply, wastewater and water treatment" sub-sector has the highest growth rate (5.7 percent) and the construction sub-sector has the lowest growth rate (negative 13.6 percent) in the first nine months of 1400. 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 the first nine months of 1400 (11.8 percent), due to an 13.4 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 3.4 percent in the first nine months of 1400, which is 0.2 percentage point less than that of in the CBI's report.

Based on CBI's report, the services sector grew by 8.1 percent and 6.5 percent in 1400Q3 and the first nine months of 1400, respectively. In the first nine months of 1400, among the services sub-sectors, "professional, scientific and technical activities" had the highest growth rate (37.2 percent) and "financial and insurance activities" shrunk by 4.2 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 the first nine months of 1400 (27.1 percent, 18.6 percent and 15.1 percent, respectively). According to the SCI's report, the services sector has grown by 5.7 percent and 5.1 percent in 1400Q3 and the first nine months of 1400, respectively. The financial intermediation activities sub-sector grew by only 0.2 percent in the first nine months of 1400, 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 (29.5 percent) among the services sub-sectors in the first nine months of 1400.

On the other hand, based on CBI, the contraction of the agriculture sector was 2.1 percent in the first nine months of 1400, while it was 3.7 percent in SCI's report. According to the CBI, a 11.3 percent decrease in farming production has been the main cause of contraction in this sector, while the production of horticultural products (fruits) has increased by 4.8 percent. The main economic sectors' growth rates in the quarters of 1399 and 1400 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 First 9 Months of 1400
	Q1	Q2	Q3	First 9 Months	Q4	Year	Q1	Q2	Q3	First 9 Months		
Agriculture	4.6	3.9	4.9	4.1	4.1	4.3	-2.2	-1.9	-2.5	-2.1	-0.3	
Oil	-10.7	12.6	8.6	2.8	27.2	8.7	23.3	7.4	5.4	11.7	0.9	
Manufacturing and Mining	7.0	6.0	7.3	6.7	10.0	7.6	1.6	-5.1	3.8	0.0	0.0	
Services	-2.5	1.0	-0.1	-0.5	0.8	-0.2	7.4	4.2	8.1	6.5	3.5	
<b>Non-oil Gross Domestic Product</b>	<b>0.7</b>	<b>2.9</b>	<b>2.4</b>	<b>2.1</b>	<b>3.4</b>	<b>2.4</b>	<b>4.7</b>	<b>0.5</b>	<b>5.8</b>	<b>3.4</b>	-	
<b>Gross Domestic Product</b>	<b>-0.3</b>	<b>3.5</b>	<b>3.0</b>	<b>2.1</b>	<b>5.4</b>	<b>2.9</b>	<b>6.2</b>	<b>1.0</b>	<b>5.7</b>	<b>4.1</b>	<b>4.1</b>	

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 1.6 percent in the first nine months of 1399, registered 3.4 percent in the first nine months of 1400. 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 13.0 percent in the first nine months of 1400. Moreover, the government consumption growth rate was positive in the first nine months of 1400 in both reports (3.4 percent based on CBI and 5.3 percent based on SCI).

Based on CBI, gross fixed capital formation growth rate that was positive in 1399, reversed course to negative 5.2 percent in the first nine months of 1400. However, investment in 1400Q3 was 2.4 percent higher than that of in 1399Q3 and the negative growth rate in the first nine months of this year is related to the first two quarters.

Previously, CBI reports divided capital formation into two categories: construction and machinery, while in the two new reports, 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 12.8 percent (due to the increase in both imports and production of capital goods), while it decreased by 13.4 percent and 1.8 percent in the form of construction and "other", respectively, in the first nine months of 1400. 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 3.5 percent and 6.3 percent, respectively, in the first nine months of 1400. Thus, contrary 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 nine months of 1400, but also experienced a growth rate of 4.9 percent.

Regarding the foreign trade, simultaneous increase in exports and imports of goods and services in the first nine months of 1400 (5.4 percent and 25.5 percent, respectively) recorded in the CBI's report. However, corresponding growth rates were 14.8 percent and 0.3 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			
	First 9 Months	Year	Q1	Q2	Q3	First 9 Months
<b>Private Consumption</b>	-1.6	-0.5	1.7	3.7	4.6	3.4
<b>Public Consumption</b>	3.7	-1.1	0.0	6.5	3.5	3.4
<b>Gross Fixed Capital Formation</b>	3.0	5.0	-3.9	-12.7	2.4	-5.2
Machinery	1.5	3.1	14.3	6.2	18.2	12.8
Construction	4.0	6.8	-10.3	-21.4	-6.7	-13.4
Other	-4.7	-11.8	-3.5	-1.9	0.7	-1.8
<b>Net Export of Goods and Services</b>						
Export	-19.7	-10.4	35.6	-1.4	-8.6	5.4
Import	-32.7	-28.7	30.5	19.4	27.6	25.5
<b>Gross Domestic Product (at market prices)</b>	0.9	1.8	7.3	1.2	7.2	5.0

Source: Central Bank of Iran, National Accounts report

## Investment

According to the Ministry of Industry, Mine and Trade, during the first 11 months of 1400, the number of establishment permits of manufacturing units totaled 36,066, and about IRR11,194.3 trillion investment is forecasted to be needed for them, recording 0.4 percent decline and 83.0 percent climb compared to the same period in the preceding year, respectively. The operation permits,

including creation and development plans operation permits, reached 6,844 in number, 3.4 percent higher than that in the first 11 months of 1399. Their corresponding investment grew by 28.1 percent, registering IRR2,372.6 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 11 Months of 1399	First 11 Months of 1400	Percentage Change
<b>Projection for Establishment Permits</b>	6,118.4	11,194.3	83.0
<b>Operation Permits</b>	1,852.1	2,372.6	28.1

Source: Ministry of Industry, Mine and Trade, the preliminary report of the performance of the first 11 months of 1400

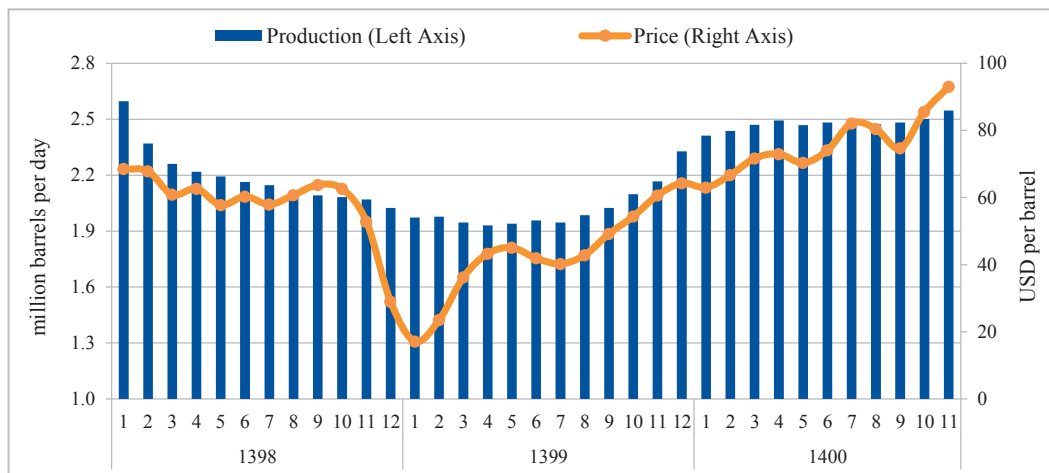
## Oil

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 7.7 percent of Iran's GDP in 1400Q3, which is 2.5 percentage point higher than that of in 1399Q3. Share of the oil sector in GDP was 7.0 percent in the first nine months of 1400, 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 February 2022 (approximately 11/1400), showing a 17.5 percent and 23.0 percent increase compared to the same month in 2021 and 2020, respectively. Thus, Iran's current oil production is close to the level of the beginning of 1398, although it is still far from about 3.8 million barrels per day in the period after the nuclear deal. 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 700 thousand to more than one million barrels per day in January 2022. However, the breadth of this range indicates 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 USD57.5 in 2021, indicating a growth rate of 51 percent. With the Russian invasion of Ukraine in the last week of February 2022, the Iran's oil price also commenced increasing to reach USD93.0 during this month (approximately 11/1400). 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.

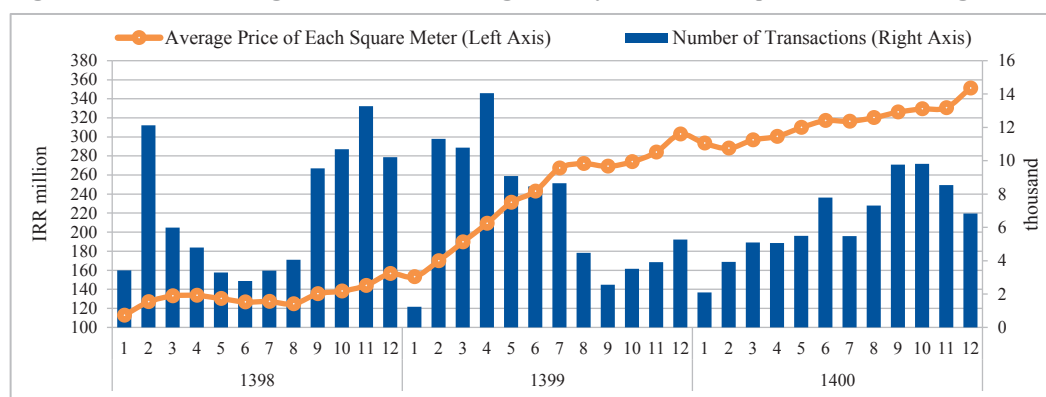
## Housing

The Tehran housing market experienced a slight increase in prices and a slight decrease in transactions in 1400. The total number of transactions in Tehran was 7.3 percent less than that in 1399 and the average price of one square meter of traded residential unit at the end of 1400 was only 16.0 percent higher than that at the end of 1399. The average price of a square meter of residential units in Tehran registered IRR351 million in 12/1399, indicating a significant growth rate of 6.2 percent during a month (highest monthly growth rate in 1400). The point-to-point annual growth rate of housing prices in 12/1400 was 18.7 percentage point less than point-to-point inflation rate at the same time, so housing prices in Tehran dropped in 1400, at real terms. In 12/1400, nearly 6,834 transactions were registered in the Tehran housing market, which was 29.6 percent more than that of at the same period of preceding year

and 33.8 percent higher than that of in 11/1400. The index for rental housing in Tehran, however, experienced a growth rate of 45.8 percent at the end of 1400, which is much higher than the growth rate of housing prices. In fact, after the price shocks in the housing market in 1397 to 1399, the rental market has gradually reacted. The significant growth rate in the index for rental housing is expected to continue.

More than half of the total transactions in Tehran housing market in 12/1400 (53.1 percent) were recorded for small units with an area of less than 80 square meters. For 58.9 percent of these transactions, the price of per square meter was lower than the average. Also, 57.4 percent 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 1400Q4 decreased by 0.3 percentage point compared to 1399Q4 and increased by 0.5 percentage point compared to 1400Q3, registering 9.4 percent. Meanwhile, the share of underemployment (less than 44 hours per week employment) registered 10.7 percent in 1400Q4. 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 1400Q4, the unemployment rate was 8.4 percent for men and 14.9 percent for women. Thus, the male unemployment rate remained unchanged and female unemployment rate decreased by 1.6 percentage point compared to 1399Q4. A noteworthy point is the decrease of 111.5 thousand active women compared to 1399Q4, despite the increase of 374.3 thousand women in working age. In comparison, the population of active men increased by 81.7 thousand and the population of men in working age rose by 346.9 thousand during this period. In recent years, the population of women of working age has been steadily increasing, while the population of active women has been declining, so that the population of active women has decreased from 5.6 million in 1397Q1 to 4.1 million in 1400Q4. The number of unemployed in 1400Q4 amounted to 2.5 million, 1.6 million of which were youth aged 18-35, and 917.9 thousand hold a tertiary degree. These figures represent the unemployment rate of 16.6 percent

for youth (0.2 percentage point less than that of in 1399Q4) and 13.0 percent for highly-educated people. The unemployment rate for highly-educated men and women was 9.7 percent and 20.8 percent, respectively. In 1400Q4, the share of highly-educated employees in total employees increased by 1.3 percentage points compared to the same period of the preceding year to 26.6 percent and their share among the unemployed people decreased by 0.7 percentage points to 38.1 percent. 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 29.9 thousand people in 1400Q4 compared to 1399Q4, despite the addition of 721.1 thousand people to the population aged 15 and over in the same period. The participation rate in 1400Q4 was only 40.4 percent, 0.5 percentage point less than the figure in the same period of preceding year. The rate for women was only 12.8 percent, and yet only 3.5 million of the small population of 4.1 million women willing to work managed to find a job. Besides, the employment ratio went down in this quarter by 0.3 percentage points, registering 36.6 percent. Among approximately 23.2 million employed in this quarter, 51.9 percent employed in the services sector, 33.6 percent employed in the industry sector and the rest (14.5 percent) in the agriculture sector. Table 4 compares the major statistics of the labor market in 1400Q4 and 1399Q4.

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

		1399Q4			1400Q4		
		Total	Male	Female	Total	Male	Female
Economic Participation Rate, Population Aged 15 and Over	Rate (percent)	40.9	68.5	13.3	40.4	68.0	12.8
	Number (million)	25.6	21.4	4.2	25.6	21.5	4.1
Share of Employment, Population Aged 15 and Over	Share (percent)	36.9	62.8	11.1	36.6	62.3	10.9
	Number (million)	23.1	19.7	3.5	23.2	19.7	3.5
Unemployment Rate, Population Aged 15 and Over	Rate (percent)	9.7	8.4	16.5	9.4	8.4	14.9
	Number (million)	2.5	1.8	0.7	2.4	1.8	0.6
Unemployment Rate, Population Aged 18-35	Rate (percent)	16.8	14.0	29.0	16.6	14.3	26.5
	Number (million)	1.7	1.2	0.6	1.6	1.2	0.5
Unemployment Rate, for Highly-Educated Population	Rate (percent)	14.1	10.0	23.5	13.0	9.7	20.8
	Number (million)	1.0	0.5	0.5	0.9	0.5	0.4
Share of the Underemployment (percent)		10.8	11.9	4.6	10.7	11.9	4.2

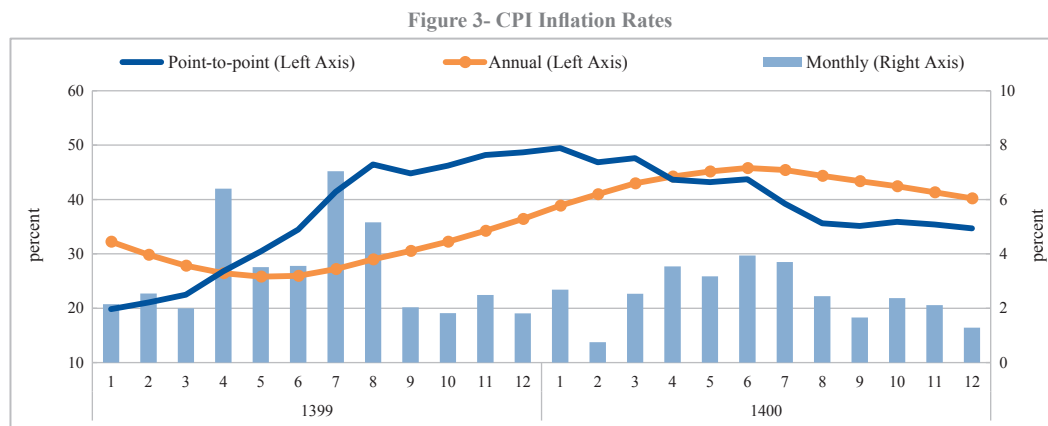
Source: Statistical Center of Iran, Summary result of Labor Force Survey in 1400Q4



## 2. Prices and Inflation

According to the latest SCI's report, the consumer price index (CPI) with the base year of 1395 stood at 401.5 in 12/1400, indicating 34.7 percent point-to-point and 1.3 percent monthly inflation rate. In comparison with the previous months in 1400, this monthly inflation rate was the second lowest rate in 1400. Moreover, it experienced a 0.4 percentage point drop during 1400Q4. 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 40.2 percent in 12/1400. In this

month, the highest price increase among the main groups of the consumption basket was related to food, beverages and tobacco group, registering a growth rate of 1.7 percent compared to the preceding month. Meanwhile, non-food items and services prices grew by 1.1 percent compared to the last month. The point-to-point inflation rate - similar to the annual inflation rate trend - fell to 34.7 percent in 12/1400, indicating 9.0 percentage point decrease compared to 06/1400. 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 12/1400, so that the annual inflation rates of them were 46.7 percent and 29.8 percent, respectively. It is worth noting that the monthly inflation rate of durable goods did not change in 12/1400, 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 registered 1.3 percent in 12/1400.

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 (61.6 percent) was related to "Restaurants and Hotels" and the lowest (6.4 percent) belonged to "Communication". The highest and lowest point-to-point inflation rates experienced in "Restaurants and Hotels" (56.7 percent) and "Communication" (4.0 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 12/1400 belonged to "Clothing and Footwear" (4.4 percent) which was 3.1 percentage point higher than the monthly increase in overall index. Furthermore, the lowest monthly inflation rate experienced in "Transport" (0.0 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 1.7 percent in 12/1400. Among the components of food and beverages group, the highest and lowest monthly inflation rates were related to "Bread and Cereal" (4.9 percent) and "Fruits and Dried Fruits" (-5.4 percent), respectively. Furthermore, the annual and point-to-point inflation rates in "Food and Beverages" (with 26.6 percent weight in the basket) were also recorded 51.9 percent and 40.8 percent in 12/1400, respectively. Table 5 exhibits CPI inflation rates in major groups of the consumption basket in 12/1400, in descending order of weight in the basket.

Table 5- Inflation Rates of Major Groups in the Consumption Basket in 12/1400 (percent)

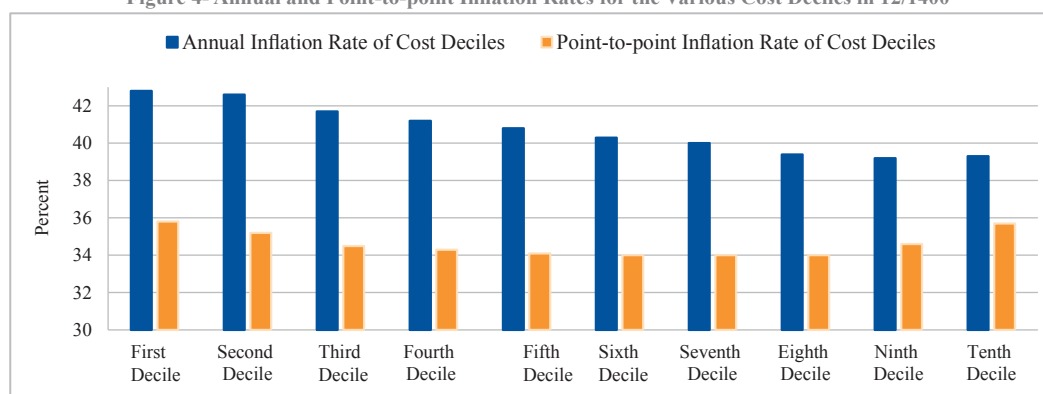
	Weight in the Basket	Price Percentage Change		
		Monthly	Point-to-point	Annual
Housing, Water, Electricity, Gas and Other Fuels	35.5	0.5	27.2	26.8
Food and Beverages	26.6	1.7	40.8	51.9
Transport	9.4	0.0	34.8	37.5
Health	7.1	0.8	32.0	38.7
Clothing and Footwear	4.8	4.4	46.3	51.3
Others	4.2	2.4	34.8	40.8
Household Equipment	3.9	1.7	30.5	46.5
Communication	2.9	0.1	4.0	6.4
Education	1.9	0.1	28.0	25.0
Recreation and Culture	1.7	1.1	27.3	39.9
Restaurants and Hotels	1.4	2.8	56.7	61.6
Tobacco	0.6	2.1	37.2	35.9
<b>Overall</b>	<b>100.0</b>	<b>1.3</b>	<b>34.7</b>	<b>40.2</b>

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

Moreover, the highest and lowest monthly inflation rates belonged to Yazd province (2.2 percent) and Ardabil and Sistan and Baluchestan provinces (0.6 percent), respectively. Also, the highest and lowest annual inflation rates in the period under review were related to Kohgiluyeh and Boyer-Ahmad province (48.2 percent) and Hamadan province (36.3 percent), respectively. On the other hand, the annual inflation rates of different cost deciles ranged between 39.2 percent for ninth decile and 42.8 percent for first decile in 12/1400. The difference between these two rates has risen by 0.1 percentage points during

1400Q4. Moreover, the point-to-point inflation rate was in the range of 34.0 percent for the sixth, seventh and eighth deciles to 35.8 percent for the first decile. It is noteworthy that in 1400Q4, the annual inflation rate has shifted in favor of the upper deciles. In fact, the annual inflation rates of four upper deciles were lower than the overall annual inflation rate in 12/1400. 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 12/1400.

Figure 4- Annual and Point-to-point Inflation Rates for the Various Cost Deciles in 12/1400



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 the first nine month of 1400. 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 USD2.2 billion in the first nine month of 1400. However, the corresponding figure for the same period of preceding year was negative USD2.8 billion. Reviewing the details reveals that the current account deficit of USD704 million in the first nine months of 1399 has

turned into a surplus of USD8.2 billion in the first nine months of 1400, while the net capital account deficit increased by 96.5 percent and registered USD10.1 billion. Furthermore, errors and omissions reached from USD3.0 billion in the first nine months of 1399 to negative USD285 million in the first nine months of 1400.

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, increased considerably from negative USD0.7 billion in the first nine months of 1399 to USD8.2 billion in the first nine months of 1400. The country's total goods trade (sum of export and import values) was 49.2 percent more than that of in the same period of preceding year, although the increase in exports was more significant than the increase in imports, and this was the major factor of rise in the goods account. In addition to lifting coronavirus-related restrictions around the world, Iran's oil exports have increased significantly due to the new US administration's approach. In the first nine months of 1400, the value of goods imports increased by 34.2 percent and registered USD44.2 billion, while the value of goods exports rose by 63.7 percent to reach USD56.0 billion. In the period under review,

the oil exports increased by 91.2 percent to USD27.9 billion, which was close to USD28.1 billion in non-oil exports. Also, the non-oil exports rose by 43.2 percent.

On the other hand, oil imports in the first nine months of 1400 were almost zero (USD166 thousand) and non-oil imports reached USD44.2 billion. Therefore, the oil trade balance surplus almost doubled, while the non-oil trade balance deficit rose by 21.0 percent and amounted to USD16.1 billion. The services account deficit increased and registered USD3.8 billion in the first nine months of 1400. The income account had a deficit of USD316 million during this period. Meanwhile, the current transfers account surplus fell slightly by 3.0 percent to USD474 million. Table 6 presents the components of balance of payments.

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

	First 9 Months of 1399	First 9 Months of 1400	Percentage change of First 9 Months of 1400 to First 9 Months of 1399
<b>Current Account</b>	<b>-704</b>	<b>8,208</b>	<b>-</b>
Goods Account	1,275	11,801	825.8
Exports (FOB)	34,211	56,009	63.7
Oil	14,614	27,942	91.2
Non-oil	19,597	28,067	43.2
Imports (FOB)	32,937	44,207	34.2
Gas and Oil Products	0	0	135.9
Others	32,937	44,207	34.2
Services Account	-2,089	-3,752	79.6
Income Account	-379	-316	-16.8
Current Transfers Account	489	474	-3.0
<b>Net Capital Account</b>	<b>-5,159</b>	<b>-10,134</b>	<b>96.5</b>
Errors and Omissions	3,029	-285	-109.4
<b>Overall Balance</b>	<b>-2,834</b>	<b>-2,211</b>	<b>-22.0</b>

Source: Central Bank of Iran, Selected Economic Indicators

The latest data on the foreign trade by the IRI Customs Administration covered 1400 (12 months) while finalizing this report. In this year, the country's trade has increased mainly due to the lifting the coronavirus-related restrictions in many countries and the new US administration's approach to sanctions against Iran. In 1400, 41.2 million tons of goods valued at USD53.0 billion was imported to the country and the country's exports have been 122.8 million tons valued at USD48.6 billion.

Therefore, the imports rose by 22.2 percent and 36.3 percent compared to the same period of its preceding year in terms of weight and value, respectively. In addition, exports increased by 8.6 percent and 39.6 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 1400 increased by 8.1 percent and reached USD4.4 billion. The statistics of country's foreign trade in 1399 and 1400 are shown in Table 7.

Table 7- Foreign Trade in 1399 and 1400

	1399		1400		Percentage Change	
	Weight (1000 tons)	Value (USD million)	Weight (1000 tons)	Value (USD million)	Weight	Value
Imports	33,726	38,885	41,199	53,013	22.2	36.3
Exports	113,056	34,820	122,775	48,619	8.6	39.6
<b>Non-oil Trade Balance</b>	<b>79,330</b>	<b>-4,065</b>	<b>81,576</b>	<b>-4,394</b>	<b>2.8</b>	<b>8.1</b>

Source: IRI Customs Administration, preliminary report of foreign trade data in 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 27.4 percent of the country's total exports in 1400 (USD13.3 billion) was a subset of Chapter 27, indicating 2.6 percentage point decrease compared to 1399.

In 1400, China with USD14.3 billion of imports from Iran has been the first exports destination – as in previous years - accounting for 29.5 percent of Iran's total exports. This share was 25.9 percent in 1399, 23.0 percent in 1398 and 20.8 percent in 1397. Iraq, which in 1399, 1398 and 1397 had a 21.3 percent, 21.7 percent and 20.1 percent share in Iran's total exports, respectively, ranked as the 2nd exports destination of Iran in 1400, with imports of USD8.9 billion and a share of 18.3 percent. In the period under study, Turkey's non-oil imports from Iran totaled USD6.1 billion. The share of exports to Turkey in this period registered 12.5 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 10.1 percent of Iran's total exports valued at USD4.9 billion in 1400. Afghanistan with USD1.8 billion of

imports from Iran, accounts for 3.8 percent of total exports of the country in the time span under study. Its share of Iran's total exports was 6.6 percent in 1399. Among the five main exports destination of Iran in 1400, only the shares of China and Turkey in Iran's total exports have increased compared to 1399. All in all, the top 5 importers from Iran have accounted for 74.2 percent of total Iran's exports in 1400, less than the 74.4 percent share in 1399.

On the other hand, China has lost its position as the first exporter to Iran in 1400, and UAE has replaced it with USD16.5 billion exports to Iran during this period. UAE's share in total Iran's imports rose from 25.1 percent in 1399 to 31.2 percent in 1400. China has had 2nd place of exporting countries to Iran with USD12.7 billion and its share in total Iran's imports drop from 25.3 percent in 1399 to 24.0 percent in 1400. Turkey ranked as the 3rd exporter to Iran (exports of USD5.3 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 1400 with USD1.9 billion of exports to Iran and share of 3.6 percent in total Iran's imports. Russia exported USD1.7 billion goods to Iran in 1400 and accounted for 3.1 percent of the Iran's total imports. So, in period under review, Russia is in 5th place instead of India in 1399. All in all, the top 5 exporters to Iran have accounted for 72.0 percent of total Iran's imports in 1400, same as in 1399.

Based on CBI reports, Iran's total foreign debt declined by 9.7 percent to USD8.5 billion at the end of 10/1400. Out of this figure, about USD6.4 billion belongs to medium- and long-term debt that fell by 12.8 percent. However, in this period, short-term debts of the country rose by 1.0 percent to USD2.1 billion.

## 4. Foreign Exchange Market

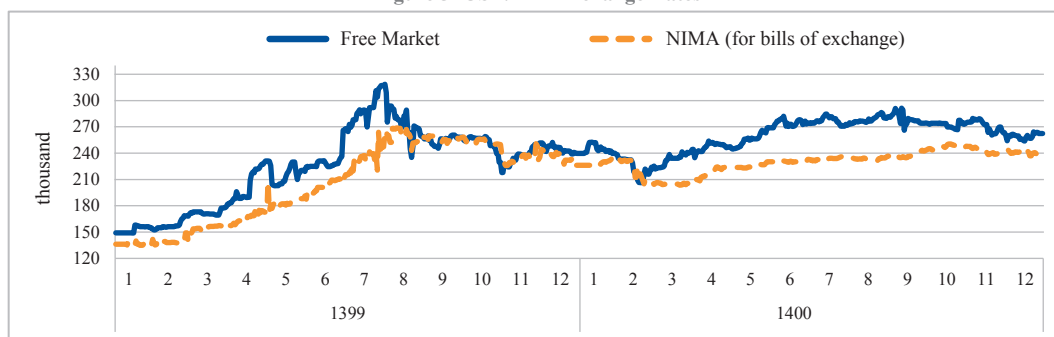
The USD/IRR exchange rate in the free market which registered 239.6 thousand at the beginning of 1400, reached the low of 206.4 thousand on 02/18/1400. After that, this rate increased, so that the USD/IRR exchange rate in the free market grew to 291.2 thousand on 09/08/1400, which was unprecedented after 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 262.3 thousand at the end of 1400.

The USD/IRR exchange rate had a slight downward trend in 1400Q4 and was on average 3.8 percent lower than that in 1400Q3, However, was 9.6 percent more than that in 1399Q4. The average USD/IRR exchange rate in the whole year of 1400

was 15.6 percent more than that of in 1399, registering 260.1 thousand.

The USD/IRR exchange rate for bills of exchange in the secondary market (NIMA) had narrowed its gap with the free market rate from 1399H2 to early months of 1400, while from 03/1400 onwards, with the rise of the USD/IRR exchange rate in the free market, the gap widened and reached 23.8 percent on 09/08/1400. In 1400Q4, due to the slight decline of the USD/IRR exchange rate in the free market and the relative stability of the USD/IRR exchange rate in the secondary market, this gap narrowed again to reach 10.1 percent at the end of the year. Figure 5 shows the USD/IRR exchange rates in secondary and free markets during 1399 and 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 USD8 billion in this

regard in the first half of 1400. In practice, USD14.8 billion of foreign currencies was allocated at the official rates in the first 11 months of 1400 for the imports of essential goods and coronavirus vaccine. In fact, the allocation of foreign currencies at the official rates in 1400 was about USD7 billion more than 1399. The distributed economic rent in this way in 1400 is estimated at about IRR3,600 trillion.

## 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 10/1400, showing 35.5 percent annual growth rate and also 23.8 percent growth rate during the first ten months of 1400. Considering the CBI's balance sheet, the main sources of the mentioned climb in M0 over the year under review (10/1399-10/1400) were the considerable rise in CBI net other items (69.6 percent) and also CBI claims on banks (49.6 percent), respectively. On the other hand, the net CBI claims on public sector experienced a significant decrease (1,481.8 percent) compared to 10/1399. 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 (102.1 percent) in the government's deposits

held by CBI, despite a significant increase (41.9 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 IRR780.7 trillion in 10/1400. In addition, CBI claims on public Commercial, Specialized banks and also CBI claims on non-public and non-bank credit institutions grow by 258.6 percent, 31.3 percent and 22.1 percent, respectively.

In conclusion, the increase in net foreign assets of the CBI (with a share of growth of 23.9 percentage point), the rise in other items (with a share of growth of 18.4 percentage point), the increase in CBI claims on banks (with a share of growth of 13.2 percentage point) and the decrease in net CBI claims on public sector (with a share of growth of negative 20.0 percentage point) have contributed to the growth of the monetary base (35.5 percent) during this period (10/1399-10/1400).

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 10/1400 to 10/1399	Percentage Change of 10/1400 to 12/1399
	10/1399	12/1399	10/1400		
<b>Liquidity</b>	<b>32,190.9</b>	<b>34,761.7</b>	<b>45,014.6</b>	<b>39.8</b>	<b>29.5</b>
<b>Money</b>	<b>6,272.5</b>	<b>6,909.6</b>	<b>8,733.8</b>	<b>35.9</b>	<b>18.2</b>
Notes and Coins with the Public	641.8	735.0	737.1	14.8	0.3
Sight Deposits	5,630.7	6,174.6	7,996.7	42.0	29.5
<b>Quasi-Money</b>	<b>25,918.4</b>	<b>27,852.1</b>	<b>36,280.8</b>	<b>40.0</b>	<b>30.3</b>
Gharz-al-hasanah Savings Deposits	1,952.8	2,268.2	2,819.4	44.4	24.3
Short-term Deposits	9,594.3	10,149.2	13,014.8	35.7	28.2
Long-term Deposits	13,781.6	14,795.8	19,346.7	40.4	30.8
Miscellaneous Deposits	589.7	638.9	1,099.3	86.5	72.2
<b>Monetary base</b>	<b>4,191.0</b>	<b>4,588.9</b>	<b>5,679.2</b>	<b>35.5</b>	<b>23.8</b>
CBI Foreign Assets (net)	4,035.7	4,703.7	5,038.5	24.8	7.1
CBI Claims on Public Sector (net)	56.5	-224.8	780.7	-	247.3
CBI Claims on Banks	1,199.3	1,171.4	1,752.2	46.1	49.6
CBI Other Items (net)	-1,100.5	-1,061.4	-330.8	69.9	-68.8
<b>M2 Money Multiplier</b>	<b>7.68</b>	<b>7.58</b>	<b>7.93</b>	<b>3.2</b>	<b>4.6</b>

Source: Central Bank of Iran, Selected Economic Indicators

Moreover, liquidity (M2) stood at IRR45,014.6 trillion at the end of 10/1400, showing 39.8 percent annual growth rate. Money and quasi-money as components of the liquidity grew by 39.2 percent and 40.0 percent, respectively, over the year under review. So, the share of money and quasi-money in the liquidity (M2) reached 19.4 percent and 80.6 percent, respectively, at the end of the 10/1400. 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, but it saw a decline (0.7 percentage point) in 10/1400 as compared with 06/1400. 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 volatile between 19 and 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 40.0 percent over the year under review (10/1399-10/1400), the highest growth rates among its components were attributed to the miscellaneous

deposits (86.5 percent) and gharz-al-hasaneh savings deposits (44.4 percent), respectively. Finally, the M2 money multiplier reached 7.93 at the end of 10/1400, indicating 3.2 percent and 4.6 percent growth rate compared to the same period of preceding year and the end of 1399, respectively.

The balance of banks and non-bank credit institutions assets (or liabilities), excluding off-balance sheet items, grew by 39.1 percent to IRR74,554.3 trillion at the end of 10/1400, indicating 33.0 percent growth rate during the first ten 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 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 claims of the CBI. 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 IRR403.8 trillion at the end of 10/1400. It reduced from IRR2.0 trillion to negative IRR69.8 trillion during the 1399Q4, but the decline has been intensified during the first ten months of 1400, 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 10/1400			10/1400 Percentage Change Compared to	
	10/1399	12/1399	10/1400	Public Commercial	Public Specialized	Non-public and Non-bank	10/1399	12/1399
<b>Assets (excluding below the line items)</b>	<b>53,588.6</b>	<b>56,061.1</b>	<b>74,554.3</b>	<b>15,842.9</b>	<b>10,505.6</b>	<b>48,205.8</b>	<b>39.1</b>	<b>33.0</b>
Foreign Assets	9,260.4	9,192.8	13,924.7	1,992.7	3,401.3	8,530.7	50.4	51.5
Notes and Coins	81.2	67.6	100.8	34.5	13.1	53.2	24.1	49.1
Deposits with the CBI	3,468.0	3,786.3	4,841.3	1,118.3	342.2	3,380.8	39.6	27.9
Claims on Public Sector	3,866.8	4,116.5	4,253.4	1,264.5	784.9	2,204.0	10.0	3.3
Claims on Non-public Sector	21,853.7	24,065.4	33,557.4	6,516.2	4,642.3	22,398.9	53.6	39.4
Others	15,058.5	14,832.5	17,876.7	4,916.7	1,321.8	11,638.2	18.7	20.5
<b>Liabilities (excluding below the line items)</b>	<b>53,588.6</b>	<b>56,061.1</b>	<b>74,554.3</b>	<b>15,842.9</b>	<b>10,505.6</b>	<b>48,205.8</b>	<b>39.1</b>	<b>33.0</b>
Deposits of Non-public Sectors	31,594.1	34,026.7	44,277.5	10,601.9	3,868.2	29,807.4	40.3	30.1
Claims of the CBI	1,199.3	1,171.4	1,752.2	373.7	587.3	791.2	46.1	49.6
Loans and Deposits of Public Sector	395.3	336.5	415.7	214.6	152.9	48.2	5.2	23.5
Capital Account	2.0	-69.8	-403.8	-978.7	357.2	217.7	-	478.5
Foreign Exchange Loans and Deposits	7,897.2	8,019.0	11,800.1	1,806.3	2,918.6	7,075.2	49.4	47.2
Others	12,545.7	12,577.3	16,712.6	3,825.1	2,621.4	10,266.1	33.2	32.9

Source: Central Bank of Iran, Selected Economic Indicators

At the end of 09/1400, the balance of extended facilities of the banking system reached IRR37,175.1 trillion, rising by 46.6 percent from the similar point in 1399. The balance of deposits in banks and non-bank credit institutions increased by 43.6 percent in the same period to reach IRR50,541.4 trillion.

Meanwhile, the average legal reserve ratio was 9.93 percent at the end of 09/1400. Therefore, the ratio of extended facilities to deposits (after deduction of the legal reserves) increased to 81.7 percent at the end of 09/1400 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	09/1399	12/1399	09/1400	Percentage Change of 09/1400 compared to	
						09/1399	12/1399
Extended Facilities (EF - in IRR trillion)	15,090.2	19,355.8	25,709.3	27,922.7	37,175.0	44.6	33.1
Deposits (in IRR trillion)	20,673.4	27,162.8	35,205.9	38,754.6	50,541.4	43.6	30.4
Deposits Less Required Reserves (DLRR - in IRR trillion)	18,568.3	24,381.1	31,673.0	34,824.0	45,522.0	43.7	30.7
Legal Reserve Ratio (percent)	10.18	10.24	10.03	10.14	9.93	-	-
EF to DLRR Ratio (percent)	81.3	79.4	81.2	80.2	81.7	-	-

Source: Central Bank of Iran, Banking Statistics

The flow of the banking system's extended facilities totaled IRR25,432.9 trillion in the first 11 months of 1400, registering a growth rate of 58.4 percent. Three sectors of "services", "manufacturing and mining" and "commerce" absorbed the highest portions of these facilities, 41.5 percent, 30.5 percent and 15.3 percent, respectively. On the other hand, two sectors of "agriculture" and "housing and construction" absorbed the lowest portions of these facilities, about 6.9 percent and 5.7 percent, respectively. Regarding the purposes, the majority of facilities (61.3 percent) was extended in the form of working

capital. About 36.6 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 11 months of 1400.

Table 11- Banks' Extended Facilities in the First 11 Months of 1400 by Sectors and Purposes

	Agriculture	Manufacturing and Mining	Housing and Construction	Commerce	Services	Other	Total
<b>Total (IRR trillion)</b>	<b>1,765.5</b>	<b>7,765.6</b>	<b>1,445.5</b>	<b>3,895.7</b>	<b>10,550.0</b>	<b>10.7</b>	<b>18,989.2</b>
Share of Purpose in Each Sector (percent)							
Creation	19.3	13.7	22.3	3.2	10.3	4.8	12.8
Working Capital	69.4	79.2	29.2	47.2	67.7	85.7	61.3
Repair	0.4	1.0	19.3	0.2	1.8	0.5	2.2
Development	6.8	5.4	5.9	5.9	10.0	7.6	11.2
Purchase of Private Goods	1.3	0.4	0.0	43.3	0.6	0.0	7.9
Purchase of House	0.1	0.2	21.7	0.2	0.7	0.1	1.5
Others	3.1	0.1	1.6	0.1	9.1	1.3	3.1

Source: Central Bank of Iran, Extended Facilities by Sectors and Purposes During the First 11 Months of 1400

## 6. Government Fiscal Performance (1401 Budget Law)

The 1401 Budget Law was finally approved on the last working day of 1400. The country's total budget which consists of "state-owned companies' budget" and "general budget" has risen by only 0.6 percent in the law compared to the bill. The budget of state-owned companies has not changed in 1401 Budget Law compared to 1401 Budget Bill. Meanwhile, the general budget has increased by 1.5 percent and 11.2 percent

in 1401 Budget Law compared to 1401 Budget Bill and 1400 Budget Law, respectively. The general budget consists of "general sources and uses" and "sources and uses of dedicated revenues". The general sources have grown by 1.6 percent, while the dedicated revenue has not altered in comparison with 1401 Budget Bill.

Table 12 depicts a general overview of 1401 Budget Law.

Table 12- Main Subdivisions of Budget Laws of 1401 and 1400 and Budget Bill of 1401 (IRR trillions)

Sources					
Descriptions	1400 Law	1401 Bill	1401 Law	1401 Law to 1401 Bill Growth Rate (percent)	1401 Law to 1400 Law Growth Rate (percent)
Expenditures (current)	4,549.0	6,644.1	6,996.0	5.3	53.8
Acquisition of Non-financial Assets (development expenditures)	3,955.0	4,084.5	5,177.5	26.8	30.9
Acquisition of Financial Assets	4,275.0	2,991.5	1,767.9	-40.9	-58.6
<b>General Uses</b>	<b>12,779.0</b>	<b>13,720.0</b>	<b>13,941.3</b>	<b>1.6</b>	<b>9.1</b>
From Dedicated Revenues	958.0	1,332.4	1,332.4	0.0	39.1
<b>Uses of General Budget</b>	<b>13,373.0</b>	<b>15,052.4</b>	<b>15,273.7</b>	<b>1.5</b>	<b>11.2</b>
Uses of State-owned Companies	15,713.0	22,314.1	22,314.1	0.0	42.0
<b>Uses of Country's Budget</b>	<b>28,823.0</b>	<b>36,310.7</b>	<b>36,532.0</b>	<b>0.6</b>	<b>26.7</b>
Uses					
Descriptions	1400 Law	1401 Bill	1400 Law	1401 Law to 1401 Bill Growth Rate (percent)	1401 Law to 1400 Law Growth Rate (percent)
Expenditures (current)	9,189.2	9,651.9	9,990.1	3.5	8.7
Acquisition of Non-financial Assets (development expenditures)	1,762.6	2,518.2	2,601.2	3.3	47.6
Acquisition of Financial Assets	1,827.4	1,550.0	1,350.1	-12.9	-26.1
<b>General Uses</b>	<b>12,779.0</b>	<b>13,720.0</b>	<b>13,941.3</b>	<b>1.6</b>	<b>9.1</b>
From Dedicated Revenues	958.0	1,332.4	1,332.4	0.0	39.1
<b>Uses of General Budget</b>	<b>13,373.0</b>	<b>15,052.4</b>	<b>15,273.7</b>	<b>1.5</b>	<b>11.2</b>
Uses of State-owned Companies	15,713.0	22,314.1	22,314.1	0.0	42.0
<b>Uses of Country's Budget</b>	<b>28,823.0</b>	<b>36,310.7</b>	<b>36,532.0</b>	<b>0.6</b>	<b>26.7</b>

Source: 1401 Budget Law, 1401 Budget Bill and 1400 Budget Law

In 1401 Budget Bill and based on "6th Development Plan", 40 percent of the oil revenues belongs to National Development Fund (NDF), however, the government had allowed itself to receive 20 percentage points of this share as a subset of the disposal of financial assets (borrowing from the fund). Therefore, based on the assumptions for estimating oil revenues, 20 percentage point of NDF's share in oil revenues amounted to IRR1,373.6 trillion and was considered as government debt to the NDF. This source was removed by parliament in the 1401

Budget Law, due to the ban on government borrowing from the fund by the Supreme Leader. Furthermore, according to the report of Islamic Parliament Research Center (IPRC) and oral statement of MPs, the export of oil and gas condensate and its price has changed from 1.2 million bpd and USD60 a barrel in 1401 Budget Bill to 1.4 million bpd day and USD70 a barrel in 1401 Budget Law, respectively. Table 13 illustrates the assumptions regarding forecasted oil revenues in 1401 Budget Law.

Table 13- Oil Revenues in 1401 Budget Law

Titles	Volume (million barrels per day)	Oil and Condensates Price (USD per barrel)	Total Revenues (USD billion)	Share of NDF (percent)	Shares of Oil and Gas Companies (percent)	Government's Share (percent)	Government's Revenues (USD billion)	Government's Revenues (IRR trillion)
Exports of Oil and Gas Condensates	1.4	70.0	35.8	40.0	14.5	45.5	16.3	3,743.3
Net Exports of Natural Gas	-	-	3.6	40.0	14.5	45.5	1.6	374.6
<b>Total</b>	-	-	<b>39.4</b>	-	-	-	<b>17.9</b>	<b>4,118.0</b>

Source: 1401 Budget Law and its implicit assumptions and IPRC



Also, it is specified that all USD17.9 billion of oil revenues be converted at the “Electronic Trade System (ETS)” foreign exchange rates (a projection of IRR230,000 per USD). Due to high inflation rates and diminished purchasing power, the government has allocated some foreign currencies at preferential rates (IRR42,000 per USD for imports of essential goods) to ensure a steady supply of essential goods at subsidized prices over recent years.

Thus, part of oil revenues has been exchanged to IRR at official rates. But in 1401 Budget Law, total oil revenues have been exchanged at ETS rates, while some expenditures have been added in Article 14 (off-budget) to compensate for the difference between the ETS and official exchange rates (up to about USD9 billion).

Moreover, based on implicit assumptions, the oil revenues are

calculated at IRR4,118.0 trillion which is different from the recorded figure in 1401 Budget Law (IRR4,910.5 trillion). the statistical discrepancy between these two figures is rooted in the revenues from feed sales to petrochemical companies. These revenues had been considered as an Article 14 sources in 1399 and 1400 Budget Law, while has been transferred to general budget sources in 1401 Budget Law (about IRR800 trillion).

In addition, in 1401 Budget Law, the whole revenues from feed sales is considered as a general budget source, while the government’s share of this source is 85.5 percent and the rest belong to the national oil company (14.5 percent). So, the government’s share of 85.5 percent is estimated about IRR692.1 trillion, indicating the slight difference (about IRR100 trillion) in comparison with 1401 Budget Law.

Table 14 examines these discrepancies in more detail.

Table 14- Oil Revenues in 1401 Budget Law (IRR trillion-percent)

	1401 Bill	1401 Law	Estimation of 1401 Law	Difference
<b>Receipts from Crude Oil and Oil Products</b>	<b>3,818.5</b>	<b>4,910.5</b>	<b>4,118.8</b>	<b>792.5</b>
Receipts from Oil and Gas Condensates	3,155.4	4,164.1	3,496.5	667.6
Net Exports of Natural Gas	457.0	474.8	349.9	124.9
Share (3 percent) of Deprived Areas	206.0	271.5	271.5	0.0

Source: 1401 Budget Law and its implicit assumptions and IPRC

To conclude, according to implicit assumptions, government’s revenues from exports of oil and gas condensates, net exports of gas and the share of revenues from feed sales to petrochemical companies (85.5 percent) amount to IRR4,810.1 trillion, indicating 29.4 percent growth rate compared to 1401 Budget Bill.

In 1401 Budget Law, acquisition of non-financial assets (development expenditures) grew by 3.3 percent compared to 1401 Budget Bill, registering 18.7 percent of total uses of 1401 Budget Law. Therefore, the net disposal of non-financial assets rose by 64.4 percent compared to 1401 Budget Bill to IRR2,575.3 trillion.

Moreover, in 1401 Budget Law, tax revenues amounted to around 40.3 percent of the general sources, 1.9 percentage point higher than that in 1401 Budget Bill. Also, tax revenues rose by 53.8 percent compared to 1400 Budget Law. It is worth noting that direct taxes such as tax in legal entities, income tax and wealth tax did not change compared to 1401 Budget Bill, whereas, indirect taxes rose by 12.4 percent. In the subsection of indirect taxes, import taxes rose significantly by 37.9 percent, while tax on goods and services increased slightly by 2.7 percent compared to 1401 Budget Bill.

On the other hand, in 1401 Budget Law, current expenditures

with a share of 72.0 percent of general uses grew by 3.5 percent compared to 1401 Budget Bill, amounts to IRR9,990.1 trillion. So, the operating balance deficit reached IRR2,994.1 trillion in 1401 Budget Law, showing 0.5 percent decrease compared to 1401 Budget Bill.

In 1401 Budget Law, similar to recent years, the budget deficit is financed by disposal of financial assets and finally the budget gets balanced. So, the issuance of government debt securities increased by 17.0 percent compared to the 1401 Budget Bill and stood at IRR1,030.0 trillion.

Furthermore, due to the order of the Supreme Leader, the borrowing from the National Development Fund which was considered IRR1,373.6 trillion in 1401 Budget Bill, was removed by parliament in 1401 Budget Law. Thus, the disposal of financial assets fell by 40.9 percent in comparison with 1401 Budget Bill, registering IRR1,767.9 trillion. Acquisition of financial assets decreased by 12.9 percent compared to 1401 Budget Bill and reached IRR1,350.0 trillion in 1401 Budget Law. All in all, the net disposal of financial assets fell to IRR417.8 trillion, registering 71 percent decrease compared to 1401 Budget Bill. Table 15 reveals the difference between the 1401 Budget Bill and Budget Law.

Table 15- The Difference Between the Budget Law and Bill of 1401 (IRR trillion)

	Difference (1401 Budget Law minus 1401 Budget Bill)
<b>General Sources</b>	<b>221.3</b>
<b>Revenues</b>	<b>351.9</b>
Import Tax	294.5
Tax on Goods and Services	54.8
Other	2.6
<b>Disposal of Non-financial Assets</b>	<b>1,093.0</b>
Receipts from Crude Oil and Oil Products	1,093.0
<b>Disposal of Financial Assets</b>	<b>-1,223.6</b>
Sale of Islamic Debt Securities	150.0
Use of National Development Fund	-1,373.6
<b>General Uses</b>	<b>221.3</b>
<b>Expenses (current)</b>	<b>338.2</b>
<b>Acquisition of Non-financial Assets (development expenditures)</b>	<b>83.0</b>
<b>Acquisition of Financial Assets</b>	<b>-199.9</b>

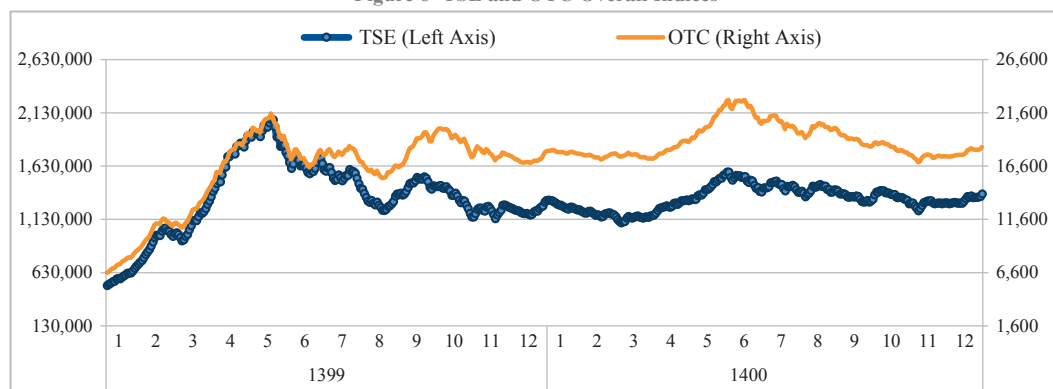
Source: 1401 Budget Law and 1401 Budget Bill

## 7. Capital Market

The decline of the overall index during 1400Q3 and also the intensification of its downward trend in the last week of 09/1400 (due to the budget bill of 1401) led to making 10 decisions to support the stock market, which includes the raising capital of Capital Market Stabilization Fund (IRR300 trillion), not changing the formula of mining rights in 1401, determining a ceiling for the issuance of government bonds up to 50 percent of inflowing resources in the stock market, modifying the gas price used in petrochemicals and refineries as fuel in 1401 Budget Bill, the Central Bank intervention in secondary government bonds market to control interbank interest rate (Open Market Operation), 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. Following the announcement of these decisions, the overall index rose by 6.0 percent in the first week of 10/1400 in comparison with 09/1400, registering 1,400 thousand. Then, because of mounting uncertainty about nuclear negotiations and also dispute

between the government and parliament over some economic policies such as the decision to discontinue the subsidized foreign exchange rates, there was a considerable decrease in the overall index (13.6 percent) from the first half of 10/1400 to the early 11/1400, bottoming out at 1,207 thousand. Owing to the announcement of government economic coordination committee's decisions which approved five new resolutions to support the stock market as well as the significant increase in crude oil price, the overall index experienced a considerable increase (13.2 percent) from the second week of 11/1400 to the end of 1400, reached the level of 1,367.3 thousand. The Over the Counter (OTC) market had similar trend and its overall index grew by 1.7 percent in the first week of 10/1400 compared to the end of 1400Q3, decreased after that by 10.0 percent (compared to the first week of 10/1400) to 17 thousand at 11/05/1400. Since then it saw a rise (8.4 percent) from the second week of 11/1400 to the end of 1400, registering 18.4 thousand at the end of 1400. 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 1400 fell by 36.9 percent compared to the same period of last year, registered 1,407.4 billion. Considering dramatic decrease in prices, the value of equities transactions experienced much higher fall rate and dropped by 63.9 percent, registering IRR8,849.4 trillion. The value of transactions in debt securities and exchange-traded funds grew by 93.0 percent and 37.0 percent, respectively, although the value of total transactions

decreased by 54.1 percent during the same period due to their low market share. The TSE's market capitalization increased by 2.6 percent and stood at IRR53,604.6 trillion at the end of 1400. Unlike the overall index, the equally-weighted index dropped by 20.8 percent during 1400. Therefore, the equities of small-sized companies experienced a larger decrease in prices compared to the bigger companies on average. Table 16 gives more details on these statistics for the TSE.

Table 16- 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)
1400	1,407.4	8,849.4	12,412.5	53,604.6	348.3	1,367.2	1,475.0	1,260.9
1399	2,229.9	24,491.2	27,014.9	52,229.5	439.8	1,307.7	1,782.2	1,154.3
Percentage Change	-36.9	-63.9	-54.1	2.6	-20.8	4.6	-17.2	9.2

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

Listed Companies on TSE financed IRR1,414.6 trillion in 1400, out of which about 84.4 percent was done through raising capital (receivables and cash inflows, or savings and accumulated profits) and 12.8 percent through issuing debt

bonds and put options. 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 17 summarizes this information compared to 1399.

Table 17- Financing Methods of Listed Companies on the TSE

	1399		1400		Percentage Change in Value
	Value (IRR trillion)	Share (percent)	Value (IRR trillion)	Share (percent)	
<b>Total</b>	<b>937.3</b>	<b>100.0</b>	<b>1,414.6</b>	<b>100.0</b>	<b>50.9</b>
Initial Public Offering	146.5	15.6	40.4	2.9	-72.4
Raising Capital (except for asset revaluation)	640.6	68.3	1,193.3	84.4	86.3
Issuing Debt Bonds	134.6	14.4	113.4	8.0	-15.8
Issuing Put Options	15.6	1.7	67.5	4.8	332.1

Source: Tehran Stock Exchange, Monthly Market Analysis, 12/1400

## 8. Other Developments

Before the end of 1400, the Supreme Labor Council of Iran determined how to increase the wages of those covered by the Labor Law in 1401. Simultaneously, the 1401 Budget Law was passed to determine how to increase the wages of public sector employees and retirees in 1401.

According to the 1401 Budget Law, the minimum wage in the public sector is set at IRR56 million per month (60 percent more than that in 1400) and for levels above the minimum wage, an increase of 10 percent is considered. The Supreme Labor Council of Iran has set the minimum wage for those covered by the Labor Law (private sector employees) at IRR41.8 million per month, which shows a growth of 57.4 percent compared to the preceding year. Considering the increase of labor coupons to IRR8.5 million and housing allowances to IRR6.5 million per month, the total minimum wage has increased by 53.3 percent compared to 1400, however, this minimum wage level can be increased according to each person's case (number of children and work experience). For other wage levels, a 38 percent increase plus a fixed amount of IRR5.2 million is considered.

Some analysts see these high levels of wage growth as insufficient compared to the current inflation rates. But others say that the government "has no skin in the game", so the cost of raising wages is borne by the private sector by downsizing and reducing

production and profitability, resulting in lower welfare levels and higher unemployment rates. Interestingly, the government has contented itself with a 10 percent increase in the salaries of its employees.

What has not been taken into accounts is the high share of state-owned and quasi-public corporations in employment and low levels of productivity in these enterprises. Excluding the armed forces, the number of government employees amounts to about 2.5 million. The latest official statistics estimated the number of police and military personnel around 600 thousand and personnel working in non-governmental public sector entities about 603 thousand in 1393. The total number of retirees in the country is about 5 million. According to the Statistical Center of Iran, 23.2 million people were employed in 1400Q4. The growth of labor productivity index in all years of the 1390s has been negative, except for the two years 1393 and 1399. The situation is worse in state-owned and semi-governmental enterprises. These firms usually do not lay off workers (at the request of the government) because of raising wage costs, and ultimately make up for their losses through the government budget and the CBI. Thus, assuming that inflation is merely a monetary phenomenon, higher wages should be considered as a factor in increasing inflation rates further.

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