

Recent Economic Developments in Iran

A Quarterly Report



Winter 1402
(2024Q1)

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Recent Economic Developments in Iran, A Quarterly Report Winter 1402

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Note

■ 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 fourth quarter of 1402” indicates the percentage change in oil revenues between the fourth quarter of 1401 and the fourth quarter of 1402.

■ 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. This report covers the year 1402 that started on March 21, 2023, and ends on March 20, 2024. The fourth quarter of 1402 (referred to as 1402Q4), winter of 1402, roughly corresponds to the first quarter of 2024 in the Gregorian Calendar (2024Q1).

The following table provides an easy reference while reading this Report.

1402Q1 = 03/21/2023 - 06/21/2023, roughly 2023Q2	1402H1
1402Q2 = 06/22/2023 - 09/22/2023, roughly 2023Q3	
1402Q3 = 09/23/2023 - 12/21/2023, roughly 2023Q4	1402H2
1402Q4 = 12/22/2023 - 03/19/2024, roughly 2024Q1	

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Iran's Economy at a Glance

	1401Q3	1401Q4	1401	1402Q1	1402Q2	1402Q3	1402Q4	1402
Labor Force Participation & Unemployment Rates (percent)								
Participation (15 years and over)	41.0	40.5	40.9	41.2	41.6	41.5	40.8	-
Unemployment (15 years and over)	8.2	9.7	9.0	8.2	7.9	7.6	8.6	-
Unemployment (youth aged 15-24)	19.2	24.2	22.6	21.6	20.1	20.6	22.5	-
Real Growth Rates of GDP and Its Subsectors at Constant 1395 Prices (percent)								
Gross Domestic Product (GDP)	4.9	5.3	4.0	6.0	3.6	4.3	-	-
Manufacturing and Mining	8.2	9.0	6.5	4.0	3.6	4.1	-	-
Oil	15.4	12.0	10.0	16.5	17.8	14.5	-	-
Agriculture	1.1	1.5	1.1	2.0	0.1	0.6	-	-
Services	3.0	2.9	2.7	5.8	2.8	3.6	-	-
GDP (excluding oil)	4.1	4.7	3.5	4.9	2.4	3.3	-	-
Gross Fixed Capital Formation (at market prices)	15.1	6.0	6.7	1.9	6.2	4.9	-	-
Oil (daily average - thousand barrels)								
Production*	2,568	2,572	2,565	2,692	2,999	3,153	-	-
Point-to-point Inflation Rates (percent)								
Growth Rate of Consumer Price Index (1400=100)	45.1	50.3	45.8	50.6	39.6	39.5	35.4	40.7
Growth Rate of Producer Price Index (1395=100)	40.1	46.8	44.3	42.4	45.3	43.6	-	-
Balance of Payments (USD millions)								
Oil Exports	12,896	13,121	55,410	13,626	14,496	-	-	-
Non-oil Exports	10,838	10,144	42,247	9,926	10,293	-	-	-
Imports of Goods	19,237	22,167	75,409	17,338	19,639	-	-	-
Goods Account (net)	4,496	1,098	22,247	6,213	5,151	-	-	-
Non-oil Goods Account (net)	-8,399	-12,023	-33,163	-7,319	-9,251	-	-	-
Current Account	2,442	-1,602	14,205	4,393	2,622	-	-	-
Capital Account	-3,332	1,113	-15,069	-9,354	-6,024	-	-	-
Change in Foreign Reserves	476	1,140	4,033	-81	1,124	-	-	-
Foreign Exchange Rates (USD/IRR daily average)								
Free Market	345,789	430,816	343,536	507,098	495,618	506,254	554,401	514,999
Secondary Market (remittance)	276,947	307,368	273,571	379,171	376,865	378,503	396,295	382,158
Monetary and Credit Aggregates (end of period - IRR trillions)								
Monetary Base (M0)	7,663	8,600	8,600	9,081	9,811	10,232	11,128	11,128
CBI Claims on Banks	2,724	3,912	3,912	3,933	5,211	6,205	-	-
CBI Claims on Public Sector (net)	-551	-1,986	-1,986	-751	77	-227	-	-
CBI Foreign Assets (net)	5,592	6,824	6,824	5,794	4,927	4,486	-	-
Liquidity (M2)	59,056	63,377	63,377	65,860	70,991	74,980	78,777	78,777
Money (M1)	13,908	16,297	16,297	16,947	17,913	18,014	-	-
Sight Deposits	12,891	15,071	15,071	15,748	16,678	16,746	-	-
Non-sight Deposits (quasi-money)	45,148	47,080	47,080	48,913	53,078	56,966	-	-
M2 Money Multiplier	7.71	7.37	7.37	7.25	7.24	7.32	7.08	7.08
Government Budget and Fiscal Position (IRR trillions)								
The data in this section is not available								
Tehran Stock Exchange (end of period)								
Overall Index (TEDPIX)	1,496,201	1,960,457	1,960,457	2,173,893	2,121,213	2,210,217	2,195,092	2,195,092
Financial Index	1,447,696	1,706,287	1,706,287	2,007,970	1,903,131	1,949,564	1,917,728	1,917,728
Industrial Index	1,403,541	1,867,406	1,867,406	2,052,976	2,012,057	2,101,115	2,089,989	2,089,989
Market Capitalization (IRR trillions)	55,379	72,562	72,562	79,894	74,485	77,154	76,169	76,169

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

Introduction

In this quarterly Report, the Iranian economy has been investigated by its various sectors. Regarding the real sector of the economy, the developments of GDP growth rates in the first three quarters of 1402 based on Central Bank of Iran (CBI) and the Statistical Center of Iran (SCI) are presented. In addition, Iran's crude oil price and production till the 11th month of 1402, developments of the labor market in winter 1402, and finally the developments of Housing market in the first 11 months of 1402 are explored in the same chapter. The second chapter goes over the Consumer Price Index (CPI) inflation rates on monthly, point-to-point, and annual basis in winter 1402 and also the Producer Price Index (PPI) inflation changes based on the latest data. In the third chapter, the balance of payments is covered for the first two quarters of 1402 and the changes in customs imports and exports for the whole year. The daily changes of the USD price against IRR in the free market and the secondary market are presented

in the fourth chapter. Chapter five explores the developments of the monetary and credit aggregates by monetary base, money, quasi-money, liquidity, and summary of assets and liabilities of the banking system for the first 10 months of 1402 and the balance of deposits and extended facilities for the first 11 months of the same year.

As no official data was issued on the government fiscal performance in 1402 at the time of preparation of this Report, data from unofficial sources is used for estimation of fiscal performance in chapter six. Chapter 7 explores the development of the major variables of the capital market including total value, volume and number of transactions, market capitalization as well as the methods of finance by the listed companies in winter 1402. The last chapter assesses the effect of minimum wage raising on inflation rate from a theoretical point of view and finally the Report ends in the key points.

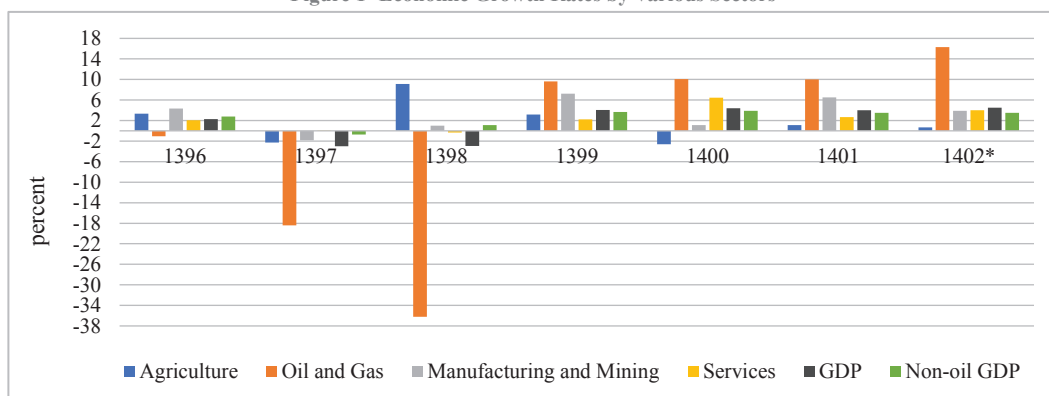
1. Real Sector

On the basis of the most recent statistics released by the Central Bank of Iran (CBI) while preparing this Report, the Iranian economy has expanded by 4.5 percent during the first 9 months of 1402. Similar to its preceding year, all the main sectors of the economy experienced positive growth rates in the same period. The GDP growth rate, on the other hand, is reported 6.7 percent in the same period, according to the Statistical Center of Iran (SCI). The distinction between the two released growth rates often takes place as the calculation of the GDP growth in the CBI report is based on basic prices while in the SCI report, the market prices are used in that regard. Besides, the classification of economic activities is somehow different in reports of the two aforementioned authorities. Finally, regarding GDP calculations, the base year used in CBI reports is 1395 and in SCI reports is

1390.

According to the CBI, out of the 4.5 percent GDP growth rate, 2.2 percentage points belongs to the Services sector in the first 9 months of 1402. The Oil sector constituted 1.3 percentage points of the GDP growth rate in the same period, up from the 0.8 percentage point in 1400 and 1401. In line with 1401, the Oil sector experienced a remarkable expansion of 16.3 percent during the first 3 quarters of 1402. The rise in oil exports of Iran could be attributed to the need for controlling global oil prices, given that no news has been officially released about political agreement between Iran and the USA. The non-oil GDP growth rate in the first 9 months of 1402 is estimated 3.5 percent. Figure 1 depicts economic growth rates by various sectors and Figure 2 shows their shares in the GDP growth in recent years.

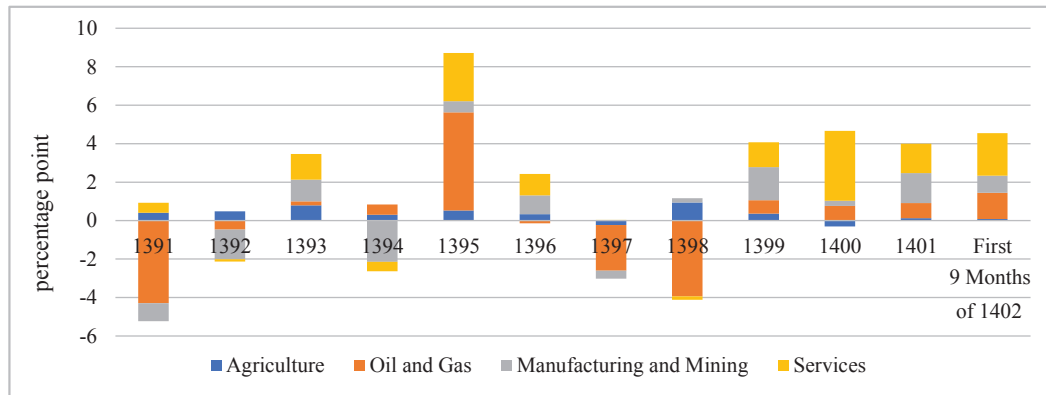
Figure 1- Economic Growth Rates by Various Sectors



Source: Central Bank of Iran

*Data for 1402 covers the first 9 months of the year.

Figure 2- Share of Various Sectors in Economic Growth Rates



Source: Central Bank of Iran

Industries and Mining sector experienced positive growth in the first 9 months of 1402 and so did its subsectors, according to the CBI. This sector expanded by 3.9 percent as a whole with the Manufacturing subsector with the highest growth rate of 4.2 percent and the subsector of Water Supply, Sewerage, Waste Management, and Remediation Activities with the lowest growth rate of 2.2 percent. The Services sector registered 4.0 percent growth during the time span under review. Among the subsectors of Services, Information and Communication registered the highest growth rate of 22.8 percent, whereas Administrative and Support Services

Activities had the lowest growth rate of negative 9.3 percent. Agriculture sector has registered 0.7 percent expansion in the first 9 months of 1402 based on the CBI but surprisingly the SCI reported a negative 2.7 percent contraction in the same sector. The positive growth rate of Agriculture sector in the CBI report emanated from the 7.5 percent expansion of Farming products, 3.9 percent expansion of Horticultural products, and finally 4.5 percent rise in major Livestock products. The GDP growth rates by the major subsectors of the economy for the first 3 quarters of 1401 and 1402 are presented in Table 1.

Table 1- Growth Rate of GDP and Its Subgroups at 1395 Constant Prices (percent - percentage point)

	1401					1402					Share in Growth Rate of First 9 Months of 1402
	Q1	Q2	Q3	First 9 Months	Year	Q1	Q2	Q3	First 9 Months		
Agriculture	1.9	0.8	1.1	1.1	1.1	2.0	0.1	0.6	0.7	0.1	
Oil and Gas	3.5	10.5	15.4	9.4	10.0	16.5	17.8	14.5	16.3	1.3	
Industries and Mining	0.0	8.5	8.2	5.6	6.5	3.9	3.6	4.1	3.9	0.9	
Services	2.3	2.4	3.0	2.6	2.7	5.8	2.8	3.6	4.0	2.2	
Non-oil GDP (at basic prices)	1.7	3.5	4.1	3.1	3.5	4.9	2.4	3.3	3.5	-	
GDP (at basic prices)	1.9	3.9	4.9	3.6	4.0	6.0	3.6	4.3	4.5	4.5	

Source: Central Bank of Iran

The preliminary statistics of the CBI suggests that the downward trend of the private consumption reversed course from winter 1399 (hereafter referred to as 1399Q4) and its upward trend maintained during the first 3 quarters of 1402 at 4.2 percent growth rate, indicating higher welfare of households. On the contrary, the public consumption contracted by 1.6 percent during the first 9 months of 1402.

The gross fixed capital formation rose by 4.5 percent during the first 9 months of 1402, according to the CBI. Till 1400Q1, capital formation was divided into two subgroups of Construction and Machinery. From that quarter onwards, a third subgroup

titled "Other Capital Formation" joined the two aforementioned subgroups. It consists of R&D expenditures, mine exploration, precious items, and other items. The capital formation in Machinery grew by 7.1 percent and in Construction by 2.9 percent, while subgroup of Other contracted by 1.2 percent during the first 9 months of 1402.

In terms of foreign trade, the CBI report suggests that the exports of goods and services has escalated at higher pace than the imports of goods and services in the time span under review - the former grew by 17.9 percent and the latter by only 5.3 percent. Table 2 demonstrates GDP growth rate from the expenditure side.

Table 2- GDP Growth Rate from the Expenditure Side at 1395 Constant Prices (percent)

	1401					1402			
	Q1	Q2	Q3	First 9 Months	Year	Q1	Q2	Q3	First 9 Months
Private Consumption	6.4	5.4	10.9	7.5	8.7	8.2	4.0	0.7	4.2
Public Consumption	-6.5	-9.1	16.2	-0.5	-3.6	5.3	-3.0	-6.2	-1.6
Gross Fixed Capital Formation	-1.4	6.6	15.1	7.0	6.7	1.9	6.2	4.9	4.5
Machinery	15.1	11.8	24.9	17.7	15.4	1.7	11.3	7.2	7.1
Construction	-9.4	3.9	6.9	0.4	1.2	1.7	3.4	3.3	2.9
Other	-8.7	0.7	19.5	2.9	-0.4	7.7	-4.1	-6.2	-1.2
Net Export of Goods and Services									
Exports of Goods and Services	7.3	6.2	13.8	9.2	8.2	14.3	28.1	12.4	17.9
Imports of Goods and Services	14.6	13.6	0.6	9.2	7.5	1.3	4.3	10.0	5.3
GDP at Market Prices	2.2	3.2	4.1	3.2	3.8	6.5	3.9	4.7	5.0

Source: Central Bank of Iran

The SCI has reported 6.7 percent GDP growth rate and 4.2 percent non-oil GDP growth rate at 1390 constant prices in the first 9 months of 1402. The Extraction of Oil and Natural Gas (as a subgroup of Industries in the SCI categorization) that was continually growing by one-digit rates from 1399 to 1401, considerably expanded by 22.4 percent in the first 9 months of 1402, constituting 3.0 percentage points of the 6.7 percent GDP growth rate. Consequently, less than one third of the GDP growth rate was obtained thanks to the Oil sector contribution based on the CBI, while in the SCI report the share of Oil was considered as about half of the GDP growth rate. This originates in the different categorizations and calculation methods of those two issuing authorities.

In the SCI categorization, Extraction of Oil and Natural Gas is a subgroup of Industry sector and among other subgroups it has experienced the highest growth rate in the first 9 months of 1402,

Oil Sector

The Oil sector that had lost its share in the value-added of the Iranian economy from the early 1398 to the late 1399, gradually started to regain its share in the aftermath of the inauguration of President Biden and the rise in global oil prices. On the basis of the CBI preliminary report, during the first 3 quarters of 1402, Oil and Gas constituted 8.6 percent of the value-added of the economy at current prices, 3.6 percentage points below that in same period of 1401 but above the 7.0 percent share in 1400 and 3.7 percent in 1399. It is noteworthy that share of Oil and Gas in GDP in 1396, 1397, and 1398 has registered 14.5, 13.5, and 6.3 percent, respectively.

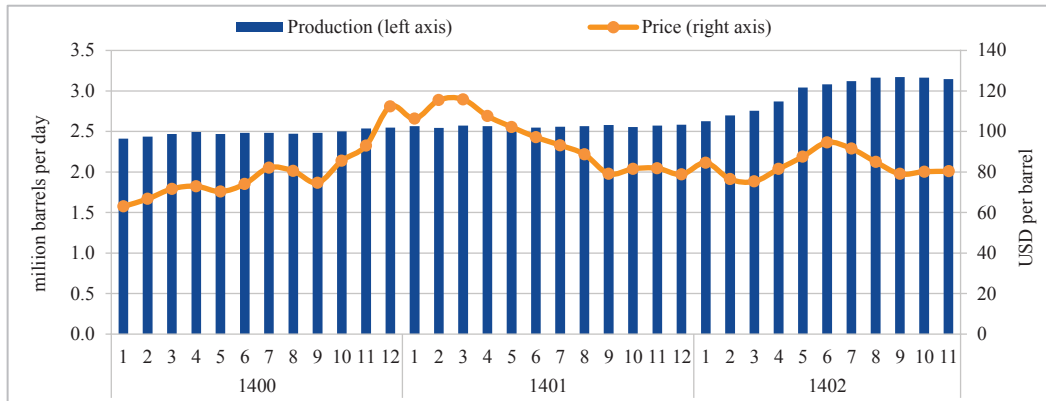
The most reliable data on the domestic oil production is released by OPEC from the secondary sources since no official data has been issued after the imposition of new sanctions in 1397. On the basis of the data from secondary sources in Feb 2024 (corresponding to mid-winter 1402), the crude oil production of the country reached 3.1 million barrels per day (mbpd), indicating 22.3 percent rise from Feb 2023. Accordingly, in the second half of 1402 (hereafter referred to as 1402H2) the crude oil production has registered its high from 1397H1 onwards, albeit still below the 3.8 mbpd production in the aftermath of the Joint Comprehensive Plan of Action (JCPOA). The data on oil exports has been considered as confidential likewise the data on oil production, hence no official data is issued in that regard. Nevertheless, the International Monetary Fund (IMF) has estimated Iran oil exports above one mbpd in 2023, 13.0

percent up from that in 2022. In addition, some unofficial sources had also the same estimation as that of the IMF and in some sources oil exports of Iran is estimated 1.5 mbpd. In 1398 Iran oil exports reached 200 thousand barrels per day and after emerging COVID-19 pandemic and fall in global oil demand in the early 1399, even collapsed to below 100 thousand barrels per day. This fall in exports did not last long and gradually increased mainly as a result of assignment of the new US administration, expansion of vaccination in most of the countries, elimination of COVID-19 limitations, and finally increase in global oil demand. The rise in global oil prices in the aftermath of the Russian invasion of Ukraine contributed to the rise in Iran's oil exports, aiming for preventing higher oil prices. However, China is the main oil export destination of Iran, albeit, with considerable price discounts as well as a vague method of settlements. Iran heavy crude oil price that was beyond USD60 per barrel throughout 1398, dropped significantly in the aftermath of COVID-19 pandemic and the decline in global oil demand. In the early 1399, it reached USD17 per barrel, but gradually increased in later months. According to OPEC, Iran crude oil price averaged USD57.5 per barrel in 2021 and climbed to USD101.8 in 2022 and by 19.7 percent drop, averaged USD81.7 per barrel in 2023. The price of Iran crude oil in Feb 2024 (corresponding to mid-winter 1402) registered USD80.3 a barrel. Figure 3 illustrates price and production of Iran crude oil from 1400 onwards.

followed by the Construction subgroup with 2.8 percent growth rate in the same period - close to 3.1 percent growth rate for Construction subgroup in the CBI report. The subgroup of Water, Electricity, and Natural Gas Supply contracted by 6.0 percent during the period under review. The Services sector experienced a 7.1 percent expansion in the first 9 months of 1402 as SCI report suggests. Financial Intermediation as a subgroup of Services had 19.6 percent expansion, whilst its corresponding subgroup in the CBI report titled Financial and Insurance Activities has contracted by 0.3 percent in the same period.

The developments of private consumption reported by the SCI was in line with that of the CBI. The private consumption grew by 6.1 percent, gross fixed capital formation in machinery by 6.7 percent and in construction by 2.8 percent in the first 9 months of 1402 according to the SCI.

Figure 3- Average Daily Production and Average Price of Crude Oil of Iran



Source: OPEC monthly reports, production level based on the secondary sources

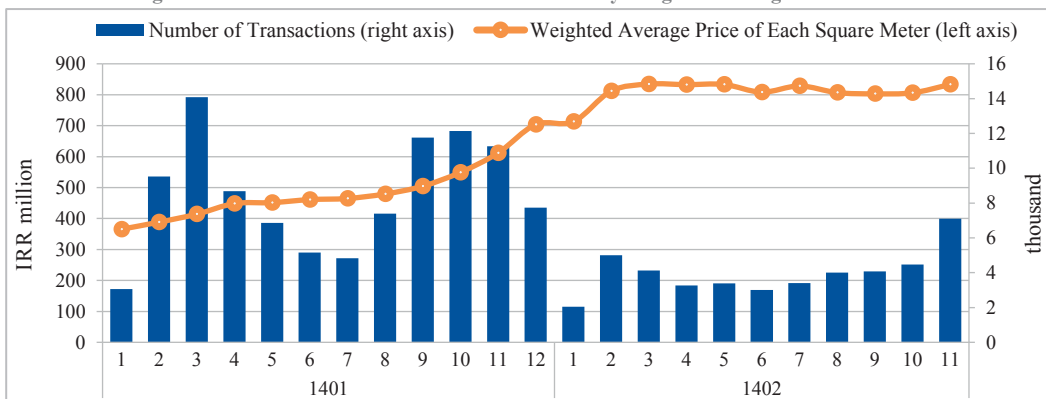
Note: OPEC statistics are based on Gregorian calendar years and their conversion into Persian calendar years are only approximate.

Housing

The most recent SCI data on housing indicates a 36.1 percent rise in the weighted average price¹ of a square meter of residential units traded in Tehran city through real estate agencies², moving from IRR612.0 million in the 11th month of 1401 to IRR833.1 million in the same month of 1402. In the mid-winter 1402, among 22 municipal zones of Tehran city, the most expensive residential units were located in zone 1 with weighted average price of IRR1,704.7 million a square meter, while zone 18 with price of IRR453.1 million a square meter contained the cheapest residential units. Additionally, on the basis of the CBI, average price of a square meter of traded residential units in Tehran city registered IRR814.4

million in the last month of 1402Q4, indicating 3.8 percent and 24.8 percent rise compared to its preceding month and the same period of 1401, respectively. According to the SCI, 3,988 residential units were traded a month on average during the first 11 months of 1402, showing 53.7 percent drop from the 8,613 monthly average in the same period of 1401. In the 2nd month of winter 1402 per se, about 7,093 residential units were traded in Tehran city, showing 58.8 percent rise compared to its preceding month, while 37.0 percent fall from the same month of 1401. Figure 4 depicts the developments of price and volume of housing transactions in Tehran in 1401 and 1402.

Figure 4- Number of Transactions and Their Monthly Weighted Average Price in Tehran



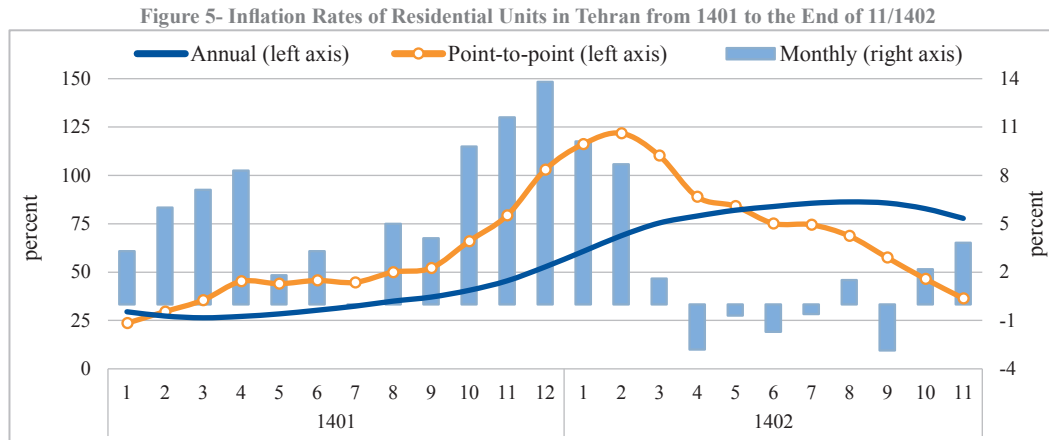
Source: Statistical Center of Iran

The SCI calculates the price index of residential units of Tehran city by Hedonic method using the statistics from the Tenement Management Information System. The housing price index illustrates the developments of housing prices more reliably than the average housing price. As the features and quality of traded residential units in different periods are not identified in average housing price, housing price index is referred to as a more suitable index in analyzing housing market. Besides, as the effect of different qualities of traded residential units is eliminated by housing price index, it is more reliable than the housing average price. In the 2nd month of winter 1402, the monthly inflation rate for residential units in Tehran city registered 3.8 percent, 1.6

percentage points above that in its previous month. Moreover, the point-to-point inflation rate of the residential units that had peaked 121.8 percent in the 2nd month of spring 1402, reversed course and continually decreased to 36.4 percent in the 2nd month of winter 1402. The annual inflation rate of residential units of Tehran city that registered 45.4 percent in the 2nd month of winter 1401, maintained an upward trend till the 2nd month of fall 1402 to reach 86.3 percent. This rate however, turned to a downward path and eventually reached 77.8 percent in the 2nd month of winter 1402. Figure 5 exhibits the inflation rates of the residential units in Tehran from the beginning of 1401 to the end of 11/1402.

1. The weighted average in a certain district is obtained from value of traded units divided by the total area of those units. In Tehran any district weight is used to offset the effect of volume of asymmetric transactions in various districts.

2. Only covers the number of transactions registered in the Tenement Management Information System.



Source: Statistical Center of Iran

Labor Market

In 1402Q4, the unemployment rate of the population aged 15 years and over reached 8.6 percent, 1.1 percentage points below that in 1401Q4 but 1.0 percentage point above that in 1402Q3, the most recent SCI report on the labor market suggests. Furthermore, the underemployment rate (working less than 44 hours a week) registered the same figure of 8.6 percent in winter 1402, indicating 0.9 percentage point drop compared to winter 1401. Other indices of the labor market including economic participation, employment ratio (ratio of employed to the working age population), and finally unemployment of population with higher education have improved in the last quarter of 1402 compared to the same period of 1401.

In 1402Q4, the male unemployment rate reached 7.1 percent, far below the 15.6 percent female unemployment rate. However, the unemployment rate in both groups has improved compared to winter 1401, i.e., 1.4 percentage points in the former and 0.1 percentage point in the latter. Precisely speaking, during the period under review, 757.1 thousand individuals were added to the employed population, pulling down the unemployment rate to 8.6 percent from the 9.7 percent in 1401Q4. Out of the total individuals added to the employed population, 575.7 thousand were male and 181.4 thousand were female. Accordingly, in 1402Q4 the employment ratio of males and females in the working age registered 63.1 percent and 11.6 percent, respectively, showing 1.1 percentage points and 0.4 percentage point improvement compared to 1401Q4. All in all, the ratio of employment in winter 1402 reached 37.3 percent, 0.7 percentage point up from that in 1401Q4. Among 2.3 million jobless in the country in winter 1402, 1.5 million were aged 18 to 35 years with 15.7 percent unemployment rate, showing 1.7 percentage points improvement compared to winter 1401. In winter 1402, 884.9 thousand of population with higher education were unemployed (45.2 percent were male and 54.8 percent were female), translating to 11.6 percent unemployment rate in that group. The unemployment rate among this group by gender was 7.7 percent in males and 20.2 percent in females, indicating 1.5 percentage points and 0.7 percentage point drop from winter 1401, respectively. In the same quarter, the unemployment rate of population with higher education constitutes 39.0 percent of total unemployment rate, up from 1.8 percentage points from 1401Q4.

The higher rate of unemployment among highly educated population signals that the higher education has not facilitated finding a job and has even served as an obstacle in that regard. All in all, in line with the rise in population with higher education, in 1402Q4 share of this group among employed population climbed by 0.4 percentage point from 1401Q4 to reach 27.8 percent.

Moreover, compared to 1401Q1, 767.4 thousand individuals have been added up to the population at working age with 49.9 percent of males (371.2 thousand) and 50.1 percent of females (396.1 thousand) in 1402Q4. In the same quarter, 500.1 thousand individuals joined the active population compared to winter 1401, forming 65.2 percent of the total population added to the working age population. Out of those, 291.9 thousand were male (58.4 percent of the total number added to active population aged 15 years and over) and the remaining were female. Consequently, 40.8 percent of the working age population were economically active in the last quarter of 1402, indicating 0.3 percentage point rise from the same quarter of its preceding year. The female economic participation rate in the period under review registered only 13.8 percent, equivalent to 4.5 million females willing to work, however only 3.8 million of them could find a job. Eventually, in 1401 and 1402 the number of active females expanded, whereas in the years prior to 1401, that population was continually decreasing but the working age population of females was increasing. In spring 1397, about 5.6 million of Iranian women were able and willing to work, however that number dropped to 4.1 million in winter 1400. From 1401, the female active population reversed course and reached 4.3 million in that year and 4.5 million in winter 1402.

As for economic sectors, among 24.2 million employed population in 1402Q4, 53.6 percent were engaged in the Services sector, 33.5 percent in the Manufacturing sector, and the remaining 12.9 percent in the Agriculture sector. Part of this population, however, were underemployed, i.e., notwithstanding their willingness, due to economic reasons had worked less than 44 hours a week. In winter 1402, about 2.0 million individuals corresponding to 8.6 percent of the employed population were underemployed, indicating 0.9 percentage point improvement compared to winter 1401. In Table 3, major indices of the labor market are presented.

Table 3- Major Labor Market Indices by Gender for the Population Aged 15 and Over

		1401Q4			1402Q4		
		Total	Male	Female	Total	Male	Female
Economic Participation	Rate (percent)	40.5	67.8	13.3	40.8	68.0	13.8
	Number (million)	26.0	21.7	4.3	26.5	22.0	4.5
Employment	Share (percent)	36.6	62.0	11.2	37.3	63.1	11.6
	Number (million)	23.4	19.8	3.6	24.2	20.4	3.8
Unemployment	Rate (percent)	9.7	8.5	15.7	8.6	7.1	15.6
	Number (million)	2.5	1.9	0.7	2.3	1.6	0.7
Unemployment of Population Aged 18 to 35	Rate (percent)	17.4	14.9	27.7	15.7	12.7	27.1
	Number (million)	1.7	1.2	0.5	1.5	1.0	0.5
Unemployment of Population with Higher Education	Rate (percent)	12.8	9.2	20.9	11.6	7.7	20.2
	Number (million)	0.9	0.5	0.5	0.9	0.4	0.5
Share of the Underemployment (percent)		9.5	10.5	3.8	8.6	9.4	4.1
Population Aged 15 and Above (million)		64.1	32.0	32.1	64.8	32.4	32.5

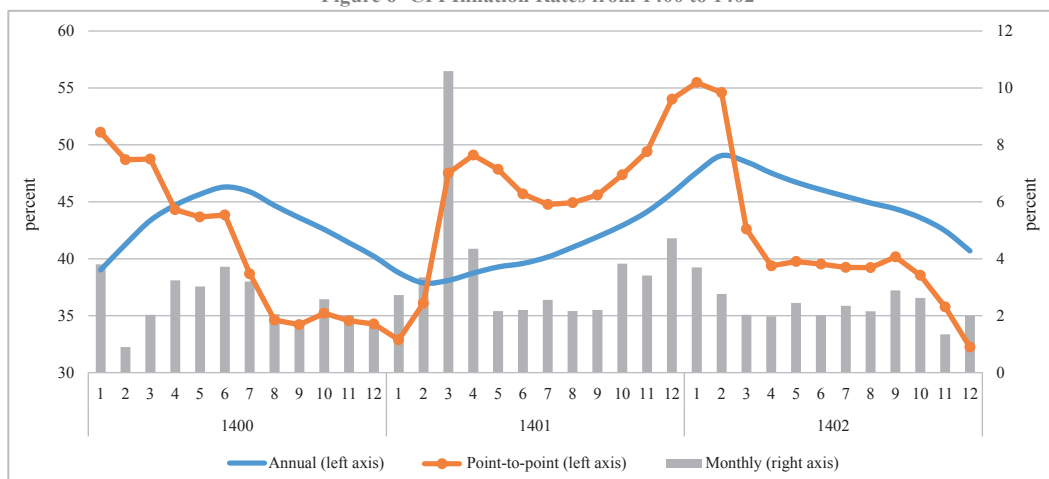
Source: Statistical Center of Iran

2. Prices and Inflation

Based on the latest report of the SCI, the annual Consumer Price Index (CPI) inflation rate that had reached 45.8 percent at the end of 1401, continued its upward trend till the end of 2nd month of 1402 to register 49.1 percent. From that point onwards, this rate started to decrease continually and eventually reached

40.7 percent at the end of 1402Q4. Furthermore, the point-to-point CPI inflation rate moved aligned with the annual inflation throughout winter 1402, closing the year at 32.2 percent, below the 40.2 percent at the end of 1402Q3. Figure 6 depicts the CPI inflation rates from the beginning of 1400 to the end of 1402.

Figure 6- CPI Inflation Rates from 1400 to 1402



Source: Statistical Center of Iran

The annual and point-to-point inflation rates that were decreasing during 1400H2, started to increase from the last month of spring 1401, following the elimination of the allocation of foreign currencies at official rate (IRR42,000 per USD) for imports of essential goods. This upward trend lasted till the early 1402. The point-to-point inflation rate reached its high of 55.5 percent - from 1400 - in the first month of spring 1402. Thereafter, it decreased and stabilized as the foreign exchange shock subsided. It continually diminished during winter 1402 at a considerable pace and finally closed the year at the low of 32.3 percent in the last two years. The monthly inflation rate in 1402Q4 stood below that in 1402Q3 and 1401Q4 on average and in the 2nd month of

1402Q4 registered the low of 1.3 percent in the last two years. The fall in the CPI inflation rates is partly attributable to the macroprudential policy of the CBI, i.e., requiring the banks to put a cap on their balance sheet monthly growth. According to this monetary authority, the point-to-point liquidity growth rate reached 24.3 percent at the end of winter 1402, far below the rates in the same points of 1400 and 1401, indicating that the CBI has been successful in reining in the liquidity growth.

The latest SCI statistics on the Producer Price Index (PPI) inflation only covered the first 3 quarters of 1402 during preparation of this Report. As a leading indicator of the CPI inflation rate, the PPI inflation rate followed a downward trend from 1400Q2 to

the end of 1401, whereas, during the first 3 quarters of 1402 was to some extent stable. In addition, the CBI report on the PPI inflation covers the first 11 months of 1402. Even though the PPI inflation rates reported by the CBI are different from those of the SCI, they have followed a same path and according to the CBI, its annual rate has experienced negligible changes during 1402 and reached 34.0 percent in the 2nd month of winter 1402. Taking into consideration the stability of the PPI inflation rate, the CPI inflation rate is supposed to be involatile in the coming months. An examination of the CPI inflation rate by the twelve main groups of the consumption basket of goods and services in the last month of 1402 reveals that the annual inflation rate of Housing, Water, Electricity and Other Fuels with highest weight of 36.11 percent in the basket, has slightly increased throughout winter 1402, registering 39.2 percent at the end of winter from the 38.7 percent in the first month of that season. The point-to-point rate in this group behaved the same in 1402Q4 and followed an increasing trend. On the contrary, the monthly inflation rate in the same group was diminishing and from 3.0 percent in the beginning of winter reached 2.4 percent at the end of that quarter. The developments of the inflation rates in Foods and Beverages as the second group in the consumption basket in terms of weight (28.82 percent) were distinct from those in Housing, Water, Electricity, and Other Fuels. During the period under

review, the annual inflation rate in Foods and Beverages from 48.1 percent in the first month of 1402Q4 continually dropped to 41.2 percent at the end of the year. Similarly, the point-to-point inflation rate in that group that registered 38.6 percent in the first month of 1402Q4, decreased to 25.0 percent at the end of 1402. The monthly inflation rate of Foods and Beverages registered negative 0.5 percent in the 2nd month of winter 1402, but reversed course and rose to 1.6 percent, still below that of the first month of the same quarter. Given the considerable weight of the top two groups of the basket of consumption, out of 40.7 percent end-of-year annual inflation rate, 12.9 percentage points is attributed to the first group and 13.9 percentage points to the 2nd one³. The high weights of these two groups in the basket of consumption in conjunction with their intense rates of inflation translates to the exacerbation of the welfare of the low-income households in 1402. An examination of the consumption basket by income deciles reveals that the top two groups of the basket constitute 80.7, 75.2, and 72.8 percent of the basket of the first 3 income deciles, respectively. Given the notable inflation rates in the top two groups of the basket, the households fit in the aforementioned deciles were worse off more than other income deciles. Table 4 provides inflation rates of the twelve main groups of the consumption basket of goods and services with weights assigned to each group in a descending order.

Table 4- Inflation Rates of the Consumption Basket of Goods and Services at the End of 1402 (percent)

	Base Year Weight	Inflation Rate		
		Monthly	Point-to-point	Annual
Overall	100.00	2.0	32.3	40.7
Housing, Water, Electricity and Other Fuels	36.11	2.4	41.2	39.2
Foods and Beverages	28.82	1.6	25.0	41.2
Transport	8.93	2.7	24.3	41.9
Health	6.68	0.5	31.1	42.9
Clothing and Footwear	4.52	3.3	38.6	47.2
Others	4.42	3.0	34.8	40.6
Household Equipment	4.40	2.0	29.7	36.7
Communication	2.41	1.0	17.8	19.8
Restaurants and Hotels	1.35	1.8	49.0	59.8
Education	0.88	0.0	41.4	37.4
Recreation and Culture	0.87	1.2	36.4	43.7
Tobacco	0.62	1.6	37.8	42.1

Source: Statistical Center of Iran

The data on the inflation rates reveals that among various provinces of the country, Yazd had the highest annual inflation rate of 50.4 percent, while Sistan and Bluchestan had the lowest of 35.9

percent at the end of 1402. The annual inflation rate in the same period registered 40.7 percent in urban areas and 40.6 percent in rural areas, below the corresponding figures at the end of fall 1402.

3. Balance of Payments

As the CBI has yet to publish the new data on balance of payments while preparation of this Report, this section covers the first half of 1402 only. The balance of payments that is composed

of Current Account, Net Capital Account, as well as Errors and Omissions experienced a USD1.0 billion surplus during 1402H1, showing USD1.4 billion decline compared to 1401H1.

3. The share of each group of the consumption basket in the CPI inflation rate is calculated as follows:

$$\text{Weight of Group in the Basket} * \text{CPI Inflation Rate} * \frac{(\Delta \text{Price Index of the Group})}{\Delta \text{CPI}}$$

An examination of the balance of payments by its components reveals that the Goods Account surplus has considerably diminished by 47.5 percent to USD7.0 billion in 1402H1 from USD13.4 billion in 1401H1. Moreover, the deficit of Capital Account widened and rose to USD15.4 billion in 1402H1, up from the USD12.8 billion of 1401H1. The Errors and Omissions in the period under review experienced an extraordinary 394.8 percent growth rate to reach positive USD9.4 billion from the positive USD1.9 billion in 1401H1. The Current Account itself consists of Goods Account, Services Account, Income Account, as well as the Current Transfers Account. The Goods Account which represents the net value of exports, from USD16.7 billion in the first half of 1401 collapsed to USD11.4 billion in the same period of 1402. All in all, during 1402H1, the value of the goods trade of Iran (sum of the values of imports and exports) stood 0.8 percent above that in 1401H1. The value of imports in 1402H1 grew by 8.7 percent from 1401H1 to register USD37.0 billion, while that of the exports dropped by 4.6 percent to reach USD48.3 billion in the same period. During the first 6 months of

1402, the value of oil exports coupled with the value of non-oil exports dropped by 4.3 percent and 4.9 percent from the same period of 1401 to register USD28.1 billion and USD20.2 billion, respectively. The fall in value of Iran non-oil exports in 1402H1 could be attributed to the fall in the global prices of Iranian export products including steel and petrochemicals compared to the 1401H1.

Subsequently, the oil trade balance surplus in 1402H1 fell by 5.0 percent from 1401H1, while the non-oil trade balance deficit grew by 30.1 percent to USD16.6 billion during the same period. The higher volume of oil and gas exports than the negligible imports of gas and oil products has caused Iran oil trade balance to have a permanent surplus. In addition, share of oil exports in total goods exports of the country rose by 0.2 percentage point during 1402H1 to 58.2 percent. The deficit in the Services Account and Income Account exacerbated by 15.1 percent and 300.7 percent in the period under review, respectively, to register USD3.9 billion and USD382 million. Table 5 demonstrates the balance of payments in detail.

Table 5- Balance of Payments in 1401H1 and 1402H1 (USD billion)

	1401H1	1402H1	Percentage Change
Current Account	13.4	7.0	-47.5
Goods Account	16.7	11.4	-31.8
Exports (FOB)	50.7	48.3	-4.6
Oil	29.4	28.1	-4.3
Non-oil	21.3	20.2	-4.9
Imports (FOB)	34.0	37.0	8.7
Gas and Oil Products	0.0	0.2	-
Others	34.0	36.8	8.2
Services Account	-3.4	-3.9	15.1
Income Account	-0.1	-0.4	300.7
Current Transfers Account	0.2	0.0	-
Net Capital Account	-12.8	-15.4	19.7
Errors and Omissions	1.9	9.4	394.8
Overall Balance	2.4	1.0	-56.8

Source: Central Bank of Iran

On the basis of the Islamic Republic of Iran Customs Administration (IRICA), in 1402, about 136.4 million tons of goods (excluding oil and suitcase trade) valued USD49.3 billion were exported, while 39.0 million tons valued IRR66.2 billion were imported. Hence, trade balance deficit of the country widened and from IRR6.2 billion in 1401 rose to IRR16.9 billion in 1402, which could be attributed to the 9.8 percent rise in imports of goods valued USD5.9 billion while the fall in the global price of major exports goods in 1402. For instance, in 1402, about 48.8 million tons of petrochemicals valued USD19.4 billion was exported, showing 11.3 percent fall in weight and 28.6 percent fall in value. Throughout 1402, the goods exports of the country expanded by 9.8 percent in weight, while in terms of value contracted by 8.9 percent. Hence, the average price of a ton of exported goods has fallen to USD363 in 1402 from USD436 in 1401. Moreover, during the period under review the imports of goods has grown by 4.4 percent in weight and by 9.8 percent in value. Subsequently, the average price of a ton of imported goods in 1402 stood at USD1,697, up from the USD1,614 in 1401. Accordingly, average

price of a ton of imported goods is four times that of the exported goods in the period under discussion which is mainly originated in exports of raw or semi-raw materials with low value-added. As no sophisticated technology is implemented in production of such goods, they lack competitive advantage in global markets. It is worth to mention that the exchange rate policy had made understatement of exports and overstatement of imports a routine in recent years. In addition, due to limited exports destinations of Iran as a result of international sanctions, the country is deprived of benefits from trade with various parties, hence proceeds from exports are considerably vulnerable to political and economic developments of trade parties.

On the basis of the IRICA data, in 1402 cattle-feed corn valued at USD3.783 billion, mobile phone at USD2.906 billion, and gold bullion at USD1.936 billion were the main imported items. On the other hand, liquified natural gas (LNG) value at USD3.090 billion, liquified propane at USD3.062 billion, and oil bitumen at USD2.197 billion were the main exported items. Table 6 demonstrates the data on Iranian foreign trade in 1401 and 1402.

Table 6- Iranian Foreign Trade in 1401 and 1402

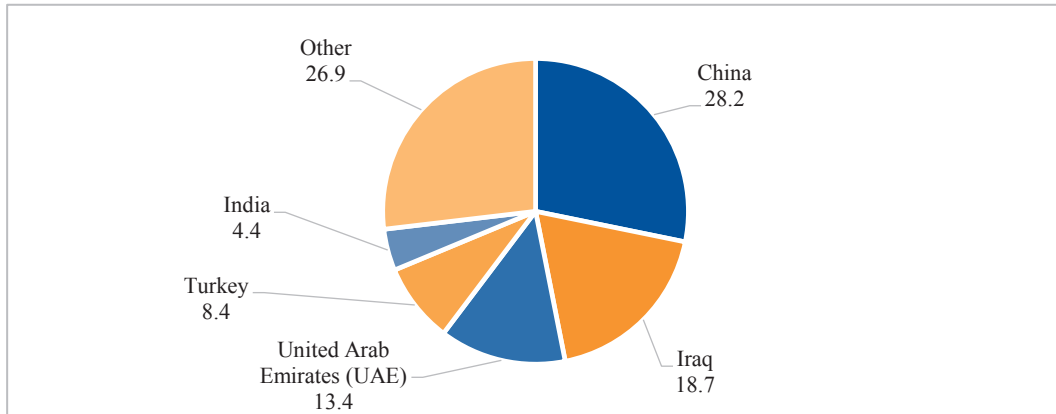
	1401			1402			Percentage Change	
	Weight (1000 tons)	Value (USD million)	Value to Weight Ratio (USD per ton)	Weight (1000 tons)	Value (USD million)	Value to Weight Ratio (USD per ton)	Weight	Value
Imports	37,376	60,309	1,614	39,016	66,204	1,697	4.4	9.8
Exports	124,208	54,133	436	136,409	49,329	362	9.8	-8.9
Customs Trade Balance	86,832	-6,176	-	97,393	-16,875	-	12.2	173.2

Source: Islamic Republic of Iran Customs Administration

In 1402, China, Iraq, UAE, Turkey, and India were respectively, the main exports destination of Iran, constituting 73.1 percent of the total exports value of the country. During the period under review exports to China valued USD13.9 billion with 28.2 percent share in total exports, proceeded by Iraq at USD9.2

billion with 18.7 percent share, UAE at USD6.6 billion with 13.4 percent share, Turkey at USD4.2 billion with 8.4 percent share, and India at USD2.2 billion with 4.4 percent share in total. Figure 7 exhibits the major exports destinations of Iran in 1402.

Figure 7- Iran's Exports Destinations with Their Shares in Total Value of Exports (percent)



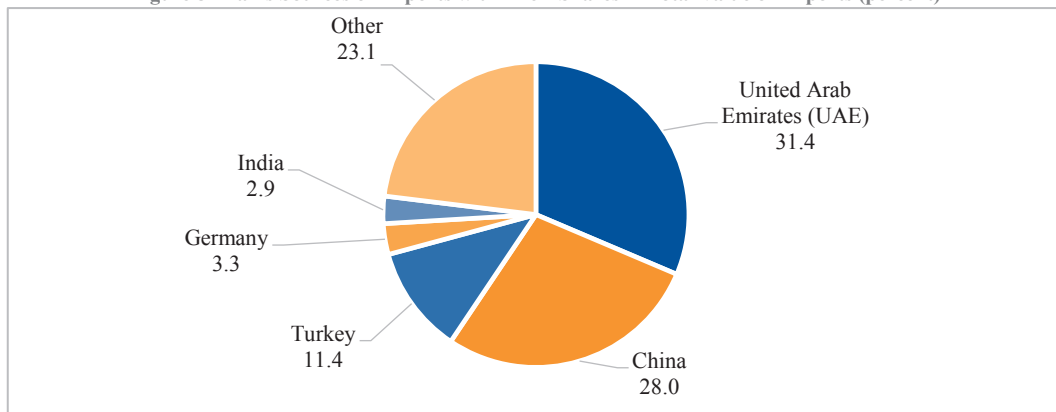
Source: Islamic Republic of Iran Customs Administration

In 1402, UAE with USD20.8 billion and 31.4 percent share in total imports ranked as the 1st source of imports of Iran, followed by China at USD18.5 billion with 27.9 percent share, Turkey at USD7.5 billion with 11.4 percent share, Germany at USD2.2 billion with 3.3 percent share, and India at USD1.9 billion

with 2.9 percent share in total. The top five sources of imports constituted 65.3 percent and 76.9 percent of imported items in weight and in value, respectively.

The main sources of imports to Iran in 1402 are shown in Figure 8.

Figure 8- Iran's Sources of Imports with Their Shares in Total Value of Imports (percent)



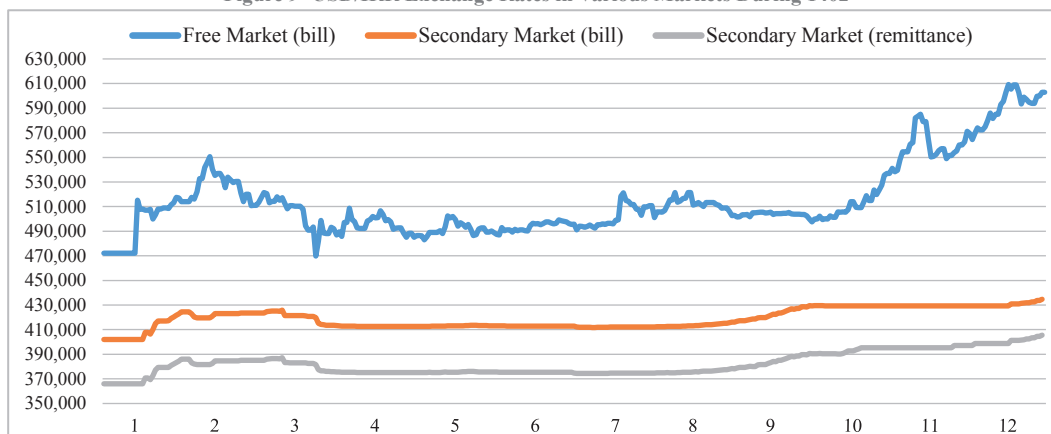
Source: Islamic Republic of Iran Customs Administration

4. Foreign Exchange Market

The USD/IRR exchange rate opened 1402 at IRR515 thousand on the first trading day after the new year holidays and on 11/02/1402 (May 2023) peaked IRR550,510. However, this did not last long and by the end of 1402Q1 the Iranian Rial appreciated against USD and registered IRR470 thousand. From that point onwards, again the IRR slightly depreciated against USD but did not experience remarkable changes till the end of 1402Q3. In 1402Q4, as in the

winter of its preceding year, the foreign exchange market faced an upward price shock, pulling up the USD/IRR exchange rate in the last trading day of 1402 to about 27 percent above that in the same point of 1401. It is noteworthy that the USD/IRR exchange rate was less volatile throughout 1402 compared to 1401. Figure 9 depicts the developments of USD/IRR exchange rates in the free market and in the secondary market during 1402.

Figure 9- USD/IRR Exchange Rates in Various Markets During 1402



Source: Gold, Coin, and Currency Information Network

The rise in oil exports coupled with the considerable CBI intervention in the foreign exchange market were the main factors of controlling the exchange rates in 1402. During 1402H1, the CBI foreign assets decreased by about IRR1,900 trillion, despite the fact that the petrodollars were converted to IRR through acquisition of this foreign reserves by the CBI in order to finance the government budget. Subsequently, it could be inferred that the sales of CBI foreign assets has exceeded the aforementioned source. The war

in Gaza Strip, on the other hand, could be also considered as an international factor, affecting the Iranian foreign exchange market. In winter 1402, one USD equaled IRR554.4 thousand on average, indicating 28.7 percent IRR depreciation compared to winter 1401. The USD/IRR exchange rate averaged IRR515 thousand in 1402 which is 49.9 percent above that in 1401 as a whole. A comparison of nominal USD/IRR bill exchange rates in 1401 and 1402 is presented in Table 7.

Table 7- Nominal USD/IRR Bill Exchange Rates in 1401 and 1402

	Average	Maximum	Minimum	Standard Deviation	Coefficient of Variation
1402Q4	554,401	609,200	499,490	34,499	0.06
1401Q4	430,816	525,000	387,590	28,727	0.07
1402	514,999	609,200	469,830	30,675	0.06
1401	343,536	525,000	262,300	57,146	0.17

Source: Central Bank of Iran; Gold, Coin, and Currency Information Network; research calculations

The USD/IRR bill rate in the secondary market experienced very slight changes unlike its rate in the free market in 1402, resulting in a wider gap between the bill rates in those markets. The gap between the USD/IRR bill rate in the free market and the secondary market rose to 24.3 percent in the second month of spring 1402 on average, but narrowed down to between 19 to 21 percent in summer and fall. Nevertheless, due to the rise in USD/IRR bill rate in the free market on the one hand, and stability of that rate in the secondary market, on the other hand, the gap

between those rates touched its high of 41.9 percent in the middle of last month of winter, translating to a broad source of foreign exchange rent. The USD/IRR remittance rate in the secondary market also moved in line with the bill rate in the same market and consequently diverged from the free-market bill rate by 52.8 percent at the same point of time. It is worth to mention that for imports of some essential goods, each USD was still allocated at the rate of IRR285 thousand, indicating more than 100 percent divergence from the USD price in the free market.

5. Monetary and Credit Aggregates

The latest CBI data on the monetary aggregates at the time of preparation of this Report, covers the first 10 months of 1402. Accordingly, liquidity (M2), containing money (M1) and quasi-money totaled IRR75,719.0 trillion at the end of the first month of winter 1402, indicating 19.5 percent rise compared to the end of 1401 and 25.4 percent on a point-to-point basis. The 19.5 percent expansion of M2 during the first 10 months of 1402

could be translated to the fulfillment of the CBI macroprudential policy. The monetary base (M0) grew by 20.2 percent in the same period. At the end of the first month of 1402Q4, the M2 money multiplier contracted by 0.6 percent to 7.3 from the end of 1401. Table 8 demonstrates the developments of monetary base and liquidity with their components during the first 10 months of 1402.

Table 8- Liquidity and Monetary Base with the Growth Rates of Their Components (IRR trillion-percent-percentage point)

	Balance at the End of Period			Growth at the End of 10/1402 compared to		Share in Growth at the End of 10/1402 Compared to	
	10/1401	12/1401	10/1402	12/1401	10/1401	12/1401	10/1401
Monetary Base (M0)	7,850.0	8,599.9	10,335.1	20.2	31.7	20.2	31.7
CBI Foreign Assets (net)	5,534.5	6,824.3	4,720.5	-30.8	-14.7	-24.5	-10.4
CBI Claims on Public Sector (net)	-719.7	-1,985.8	-288.4	85.5	-59.9	19.8	5.5
CBI Claims on Public Sector	2,462.4	2,725.0	3,849.0	41.2	56.3	13.1	17.7
Public Sector Deposits with CBI	3,182.1	4,710.8	4,137.4	-12.2	30.0	6.7	12.2
CBI Claims on Banks	3,072.4	3,912.4	6,812.7	74.1	121.7	33.8	47.7
Other Assets (net)	-37.2	-151.0	-909.7	-	-	-8.8	-11.1
Balance Remaining Upon Implementation of Monetary Policy	1,169.0	988.4	1,532.8	55.1	31.1	6.3	4.6
Liquidity (M2)	60,376.1	63,376.8	75,719.0	19.5	25.4	Share in Liquidity at the End of	
						12/1401	10/1402
Money (M1)	14,891.3	16,296.9	18,433.0	13.1	23.8	25.7	24.3
Notes and Coins with the Public	1,054.0	1,226.1	1,275.8	4.1	21.0	1.9	1.7
Sight Deposits	13,837.3	15,070.8	17,157.2	13.8	24.0	23.8	22.7
Checks (net)	298.4	201.1	266.4	32.5	-10.7	3.0	4.0
Quasi-money	45,484.8	47,079.9	57,286.0	21.7	25.9	74.3	75.7
Gharz-al-hasaneh Saving Deposit	4,355.1	5,497.3	6,491.8	18.1	49.1	8.7	8.6
Short Term	15,102.8	15,931.3	16,300.3	2.3	7.9	25.1	21.5
One-year	15,136.5	14,739.5	12,768.8	-13.4	-15.6	23.3	16.9
Two-year	9,227.4	6,868.3	3,484.7	-49.3	-62.2	10.8	4.6
Three-year	0.0	2,346.8	16,220.1	591.2	-	3.7	21.4
Four-Year	3.6	3.6	3.6	0.0	0.0	0.0	0.0
Five-year	63.9	63.7	65.7	3.1	2.8	0.1	0.1
Miscellaneous Deposits	1,595.5	1,629.4	1,951.0	19.7	22.3	2.6	2.6
M2 Money Multiplier	7.7	7.4	7.3	-0.6	-4.7	-	-

Source: Central Bank of Iran

The liquidity registered IRR75,719.0 trillion at the end of the first month of 1402Q4, showing 25.4 percent rise compared to the same point in 1401Q4. This monetary aggregate has experienced growth rates below 30 percent from the 2nd month of 1402Q1 onwards that could be attributed to the fulfillment of the CBI macroprudential policy, i.e., the commercial banks and specialized banks were required to maintain their monthly balance sheet growth rate at maximum 2 percent and 2.5 percent, respectively⁴. Note that the liquidity growth rate started to slow down from the early fall 1400 and from 48.2 percent in that point diminished to 31.1 percent at the end of 1401, close to the 30.0 percent target of the CBI. The liquidity growth rate rose to 33.1 percent in the first month of 1402

but reversed course and finally reached 25.4 percent in the middle of winter 1402. According to the CBI, the liquidity experienced an annual growth rate of 24.3 percent at the end of 1402, indicating that the 25 percent target of the CBI for 1402 was realized.

An examination of the liquidity by its components (M1 and quasi-money) indicates that at the end of the first month of 1402Q4, the M1 has grown by 13.1 percent and 23.8 percent compared to the end of 1401 and to the end of the same point in 1401Q4, respectively. In the same point, the quasi-money experienced 21.7 percent rise compared to the end of 1401 and 25.9 percent rise from the same point in 1401, respectively. At the end the first month of 1402Q4, the M1 constituted 24.3 percent of the liquidity,

4. According to the circular of CBI, all banks and credit institutions are required to observe the capped growth rates. Cash balances, accounts with CBI and Islamic Treasury Bills, as well as the below the line items are exempt from this circular.

0.4 percentage point below that in the same point in 1401Q4. In the late 1401, the CBI increased the nominal interest rates aimed to rein in the inflation. Therefore, the monetary authority raised the interest rates on one-year deposits to 20.5 percent from 16 percent, and that of two-year deposits from 18.0 percent to 22.5 percent. The banks were also allowed to offer three-year deposits with 22.5 percent interest rate. At the end of the first month of 1402Q4, share of three-year deposits in liquidity escalated to 21.4 percent, 17.7 percentage points above that at the end of 1401. The higher interest rate of the three-year deposits on the one hand and their exemption from the prematurity withdrawal penalty (an arbitrary decision of the banks) caused 49 percent fall in two-year deposits but 591.2 percent surge in the three-year deposits at the end of the first month of winter 1402 compared to the end of 1401. Furthermore, the banks were also allowed to offer Special one-year deposits with 30 percent interest rate, albeit for a very short period and a limited quantity. However, 44.2 percent of the liquidity belonged to the short-term and sight deposits at the end of the period under review, conveying that the depositors were reluctant to hold their funds in long-term deposits and their decision makings are remarkably on a short-term basis.

The M0 registered IRR10,335.1 trillion at the end of the first month of winter 1402, indicating 20.2 percent rise from the end of 1401 and 31.7 percent rise from the same point in winter 1401. During the first 10 months of 1402, CBI claims on banks as a source of M0 has expanded by 74.1 percent, registering the highest share in the M0 growth. This source of M0 (mainly originated from overdrafts) has more than doubled in the year ending in the 10th month of 1402. The net CBI claims on the public sector escalated by 85.5 percent in the year ending in the 10th months of 1402, forming 19.7 percentage points of the M0 growth. The 12.2 percent fall in the public sector deposits with the CBI in conjunction with the 41.2 percent rise in CBI claims on the public sector have been the main drivers of the rise in net CBI claims on the public sector. It should be noted that the public sector could be divided into two subgroups of Government as well as the State-

owned companies. The Government debt to the CBI has climbed by 70.9 percent to IRR2,977.5 trillion during the year ending in the 10th month of 1402. This subgroup has experienced 61.9 percent growth rate during the first 10 months of 1402. Furthermore, CBI net foreign assets contracted by 30.8 percent at the end of the first month of 1402 from the end of 1401 and served as a factor of decrease in the growth of monetary base in the same time span. The fall in CBI foreign assets is mainly attributable to the sales of foreign currencies with the CBI. The net of other assets of the CBI (as a negative variable) was another factor of decrease in growth of the M0 with 502.5 percent rise in the 10-month period under review. This rise happened notwithstanding the positive balance of the open market operations as a subgroup of the CBI other assets, showing that the monetary authority has implemented an expansionary monetary policy (regardless of other CBI policies such as foreign exchange policies). All in all, the annual growth rate of monetary base from 45.0 percent in the first month of spring 1402 fell to 31.7 percent in the first month of winter 1402. As for the uses of the monetary base, notes and coins with the public grew by 25.7 percent at the end of the first month of 1402Q4 compared to the same point of 1401Q4. On the other hand, the deposits of banks and credit institutions with the CBI has escalated by 32.7 percent. On the basis of the aggregated balance sheet of banks and non-bank credit institutions, at the end of the 10th month of 1402, their assets (liabilities) excluding below the line items have grown by 21.4 percent from the end of 1401 and by 35.1 percent compared to the same point in 1401. On assets side, during the first 10 months of 1402 claims on non-public sector and other assets, as well as foreign assets were the main contributors to the 21.4 percent rise in assets with 10.7, 6.0, and 2.3 percentage points share, respectively. Regarding liabilities, deposits of non-public sector, other liabilities plus the debt to the CBI were the main drivers of the expansion of the liabilities in the 10-month period under review with 11.1, 6.7, and 2.6 percentage points share. Table 9 exhibits a summary of the assets and liabilities of the banks and non-bank credit institutions.

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

	End of Period Balance			Share of Banks and Non-bank Credit Institutions at the End of 10/1402			10/1402 percentage Change Compared to	
	10/1401	12/1401	10/1402	Public Commercial	Public Specialized	Non-public and Non-bank	12/1401	10/1401
Assets (excluding below the line items)	99,701.3	110,930.6	134,663.5	31,434.9	18,770.6	84,458.0	21.4	35.1
Foreign Assets	16,877.9	20,336.4	22,918.8	3,007.4	5,341.0	14,570.4	12.7	35.8
Notes and Coins	93.5	193.8	166.7	63.2	18.4	85.1	-14.0	78.3
Deposits with the CBI	6,702.5	7,180.0	8,892.6	2,247.8	597.5	6,047.3	23.9	32.7
Claims on Public Sector	5,630.0	7,931.8	8,830.8	4,047.9	1,349.1	3,433.8	11.3	56.9
Claims on Non-public Sector	46,688.4	50,934.4	62,791.8	12,744.0	8,778.2	41,269.6	23.3	34.5
Others	23,709.0	24,354.2	31,062.8	9,324.6	2,686.4	19,051.8	27.5	31.0
Liabilities (excluding below the line items)	99,701.3	110,930.6	134,663.5	31,434.9	18,770.6	84,458.0	21.4	35.1
Deposits of Non-public Sector	59,322.1	62,150.7	74,443.2	18,601.8	6,801.9	49,039.5	19.8	25.5
Debt to the CBI	3,072.4	3,912.4	6,812.7	2,219.5	1,233.1	3,360.1	74.1	121.7
Deposits of Public Sector	445.7	463.2	459.2	210.1	175.1	74.0	-0.9	3.0
Capital Account	-55.1	2,384.3	1,204.8	-88.1	956.7	336.2	-49.5	-
Foreign Liabilities	13,812.6	17,035.5	19,330.4	3,127.7	4,539.0	11,663.7	13.5	39.9
Others	23,103.6	24,984.5	32,413.2	7,363.9	5,064.8	19,984.5	29.7	40.3

Source: Central Bank of Iran

The balance of extended facilities at the end of the 11th month of 1402 registered IRR68,602.2 trillion, indicating 33.2 percent point-to-point growth rate and 22.9 percent rise from the end of 1401. The balance of deposits also registered IRR90,234.6 trillion at the end of the 11th month of 1402, showing 31.2 percent point-

to-point growth rate plus 24.5 percent rise from the end of 1401. The ratio of extended facilities to deposits less the legal reserves reached 84.0 percent at the end of the 11th month of 1402 which was 1.1 percentage points below that at the end of 1401. These statistics are presented in Table 10.

Table 10- Balance of Extended Facilities and Deposits in IRR and Foreign Currencies (end of period-IRR trillion)

	11/1401	12/1401	11/1402	11/1402 Percentage Change Compared to	
				12/1401	11/1401
Extended Facilities (EF)	51,496.4	55,833.1	68,602.2	22.9	33.2
Deposits	68,780.8	72,742.5	90,234.6	24.0	31.2
Deposits Less the Required Reserves (DLRR)	61,773.4	65,603.3	81,656.0	24.5	32.2
EF to DLRR Ratio (percent)	83.4	85.1	84.0	-	-

Source: Central Bank of Iran

During the first 11 months of 1402, IRR47,948.0 trillion facilities was extended to various sectors of the economy, out of which 81.0 percent equaling IRR38,857.6 trillion belonged to the businesses (both individuals and legal entities) and the remaining 19.0 percent to the final consumers (households). In terms of purpose, working capital stood at the first place with IRR29,309.5 trillion

extended facilities during the first 11 months of 1402, constituting 75.4 percent of the total facilities extended to businesses and 61.1 percent of the total extended facilities. As for various sectors of the economy, out of the total extended facilities to businesses, 40.6 percent belonged to Services sector and 36.6 percent to Industries and Mining sector.

6. Government Budget Performance

As no data was issued regarding the performance of government budget during the preparation of this Report in 1402, the estimates have been carried out based on the data from unofficial sources. Accordingly, the general sources and uses of the government is estimated to be realized IRR18,990 trillion throughout 1402, equaling 91.2 percent of the legislated figure in the Budget Law of 1402.

The IRR10,540.8 trillion of specified general revenues in the Budget Law of 1402 is estimated to be totally realized. Hence, given the estimated IRR13,579.6 trillion of current expenditures which equals 90.0 percent of the legislated, the operating balance deficit would register IRR3,038.7 trillion in 1402.

Furthermore, in 1402 the disposal of non-financial assets is expected to have hit 47.0 percent of the legislated figure at IRR3,442.9 trillion, considering the rise in the oil exports at stable high prices. The Parliament Research Center claimed that the disposal of the government properties in 1402 has been IRR100 trillion, indicating only 9.2 percent realization of the legislated and the government failure in that regard. Moreover, oil revenues is estimated IRR3,342.9 trillion in 1402, equivalent to 53.6 percent of the approved figure in the Budget Law of 1402. In order to estimate development expenditures, in addition to the available data on the performance of government in the first 7 months of 1402, borrowing (IRR1,700.0 trillion claimed by the Parliament Research Center) from the National Development Fund (NDF) as well as the issuance of IRR1,320.0 trillion Islamic Treasury bonds⁵ ought to be taken into account. Therefore,

IRR3,125.0 trillion is estimated to be financed for acquisition of non-financial assets (development plans), equivalent to 83.3 percent of the approved figure in the Budget Law of 1402. Subsequently, the net disposal of non-financial assets is estimated to have a surplus of IRR317.9 trillion which can offset a small portion of the operating balance deficit.

All in all, the net disposal of financial assets has been the major source of financing the operating balance deficit in 1402. Given the data on government debts securities auctions held by the CBI in conjunction with the considerable issuance of Islamic Treasury bonds plus the IRR300.0 trillion of government debt securities aimed to settlement of debt to Tavanir Co.⁶, the share of government debt securities in financing budget deficit is estimated IRR2,745 trillion, equaling 146.8 percent of the legislated figure in 1402 Budget Law. The discount on Islamic Treasury bonds that are in fact zero-coupon bonds has been considered 30 percent in our estimates. In addition, disposal of the state-owned companies based on the latest available data of the first 11 months of 1402 is estimated IRR296 trillion for the whole year.

The acquisition of financial assets is estimated to hit the approved figure in 1402 Budget Law by 115.0 percent due to the settlement of government debt to Tavanir Co. Accordingly, the net disposal of financial assets equals IRR2,720.9 trillion, constituting 14.3 percent of the estimated general sources of 1402. Table 11 exhibits the estimates of the government budget performance in 1402.

5. Note that as the issued bonds are zero-coupon, the value of finance through this method is below the face value of the bonds equivalent to about IRR924 trillion. The discount in this case is assumed about 30 percent.

6. Iran Power Generation Transmission and Distribution Company

Table 11- Estimated Government Fiscal Performance in 1402 (IRR trillion-percent)

Descriptions	1402 Budget Law	Performance of First 7 Months of 1402	Estimated Performance of 1402	Ratio of the Estimated Performance of 1402 to the Legislated	Share in the Estimated Performance of Sources and Uses in 1402
Sources	20,823.3	8,009.4	18,989.5	91.2	100.0
General Revenues	10,540.8	5,339.4	10,540.8	100.0	55.5
Tax (including imports tax)	8,944.5	4,429.4	8,944.5	100.0	47.1
Other	1,596.3	910.0	1,596.3	100.0	8.4
Disposal of Non-financial Assets	7,322.5	1,990.0	3,442.9	47.0	18.1
Oil Revenues	6,238.1	1,950.0	3,342.9	53.6	17.6
Other	1,084.4	40.0	100.0	9.2	0.5
Disposal of Financial Assets	2,960.0	680.0	5,005.8	169.1	26.4
Sales of Islamic Debt Securities	1,870.0	540.0	2,745.1	146.8	14.5
Sales of State-owned Companies	1,090.0	140.0	296.5	27.2	1.6
Other	30.0	296.0	1,964.2	6,547.2	10.3
Uses	20,823.3	9,049.4	18,989.5	91.2	100.0
Current Expenditures	15,088.4	6,999.4	13,579.6	90.0	71.5
Acquisition of Non-financial Assets	3,750.0	900.0	3,125.0	83.3	16.5
Acquisition of Financial Assets	1,984.9	1,150.1	2,284.9	115.1	12.0
Operating Balance	-4,547.6	-1,660.0	-3,038.7	-	-
Net Disposal of Non-financial Assets	3,572.5	1,090.0	317.9	-	-
Net Disposal of Financial Assets	975.1	-470.1	2,720.9	-	-

Source: Budget Law of 1402; Parliament Research Center; Iranian National Tax Administration; Iran's Ministry of Economic Affairs and Finance; Research calculations.

Despite the fact that the government is not permitted to borrow from the NDF share in oil exports in the Budget Law of 1402, during the first 7 months of 1402 about IRR250 trillion of the NDF funds were withdrawn and spent by government. Furthermore, according to the Parliament Research Center, the new permission to the government to withdraw 20 percentage points of NDF share in oil exports has ended up in withdrawal of IRR1,700 trillion of NDF funds in the late 1402. Hence, in 1402 the government is expected to have borrowed IRR1,950 trillion from the NDF, equaling 10.3 percent of the total estimated general sources of the year which is added to other sources of the disposal of financial assets.

In the Budget Law of 1402, IRR8,944.5 trillion was approved for total tax revenues, out of which 50.3 percent belonged to indirect taxes (tax on goods and services and tax on imports) and 49.7 percent to direct taxes (tax on legal entities, income, and wealth). Therefore, the approved tax revenues for the first 11 months of 1402 was IRR8,199.1 trillion in the Budget Law of 1402. The data released by the Iranian National Tax Administration as well as some unofficial sources indicate 97.7 percent realization of tax revenues in the first 11 months of 1402. In this period, direct tax revenues outperformed the legislated figure by 100.6 percent. As for the indirect taxes, tax on income stood 19.8 percent above the approved figure in the first 11 months of 1402. As a subgroup of tax on income, tax on professions constituted 35.9 percent of total tax on income in 1402 Budget Law and 37.7 percent of the realized tax on income in the first 11 months of 1402. This subgroup

stood 26.0 percent above the legislated figure. In addition, tax on legal entities in the first 11 months of 1402 realized 96.7 percent of the approved figure, registering IRR2,603.7 trillion. Out of this figure, 88.2 percent valued at IRR2,295.3 trillion is attributed to the tax on non-public legal entities. The tax on wealth in the first 11 months of 1402 reached IRR249.6 trillion, equivalent to 73.0 percent of the legislated figure and 49.5 percent up from the performance of the same period of 1401. Tax on shares transfers (as a subgroup of tax on wealth) in the same 11-month period registered 109.5 percent of the legislated figure at IRR91.0 trillion.

During the first 11 months of 1402, indirect taxes grew by 78.1 percent to IRR3,906.3 trillion compared to the same period of 1401, equivalent to 94.8 percent of the legislated figure in the Budget Law of 1402. Note that 78.1 percent of the realized indirect taxes belonged to the tax on goods and services and the remaining 26.6 percent to the tax on imports. The tax on goods and services in the 11-month period under review expanded by 76.9 percent compared to its preceding year to reach IRR2,866.3 trillion, forming 35.8 percent of the total tax revenues and overshooting the legislated figure by 2.9 percent. The value-added tax that forms 66.0 percent of the tax on goods and services in the first 11 months of 1402 realized 109.5 percent of the legislated figure and registered IRR1,891.4 trillion. On the other hand, the tax on imports with 13.0 percent share in total tax revenues hit 78.0 percent of the approved figure for the first 11 months of 1402 in the Budget Law. Table 12 demonstrates the tax revenues in the first 11 months of 1402.

Table 12- Tax Revenues in the First 11 Months of 1402 (IRR trillion-percent)

	1402 Budget Law	Legislated for the First 11 Months of 1402	Realization in the First 11 Months of 1401	Realization in the First 11 Months of 1402	Growth Rate of First 11 months of 1402 to First 11 Months of 1401 in Performance	Ratio of 11-month Realization to Legislated in 1402	Share in Total Tax Revenues in the First 11 Months of 1402
Tax Revenues	8,944.5	8,199.1	4,861.0	8,011.2	64.8	97.7	100.0
Direct Tax	4,449.6	4,078.8	2,667.8	4,104.9	53.9	100.6	51.2
Corporate Tax	2,936.6	2,691.9	1,752.9	2,603.7	48.5	96.7	32.5
Income Tax	1,140.1	1,045.1	747.9	1,251.5	67.3	119.8	15.6
Wealth Tax	372.9	341.8	167.0	249.6	49.5	73.0	3.1
Indirect Tax	4,494.9	4,120.4	2,193.2	3,906.3	78.1	94.8	48.8
On Goods and Services	3,040.0	2,786.7	1,620.2	2,866.3	76.9	102.9	35.8
Customs Duty	1,454.9	1,333.7	573.0*	1,040.0	81.5	78.0	13.0

Source: Budget Law of 1402; Iranian National Tax Administration; Tasnim News Agency

* Due to the lack of data of this source for the 11th month of the year, the figure 573.0 is the differential of the performance of 1401 in total and in the first 10 months of the same year divided by two plus the performance of the first 10 months.

As for issuance of debt securities, the legislated figure in 1402 Budget Law is IRR1,870.0 trillion, indicating 81.6 percent increase compared to the legislated figure of 1401 Budget Law, whilst 11.2 percent decrease from the realized issued government debt securities in 1401. IRR2,105.7 trillion debt securities were issued in 1401 in practice, overshooting the legislated figure in the Budget Law of 1401. The CBI in cooperation with Ministry of Economic Affairs and Finance started to hold weekly auctions of government debt securities in the money market and capital market from the mid-summer 1402.

Regarding the auctions held by the CBI, the report by this authority

suggests that 33 rounds of auctions have been held during 1402, with IRR5,683.1 trillion of supplied government debt securities in total. Out of the supplied figure, IRR412.8 trillion was demanded by the banks and non-bank credit institutions but only IRR341.4 trillion was approved by the Ministry of Economic Affairs and Finance. Furthermore, IRR1,209.8 trillion government debt securities were sold through auctions in the capital market. All in all, throughout 1402, the government debt securities traded via auctions totaled IRR1,551.1 trillion, indicating 50.5 percent expansion compared to 1401. Table 13 presents a summary of the auctions held by CBI in 1401 and 1402.

Table 13- Government Debt Securities Auctions in Money Market and Capital Market During 1401 and 1402 (IRR trillion-percent)

Month	1401					1402					Point-to-point Growth Rate in Money Market	Point-to-point Growth Rate in Capital Market	Point-to-point Growth Rate in Total	
	Supply	Banks Demand	Traded in Money Market	Traded in Capital Market	Total Traded	Supply	Banks Demand	Traded in Money Market	Traded in Capital Market	Total Traded				
03	592.8	121.1	54.0	77.2	131.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
04	496.2	19.5	19.5	54.8	74.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
05	337.3	40.7	40.7	33.9	74.6	874.2	256.5	148.4	58.5	206.9	264.7	72.7	177.5	
06	314.8	63.5	59.6	61.1	120.7	628.9	0.0	0.0	164.3	164.3	-100.0	168.9	36.1	
07	263.4	0.0	0.0	4.6	4.6	753.6	9.0	9.0	51.3	60.3	-	1,017.2	1,213.5	
08	258.9	0.5	0.5	86.5	87.0	816.4	1.0	1.0	287.0	287.9	94.0	231.6	230.8	
09	322.4	43.5	37.8	0.0	37.8	578.3	19.1	0.0	126.4	126.4	-100.0	-	234.6	
10	251.6	15.7	15.7	0.0	15.7	519.7	35.7	34.5	151.8	186.3	119.6	-	1,086.6	
11	198.0	3.8	3.8	0.0	3.8	454.0	0.0	0.0	65.9	65.9	-100.0	-	1,625.4	
12	591.0	29.4	23.7	457.3	481.0	1,058.1	91.6	148.5	304.6	453.1	526.5	-33.4	-5.8	
Total (whole year)	3,626.4	337.7	255.3	775.4	1,030.7	5,683.1	412.8	341.4	1,209.8	1,551.1	33.7	56.0	50.5	

Source: Central Bank of Iran

In addition to the auctions, the government also issues debt securities through two other distinct methods. First, selling Murabaha debt securities in the capital market via an underwriter, and second providing government creditors with Islamic Treasury Bonds in exchange of its debts.

IRR60.0 trillion Murabaha debt securities was traded through underwriting (first method) in 1402 and by inclusion of auctions, the value of traded Murabaha debt securities in total registered IRR1,611.1 trillion, 34.7 percent above that in 1401.

Additionally, IRR1,320.0 trillion Islamic Treasury Bonds were issued in 1402, showing 45.1 percent rise from 1401. However, their combination is not precisely known, i.e., the portion used for settling debt with the creditors and portion that has not yet been allocated.

Furthermore, based on the addition of a clause to Note 5 of the 1402 Budget Law by the end of 1402, IRR300 trillion Islamic Treasury Bonds were issued aiming for settlement of government debt to Tavanir Co. The issuance of those bonds caused the fall in value of sources from the disposal of state-owned companies by the same value to maintain the total general sources of 1402 Budget Law unchanged.

Out of the IRR3,520.0 trillion of the government debt securities issued in 1402, IRR3,231 trillion is expected to be sold, with the assumption that Islamic Treasury bonds and the bonds aiming for debt settlements to Tavanir Co. are completely traded. Note that as those bonds are basically zero-coupon bonds, the government budget is financed below their face value in practice.

From the mid-summer 1400, Over the Counter (OTC) issues the trades of the debt securities market (primary and secondary markets in total) by the market players (government, Central Bank, banks, funds, etc.). Accordingly, from mid-summer 1400 to the end of 1402, the net accumulated government debt securities purchased by the CBI and funds respectively, registered IRR1,845.6 trillion and IRR2,283.5 trillion. Note that purchase of government debt securities in the primary market by CBI is prohibited, hence the securities sold to CBI were all traded in the secondary market. The banks that from the mid-summer 1400 to the end of that year were mainly suppliers of the government debt securities in the secondary market (with the net sales of IRR556.3 trillion in the primary and secondary markets), moved to the demand side in 1401 and their net purchase reached IRR1,213.6 trillion in the primary and secondary markets during 1401. The banks maintained their place in the demand side in 1402 which ended up in net purchase of IRR240.0 trillion from the aforementioned markets by these players during this year. All in all, the net accumulated government debt securities purchased by banks from the mid-summer 1400 till the end of 1402 registered IRR896 trillion.

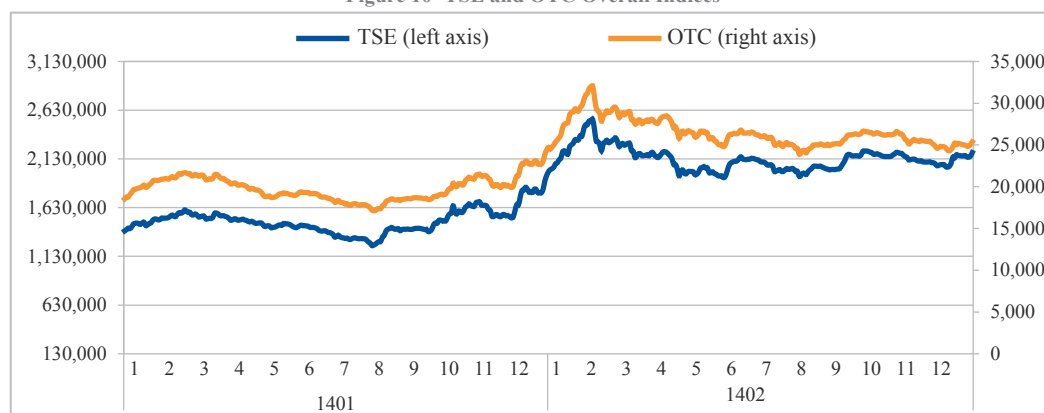
It is worth to mention that the annual effective rate of return of government debt securities that registered 24.8 percent in the initial auction of 1402, climbed to 27 percent in last auction of the year. The need for financing budget deficit specially in the last weeks of the year was one of the main drivers of this rise.

7. Capital Market

The circular regarding the change in price of petrochemical feedstock in the second month of 1402 resulted in volatility of Tehran Stock Exchange (TSE) and consequently the TSE overall index considerably dropped. Hence, in response to this drop, the policy maker made some amendments to the circular. It should be noted that price of gas feedstock of petrochemicals is the base for gas price in all industries. As the profitability of most of the listed companies is vulnerable to such decisions, the fall in TSE overall index was inevitable. On the other hand, the electricity shortage of industries in summer, and fall in global price of petrochemicals and steel products exacerbated the downward trend of the TSE overall index. Accordingly, the TSE overall index reached 2.1 million at the end of 1402Q2 from 2.5 million on 16/02/1402. From fall 1402, the capital market was affected by the tensions in Palestine with the fear of its spread in the region. TSE reaction to regional tensions was such intense that its overall index fell by 2.5 percent from its preceding day on 16/07/1402, marking the highest daily fall in 1402Q3. In the late 1402Q3, some news regarding elimination of automotive price control and capital

increase of large companies and banks were the contributors to the improve in the overall index. Consequently, the Overall indices of TSE and Over the Counter (OTC) registered quarterly growth rates of 4.2 percent and 1.4 percent at the end of 1402Q3, respectively. Offering Special one-year deposits with 30 percent interest rate by banks, shortage of gas feedstocks in steel and petrochemical industries, high political tension in the Middle East, and finally boom in the markets of gold and crypto currencies were altogether the factors of the fall in TSE and OTC overall indices in the first 2 months of winter 1402. Compared to the end of fall 1402, TSE and OTC overall indices, respectively, fell by 6.3 percent and 6.6 percent at the end of the 11th month of 1402. The fall in overall indices improved to some extent in the last month of winter 1402. However, the rate of return of TSE and OTC during 1402Q4 registered negative 0.7 percent and negative 4.6 percent, respectively, and for the whole year reached 12.0 percent and 4.0 percent. Figure 10 illustrates the daily developments of the TSE and OTC overall indices in 1401 and 1402.

Figure 10- TSE and OTC Overall Indices



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

The value of TSE transactions in 1402 grew by 42.4 percent in total compared to 1401. In the same year, transactions in the derivatives market rose by 248.2 percent. The Professional Investment Market were also launched by TSE in 1402. This

market is a subsidiary of the TSE through which, shares of project companies, venture capitals, and Private funds are supplied. Table 14 presents the value of transactions in various TSE markets in 1401 and 1402.

Table 14- Value of Transactions in Various TSE Markets in 1401 and 1402 (IRR trillion)

Market	1401	1402	1402 to 1401 Percentage Change
Shares	10,063	13,336	32.5
Debt Securities	1,028	1,175	14.3
Derivatives	77	268	248.2
Exchange-traded Funds	4,544	7,577	66.8
Professional Investment	0	20	-
Total	15,712	22,375	42.4

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

The volume of TSE transactions in various types of securities registered 2,825.4 billion in 1402, indicating 18.5 percent rise compared to its preceding year. Similarly, the number of transactions in 1402 stood 19.3 percent above that in 1401. The average value of each transaction in TSE that had

registered IRR135.6 million in 1401 climbed to IRR161.7 million in 1402. Table 15 exhibits the volume and number of transactions, as well as average value of each transaction in TSE by Market Type in 1401 and 1402.

Table 15- Volume and Number of Transactions and Average Value of Each Transaction in TSE by Market Type in 1401 and 1402

	Volume of Transactions			Number of Transactions			Average Value of Each Transaction		
	billion		Percentage Change	1000 times		Percentage Change	IRR million		Percentage Change
	1401	1402		1401	1402		1401	1402	
Shares	2,029.6	2,368.9	16.7	99,447.1	113,000.0	13.6	101.2	118.0	16.6
Debt Securities	1.1	1.2	9.8	50.4	11.5	-77.2	20,386.4	102,044.9	400.6
Derivatives	56.1	28.9	-48.6	2,740.0	6,201.1	126.3	28.1	43.2	53.9
Exchange-traded Funds	298.0	414.6	39.1	13,633.8	18,873.6	38.4	333.3	401.5	20.5
Professional Investment	-	11.8	-	-	207.6	-	-	94.2	-
Total	2,384.8	2,825.4	18.5	115,871.3	138,293.8	19.4	135.6	161.8	19.3

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

At the end of 1402, the TSE market capitalization escalated by 5.0 percent compared to the end of 1401 to reach IRR76,169 trillion. As for the OTC, its market capitalization registered IRR24,726.7 trillion at the end of 1402, indicating 8.8 percent rise from the end of 1401. The TSE overall index as well as equally-weighted overall index climbed by 12.0 percent and 26.9 percent in 1402, respectively. From the higher growth of the equally-weighted overall index than that of the overall index, it is inferred that the

price of smaller companies' shares has risen more than that of the large companies. The free float index of TSE grew by 12.3 percent to IRR2,851.0 trillion at the end of 1402, compared to the end of 1401. The close growth rates of free float index and the overall index of TSE conveys that in 1402, the growth in price of shares of the listed companies with few floating shares is not far different from those bearing many floating shares. Table 16 provides some data in that regard.

Table 16- TSE Indices at the End of Period

	Market Capitalization	Equally-weighted Index	Overall Index	Financial Index	Industrial Index	Free-float Index
	IRR trillion	Thousand	Thousand	Thousand	Thousand	Thousand
1402	76,169	743	2,195	1,918	2,090	2,851
1401	72,562	585	1,960	1,706	1,867	2,539
Percentage Change	5.0	26.9	12.0	12.4	11.9	12.3

Source: <http://news.tse.ir>

Throughout 1402, IRR2,869.3 trillion has been financed by the TSE listed companies out of which 87.0 percent was attributed to raising capital, 7.3 percent to issuance of debt securities, and 4.5 percent to put options. Also, four newly-listed companies

carried out IPO in the TSE to raise IRR15.7 trillion. In 1402, the first IPO in the Professional Investment Market led to IRR20.0 trillion financing. Table 17 demonstrates various types of finance by TSE listed companies in 1401 and 1402.

Table 17- Various Methods of Finance by the TSE Listed Companies (IRR trillion)

	1401		1402		Percentage Change in value
	Value	Share in Total (percent)	Value	Share in Total (percent)	
Total	2,730.7	100.0	2,869.3	100.0	5.1
Raising Capital (except for asset revaluation)	2,331.2	85.4	2,495.8	87.0	7.1
Initial Public Offering	26.4	1.0	15.7	0.5	-40.6
Underwriting	0.0	0.0	20.0	0.7	-
Issuance of Debt Securities	304.3	11.1	208.2	7.3	-31.6
Issuance of Put Options	68.8	2.5	129.6	4.5	88.3

Source: <http://news.tse.ir>

8. Other Developments

Raising the minimum wage was again in debate in the Supreme Labor Council in the last days of 1402. Moreover, whether this exercise has inflationary effects or not has also raised a question in the public. From a theoretical aspect, there exist two groups, believing that raising minimum wages entails inflationary effects, the economics literature suggests. From the first group view point, the higher minimum wage pulls up the costs of production and consequently, cost-push inflation would be inevitable. The second group known as Monetarists - followers of the Chicago School of thought - refer to inflation as a monetary phenomenon and therefore, cost-push inflation could not take place. While, as the government is a large employer in Iranian economy, budget deficit could exacerbate via over-rising of wages that is eventually monetized, leading to inflationary pressures, according to the latter group. Regarding the former group view point in case of Iran, it should be noted that the cost of labor is far below the cost of other factors of productions, constituting only 5 percent of the total costs. Hence, the rise in wages could not be considered as a major driver of inflation rate. This fact has also been verified by some domestic researches in that regard. In the Chicago School of

Thought, on the other hand, so long as the money supply is unchanged, the rise in costs of production solely causes the relative prices to change. For instance, the price of labor-intensive goods rises relative to capital-intensive goods, but the general price levels remain the same. Here, the problem is whether the excessive rise in wages causes the extra expansion of the liquidity through monetization of fiscal deficit. Note that the CBI has put a cap on the monthly growth rate of banks' balance sheets in order to rein in the inflation rate. Given this macroprudential policy of the monetary authority, in case of the excessive rise in nominal wages, the effect of expansion of the monetary base on the liquidity would be offset through the fall in the M2 money multiplier. The misallocation of resources as a result of CBI policy coupled with government intervention in setting minimum wages is a hinder to the economic growth and based on the Quantitative Theory of Money, lower economic growth translates to the higher inflation rate. The basic point is that welfare could never be achieved through decreed policies, but through rise in per capita income as a result of larger economic pie. This only happens in presence of a small government with a limited role in the economy.

9. Key Points

- On the Basis of the CBI report, the GDP growth rate in the first three quarters of 1402 reached 4.5 percent, from which, about one third is owed to the remarkable 16.3 percent expansion in the Oil Sector. Private consumption as well as gross fixed capital formation experienced 4.2 percent and 4.5 percent expansion respectively, in the period under review at 1395 constant prices.
- In winter 1402, the unemployment rate among the population aged 15 years and over registered 8.6 percent, indicating 1.1 percentage points fall from winter 1401 while 1.0 percentage point rise from fall 1402.
- The foreign exchange market experienced an upward shock in winter 1402 which in the last working day of the year pulled up the price of USD against IRR, 27 percent above that in the same point of 1401. The USD price in the domestic free market averaged IRR515.0 thousand in 1402, indicating 49.9 percent depreciation of IRR against USD on average from 1401.
- The annual CPI inflation rate closed the year 1402 at 40.7 percent following its downward trend of fall and winter of 1402. The point-to-point CPI inflation rate that registered 40.2 percent at the end of fall 1402, reversed course and closed the year at the low of 32.3 percent in the last two years. The PPI inflation rate was not volatile in the first 11 months of 1402 and following its slight downward path, registered 34.0 percent at the end of 1402.
- Out of the total issued government debt securities in 1402 (IRR3,520.0 trillion), about IRR3,231 trillion were sold. The disposed government debt securities via underwriting and the auctions in 1402 totaled IRR1,611.1 trillion, 34.7 percent above that in 1401.
- From mid-summer 1400 to the end of 1402, the net accumulated government debt securities purchased by CBI and funds respectively, registered IRR1,845.6 trillion and IRR2,283.5 trillion. As for the banks, this figure reached IRR896 trillion in the same period.
- Despite the IRR2,100 trillion contraction of CBI net foreign assets during the first 10 months of 1402, the Monetary base expanded by 20.2 percent in the same period, mainly due to the rise in CBI claims on the banks and net CBI claims on the public sector. During the same period, IRR12,340 were added to the liquidity, translating to 19.5 percent growth compared to the end of 1401. The 24.3 percent annual growth rate of the liquidity at the end of 1402 conveys the fulfillment of CBI macroprudential policy.
- The nominal interest rates including return on government debt securities as well as interest rates on long-term deposits were following an upward path throughout 1402.



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