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Recent Economic Developments in Iran

A Quarterly Report

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Disclaimer

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No. 17, January 2020

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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.

1397Q3 = 09/23/2018 – 12/21/2018, roughly **2018Q4**
1397Q4 = 12/22/2018 – 03/20/2019, roughly **2019Q1**
1398Q1 = 03/21/2019 – 06/21/2019, roughly **2019Q2**
1398Q2 = 06/22/2019 – 09/22/2019, roughly **2019Q3**
1398Q3 = 09/23/2019 – 12/21/2019, roughly **2019Q4**

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Iran's Economy at a Glance

	1397Q2	1397Q3	1397Q4	1397	1398Q1	1398Q2	1398Q3
Labor Force Participation & Unemployment Rates (percent)							
Participation (10 Years and Over)	40.9	40.5	39.5	40.5	40.6	40.8	-
Unemployment (10 Years and Over)	12.2	11.7	12.1	12.0	10.8	10.4	-
Unemployment (Youth Aged 15-24)	27.2	27.0	28.1	27.7	26.5	26.1	-
Real Growth Rates of GDP and Its Subsectors at Constant 1390 Prices (percent)							
Gross Domestic Product (GDP)	-1.0	-11.4	-8.4	-4.9	-	-	-
Manufacturing and Mining	-2.7	-21.1	-15.0	-9.6	-	-	-
Agriculture	-3.4	-1.8	1.4	-1.5	-	-	-
Services	1.3	-1.8	-2.1	0.0	-	-	-
GDP (Excluding Oil)	-1.5	-5.4	-4.1	-2.4	-	-	-
Gross Fixed Capital Formation (at market prices)	*-5.6*	*-6.3*	*-10.7*	*-5.6*	-	-	-
Oil (daily average - thousand barrels)							
Production*	3,603	2,993	2,725	3,283	2,409	2,191	-
Point-to-Point Inflation Rates (percent)							
Growth Rate of Consumer Price Index (1395=100)	19.7	35.0	43.1	26.8	51.3	41.3	27.7
Growth Rate of Producer Price Index (1395=100)	39.7	56.1	66.3	47.5	69.5	49.4	-
Foreign Exchange Rates (USD/IRR daily average)							
Free Market	103,434	132,748	118,786	106,229	136,762	119,395	118,175
Official	42,646	42,000	42,000	42,056	42,000	42,000	42,000
NIMA (Remittance)	-	94,228	88,082	-	99,593	113,098	108,937
Monetary and Credit Aggregates (end of period - IRR trillions)							
Monetary Base (M0)	2,365.5	2,436.0	2,656.9	2,656.9	2,744.3	-	-
CBI Claims on Banks	1,506.5	1,497.9	1,381.7	1,381.7	1,345.5	-	-
CBI Claims on Public Sector (Net)	82.4	132.7	292.0	292.0	414.8	-	-
Liquidity (M2)	16,723.7	17,645.8	18,828.9	18,828.9	19,799.1	-	-
Money (M1)	2,436.7	2,446.2	2,852.3	2,852.3	3,108.7	-	-
Sight Deposits	1,991.7	1,991.2	2,304.8	2,304.8	2,606.5	-	-
Non-Sight Deposits (Quasi-Money)	14,287.0	15,199.6	15,976.6	15,976.6	16,690.4	-	-
Government Budget and Fiscal Position (IRR trillions)							
Total Revenues	676.1	639.4	-	-	-	-	-
Tax Revenues	277.5	267.8	-	-	-	-	-
Oil Revenues	304.6	263.6	-	-	-	-	-
Other Revenues	94.0	108.0	-	-	-	-	-
Total Expenditures**	758.3	718.2	-	-	-	-	-
Current Expenditures	721.8	629.9	-	-	-	-	-
Development Expenditures	39.7	54.6	-	-	-	-	-
Budget Balance	-82.2	-78.8	-	-	-	-	-
Tehran Stock Exchange (end of period)							
Overall Index (TEDPIX)	160,538	156,083	178,659	178,659	234,879	302,104	353,997
Financial Index	165,359	172,718	205,266	205,266	295,179	364,579	434,767
Industrial Index	146,264	141,206	161,031	161,031	209,497	270,769	316,210
Market Capitalization (IRR trillions)	6,124	5,924	6,830	6,830	8,933	11,045	12,916

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

* According to OPEC reports from secondary sources

** The difference between the data on the sum of current and development expenditures and total expenditures in a given quarter is due to the fact that revolving funds are not settled in each quarter but only at the end of the year.

Note: The balance of payments has been removed from this table due to the lack of new statistics. The latest statistics on the Iran's balance of payments are presented in Section III of this report.

1. Real Sector

The economic growth rate of Iran in the first 6 months of 1398 (hereafter referred to as 1398H1) reached 0.5 percent, according to the Central Bank of Iran's (CBI) Governor. In summer 1398 (hereafter referred to as 1398Q2), the value-added at constant prices grew by 9.5 percent and 0.4 percent in "Agriculture" and "Industry and Mining", respectively, while dropped by 1.4 percent in "Services" that is mostly attributed to hoteling, public services and restaurants. These statistics are the only available ones released by an official authority that were caught from social networks. From summer 1397, Statistical Center of Iran (SCI) became the only reference of national accounts statistics since the CBI ceased publishing any data in this regard. However, despite the year 1398 is about to end, the SCI is yet to publish the data for 1398 and the latest released data by this organization merely covers 1397. Table 1 exhibits the data expressed by CBI's Governor in 1398.

Between the SCI and the CBI, it seems that the latter is a more reliable and acceptable source for experts, especially in case of the national accounts statistics. In several cases, where considerable differences exist between the data releases of these two authorities, the CBI's has been referred to as the reliable one. For instance, the CBI governor recently implied that the non-oil GDP growth rate in 1397H1 amounted to negative 1.8 percent, yet the SCI had released the rate of 0.4 percent for this period, indicating a significant difference. However, part of this distinction can be originated in the different categorization of sectors by the two authorities. Additionally, the CBI governor stated that: "…the non-oil GDP growth in the first half of the year has registered a positive 0.5 percent. Hence, compared to the negative 1.8 percent growth of the same period of a year earlier this growth translates to a 2.3 percent rise in the GDP growth rate…"- note that the statement, however, is conceptually wrong since figure 2.3 is just the percentage points difference between the two GDP growth rates, which necessarily bears no meaning. In other words, the linear subtraction of the growth rates of two consecutive years has been referred to as the rise in growth rate which is misleading and an exaggeration in quoting GDP developments. Precisely speaking, the 0.5 percent GDP growth in 1398H1 has just covered a small portion of the 1.8 percent contraction of GDP in 1397H1, meaning that the national economy has not yet reached its position of the two preceding years.

Table 1- The Growth Rate of Gross Domestic Product Components in the First Two Quarters of 1398

	Q1	Q2	First Half
Agriculture	6.5	9.5	-
Oil	-	-	-
Industries and Mining	0.0	0.4	-
Services	-	-1.4	-
Non-oil GDP at Basic Prices	0.4	0.6	0.5
GDP at Basic Prices	-	-	-

Source: Statements of CBI Governor in 6/1398 and 9/1398

Investment

The latest report of the Ministry of Industry, Mining and Trade on the preliminary performance of the first seven months of the year indicates that approximately 15 thousand establishment permits for manufacturing units have been published, indicating 16.7 percent rise from the same period of 1397. Out of this number, "Foods and beverages" accounted for the highest number of permits with 1930 followed by "Chemicals" with 735. The capital for these establishment permits in the period under review was projected more than IRR1,615 trillion, 16.1 percent below that of a year earlier. In the Report, it is expressed that the fall in projection is due to the inclusion of an establishment permit with the value of IRR411 trillion at the end of summer 1397. Hence, should this permit be excluded, the projected capital for current year shows a 6.8 percent rise from that of a year earlier. However, the allocated capital for establishments are usually below the projected amount since some of the permits are probably not aimed at establishing factories, but to be a source of rent.

Besides, during the first seven months of 1398, the number of operation permits totaled 3,492 (1,805 for creation and 1,687 for development), in conjunction with IRR227.5 trillion investment and employment of more than 54,000 persons. In terms of number, operation permits have risen by 5.9 percent while in terms of the value of investment, they have experienced a 37.2 percent fall. The fall in investment in the period under review is attributed to the operation permit of "Setareh Khalij Fars" with an investment of more than IRR190 trillion in 3/1397. Hence, irrespective of this permit, the growth rate of investment in this year equals a positive 34 percent. Tehran province accounted for the highest share in investment with 21.4 percent and East Azerbaijan for the highest number of operation permits with 313 in the period under study. Table 2 presents the projected capital for issued establishment permits as well as allocated capital for issued operation permits in the first seven months of 1398 and 1397.

Table 2- Capital Needed for Issued Permits (IRR trillion)

	First 7 Months of 1397	First 7 Months of 1398	Percentage Change
Projection for establishment permits	1,924.8	1,615.7	-16.1
Operation permits	362.5	227.5	-37.2

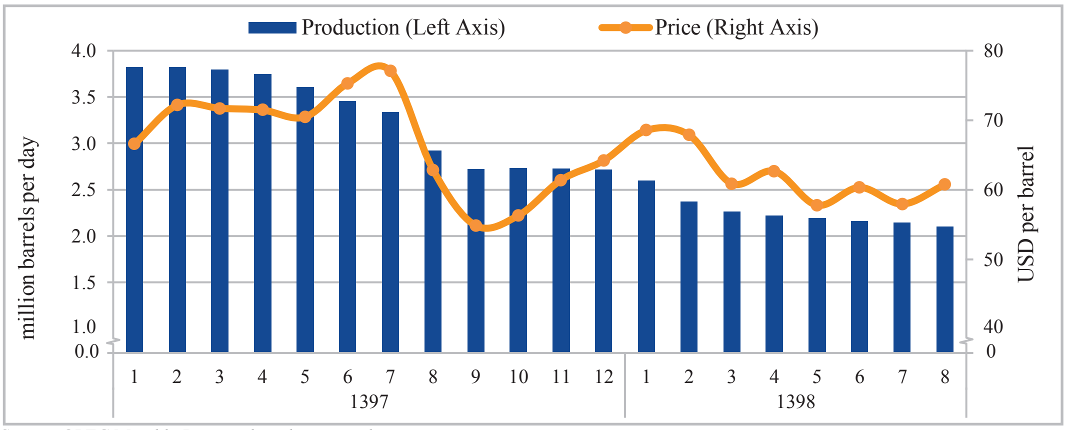
Source: Ministry of Industry, Mining and Trade, preliminary report of performance in the first 7 months of 1398

Oil

The downward trend of Iran's oil production continued in 8/1398 but at a slower pace. However, as no official statistics are released in this regard, based on the latest report of OPEC form secondary sources, Iran's oil production in Nov 2019 (corresponding to 8/1398) is projected at 2.1 million barrels per day (bpd), far below that in 1395 and 1396. The recent drop in oil production started in 1397 following the imposition of the second round of sanctions by the US, especially the restrictions on oil exports. This resulted in a shortage of oil exports to some parties or even ceasing of that. In addition, the countries that had been temporarily exempt from oil sanctions were prevented from buying Iran's crude oil from the second month of the year, onwards.

Recently, the Vice President had announced that India has also stopped Imports of oil from Iran. Although no data on the oil exports has been released from last year, in the amendment to the Budget Law of 1398 the daily oil exports is revised to 300 thousand bpd which seems realistic. On the basis of the data published by Kpler, Iran's daily oil exports in November has fallen to 213 thousand barrels which is the lowest oil exports among 14 OPEC members, followed by Gabon and Guinea. Based on the latest statistics, the price of Iran's crude oil in 8/1398 registered USD60.7 per barrel, indicating about 5 percent monthly rise, while 11 percent fall from the first month of the year. Figure 1 exhibits the average daily oil production and the average monthly price of Iran's oil.

Figure 1- Average Daily Crude Oil Production and Average Price of Iran's Heavy Oil*



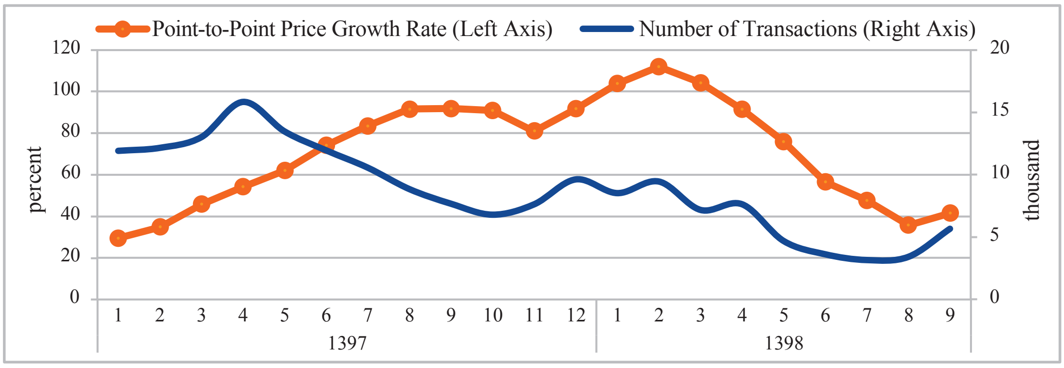
Source: OPEC Monthly Reports, based on secondary sources

*OPEC Statistics are based of Gregorian calendar years and their conversion into Persian calendar years are only approximate.

Housing

The price of a square meter of residential units in Tehran climbed to more than IRR135 million at the end of fall this year, indicating a monthly 8.5 percent rise, while in 3 out of 4 of its preceding months it had been decreasing. The upward trend of housing price that had pushed the price of a square meter of residential units to more than IRR133 million on average in 4/1398, reversed course in the 2nd month of summer and pulled the average price down to IRR125 million. The data on price of housing shows a 35.8 percent point-to-point rise in the 2nd month of summer 1398 and a 112.0 percent point-to-point rise in the 2nd month of spring 1398. The point-to-point housing price growth rate in Tehran rose to 41.6 percent after a 6-month decline. The fall in the housing prices, however, reflected the decline in demand for housing. About 2,800 residential units which have been traded at the last month of summer this year was the lowest record of transactions since the beginning of

Figure 2- Moving Average of the Number of Housing Transactions and the Point-to-point Price Growth Rate in Tehran



Source: Central Bank of Iran, Report of Tehran Housing Market, various issues

1391. Although the number of transactions in the housing market rose to 4,000 in 8/1398, it was far below that of the 11,000 in the same month in 1397. Eventually, as the potential traders entered the market in the last month of fall, the number of transactions significantly rose by 134.7 percent from a month earlier to above 9,500. Figure 2 exhibits the point-to-point growth rate of average housing price as well as a 3-month moving average of the number of transactions in Tehran from the beginning of 1397 to the end of fall 1398.
The housing rent in Tehran that had declined in 8/1398 for the first time from the beginning of 1397, again fell in the last month of fall. The housing rent normally follows an upward trend with a very low slope, is affected by the changes in housing prices. Hence, following the downward trend of housing price in Tehran, the point-to-point growth rate of rent also slowed down, reaching from 34.8 percent in 7/1398 to 31.4 percent in 8/1398 and finally to 28.2 percent at the end of 9/1398.

All in all, it could be concluded that the Iran's housing market and specifically Tehran's has entered an era of recession from the end of summer 1398. Accordingly, the housing price rise in 9/1398 is not expected to endure in the remainder of the year. Hence, the price of housing is not expected to rise further and the number of transactions may not exceed that of the end of fall. As for housing rent, it is supposed to decline gently in winter this year.

Labor Force

the definition of the population at the working age has undergone a significant change in the latest labor force report released by the SCI. Accordingly, the calculations of labor force indices are based on the population aged 15 and above from summer 1398, while previously the minimum age was 10. According to the SCI, this amendment is due to the social developments regarding the age of entering the labor market and is also aimed at being more comparable with labor force statistics of the rest of the countries. As a large portion of the population aged 10-15 are students who are not considered in the economically active population, the aforementioned amendment has resulted in a rise in the economic participation rate. However, the active population remains unchanged and so does the unemployment rate.[1]
According to the recent report of the SCI, in summer 1398 the economic participation rate (after the amendment) has registered 44.9 percent, indicating 0.2 percentage points rise from the same period of a year earlier. This rise in the participation rate has been due to the rise in that of males, while the females' has even dropped from 17.8 to 17.6 percent. The unemployment rate in that period declined by 1.8 percentage points to 10.5 percent, which by gender has registered 8.6 for men and 18.2 for women. Despite the fall in the unemployment rate, the unemployment rate of the youth with higher education has exacerbated in summer 1398 from summer 1397. The unemployment rate of this group in total rose by 4.3 percentage points in 1398Q2 to 43.8, which by gender is 31.5 percent for males and 67.6 percent for females, translating to unappealing conditions for them. In summer 1398, the number of employed reached 24.7 million. Out of this population, approximately half are employed in the services sector, one third in the manufacturing sector and the rest in the agriculture sector. In addition, the underemployment rate has registered 8.8 percent during the period under review. Table 3 presents some major labor market indices in summer 1398 compared to the summer of the year earlier.

Table 3- Major Labor Market Indicators in Iran by Gender for the Population Aged 15 and Above

		1397Q2			1398Q2		
		Total	Male	Female	Total	Male	Female
Economic Participation	Rate (percent)	44.7	71.7	17.8	44.9	72.2	17.6
	Number (million people)	27.3	21.8	5.4	27.6	22.2	5.4
Unemployment	Rate (percent)	12.3	10.4	19.9	10.5	8.6	18.2
	Number (million people)	3.3	2.3	1.0	2.9	1.9	0.9
Employment	Ratio (percent)	39.2	64.2	14.2	40.2	66.0	14.4
	Number (million people)	23.9	19.6	4.3	24.8	20.3	4.4
Underemployment	Rate (percent)	10.1	11.1	5.3	8.8	9.6	4.8
	Number (million people)	2.4	2.2	0.2	2.2	2.0	0.2
Share of the Highly-educated Unemployed in the Total Unemployed (percent)		39.5	27.8	64.2	43.8	31.5	67.6

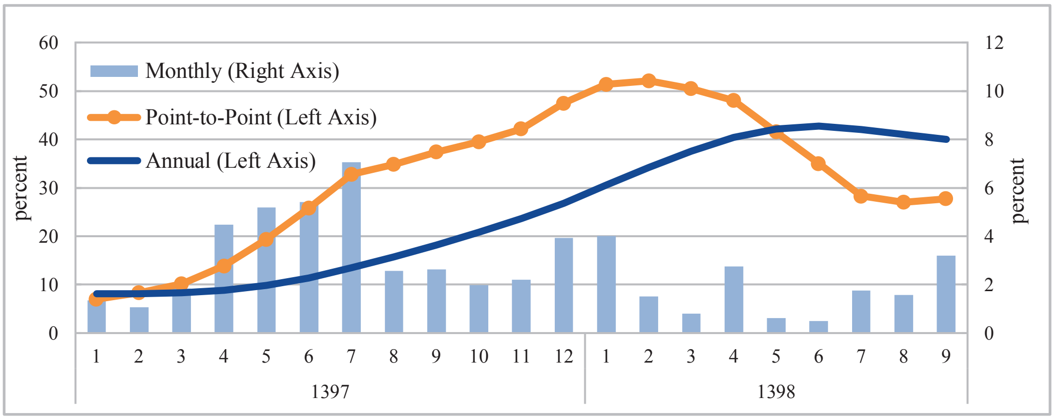
Source: Statistical Center of Iran, Summary result of Labor Force Survey in the Summer of 1398

1. The unemployment rate is the ratio of the unemployed (who are willing and able to work but not find job) to the active population (sum of employed and unemployed) and economic participation rate is the ratio of active population to the population at working age.

2. Prices and Inflation

On the basis of the most recent data from the SCI, the CPI for households (in both urban and rural areas) has reached 193.8 at the end of fall 1398, translating to 40.0 percent annual inflation rate. This figure is even slightly up from the World Bank's projection of 38.3 percent and the IMF's 37.2 percent for Iranian economy's rate of inflation. The annual inflation rate that had started an upward trend from the beginning of the preceding year, surged to 42.7 percent at the end of summer 1398, however, it reversed course in the second half of the year and was decreasing during fall. The downward trend of the point-to-point CPI inflation rate that had started form the second month of 1398, stopped at the end of fall and by 0.7 percentage points rise compared to the preceding year, registered 27.8 percent. In the same month, the monthly inflation rate witnessed the highest record of the year at 3.2 percent, while this rate was hardly hovering around 2 percent in its 4 preceding months. This monthly rise could be attributed to the sharp rise in gasoline price (which affected the inflation expectations) coupled with the IRR depreciation. Figure 3 exhibits the CPI inflation rates from the beginning of 1397 on a monthly basis.

Figure 3- CPI Inflation Rates for Households

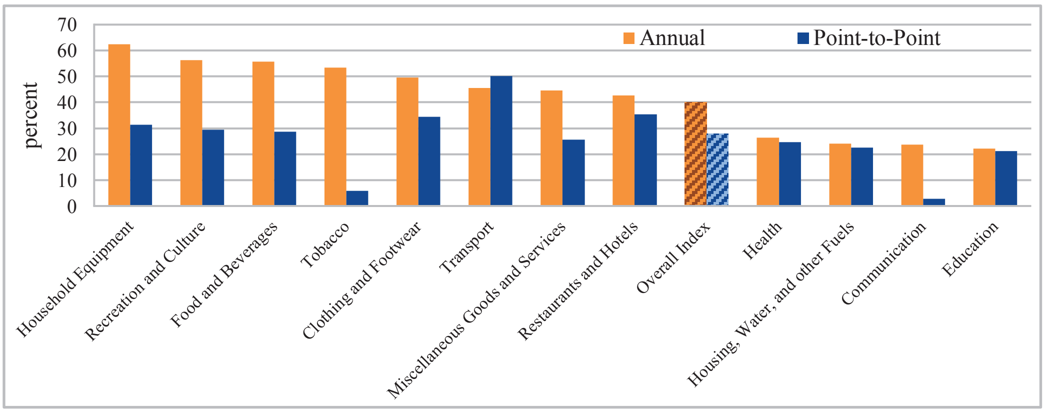


Source: Statistical Center of Iran, CPI reports, various issues

The annual inflation rate in the last month of fall 1398 ranged between 39.6 percent and 41.6 percent for the 1st expenditure decile to the 10th, respectively. However, as for the monthly inflation rate the former group experienced 4.1 percent inflation rate, up from the 3.1 percent of the latter one. Besides, on the contrary to high expenditure deciles, most of the rise in the inflation rate of low expenditure income deciles were attributed to "Foods, Beverages and Tobacco". For instance, the 1st expenditure decile has experienced a monthly 6.9 percent rise in the aforementioned group and 1.6 percent in "Non-foods and Services" while for the 10th expenditure decile, the inflation rates of the same categories were 2.9 percent and 3.2 percent, respectively.

Among the 12 main categories of goods and services, "Furniture and Home Appliances" accounted for the highest annual inflation rate at 62.3 percent, and "Education"

Figure 4- CPI Inflation Rates in the 12 Main Categories at the End of Fall 1398



Source: Statistical Center of Iran, CPI reports, various issues accounted for the lowest at 21.3 percent. "Transportation" at 50.2 percent and "Communication" at 2.8 accounted for the highest and lowest point-to-point inflation rates, respectively. On the contrary to its preceding months, in the last month of fall, none of the 12 main categories saw a monthly price fall, and the highest inflation rate was belonged to "Transportation"- emanating from the harsh rise in gasoline price in a month earlier. At the end of fall, "Foods and beverages" experienced 55.7 percent, 28.7 percent, and 4.2 percent rises in annual, point-to-point as well as monthly prices, respectively. In the subgroups of "Foods and Beverages", vegetables have experienced the highest rise in price, whereas meat and its products have experienced a tiny price rise. Figure 4 depicts the annual and point-to-point inflation rates in the 12 main groups of consumer price index in a descending order.

3. Balance of Payments

The latest report on the balance of payments of Iran released by the CBI only covered the first quarter of 1397 while finalizing this report. As the data of this section has been investigated in issue 13 of this report, they won't be discussed again here. The latest data on the balance of payment are available in Table 4.

Table 4- Balance of Payments in detail (USD million)

	1396Q1	1396Q2	1396Q3	1396Q4	1397Q1
Current Account	3,723	3,718	3,473	4,902	11,061
Goods Account	5,059	5,667	5,643	6,227	12,983
Exports of Goods (fob)	21,342	22,936	24,800	29,064	29,336
Oil Exports	14,166	15,736	16,468	19,448	20,980
Non-oil Exports	7,176	7,200	8,332	9,616	8,356
Import of Goods (fob)	16,283	17,269	19,158	22,836	16,353
Gas and Oil Products	293	361	787	1,323	666
Other Goods	15,990	16,908	18,371	21,513	15,686
Services Account	-1,713	-2,297	-2,557	-1,349	-2,276
Income Account	263	238	270	-102	210
Current Transfers Account	114	110	117	126	144
Capital Account	-1,338	-4,956	-5,499	-7,528	-5,263
Errors and Omissions	-3,970	-2,730	-1,052	3,117	-1,865
Total Balance	**-1,585**	**-3,968**	**-3,078**	**491**	**3,933**

Source: Central Bank of Iran, Economic Indicators, various issues

The latest data on foreign trade from the IRI Customs Administration covered the first 8 months of 1398 while this report was being finalized. During the period under review, 22.1 million tons of goods valued at USD28.4 billion has been imported to Iran, while 88.4 million tons of goods valued at USD27.0 billion has been exported. Accordingly, the imports have increased by 1.6 percent in weight, while has decreased by 4.9 percent in value from the same period of a year earlier. As for the exports, the former has risen by 16.4 percent and the latter has dropped by 10.9 percent.

However, the exports value that was expected to flourish due to IRR depreciation, dropped due to the commercial policies undertaken by the Administration in order to rein in the inflation rate. Additionally, the ratio of value to weight of exports in the period under survey shows 23.5 percent fall from the first 8 months of a year earlier. This drop is attributable to more selling of raw materials rather than creating value added.

As a result of the developments in Iranian international trade, the USD501 million surplus in non-oil goods account in the first 8 months of 1397 has turned to USD1,342 million deficit in the same period of the current year. The statistics of the Iranian International trade in the first 8 months of 1397 and 1398 are shown in table 5.

Table 5- International Trade in the First 8 Months of 1397 and 1398

	First 8 months of 1398		First 8 months of 1397		Percentage Change	
	Weight (1000 ton)	Value (USD million)	Weight (1000 ton)	Value (USD million)	Weight	Value
Imports	22,129	28,383	21,784	29,834	1.6	-4.9
Exports	88,361	27,041	75,884	30,335	16.4	-10.9
Non-oil Trade Balance	66,232	-1,342	54,100	501	22.4	-367.9

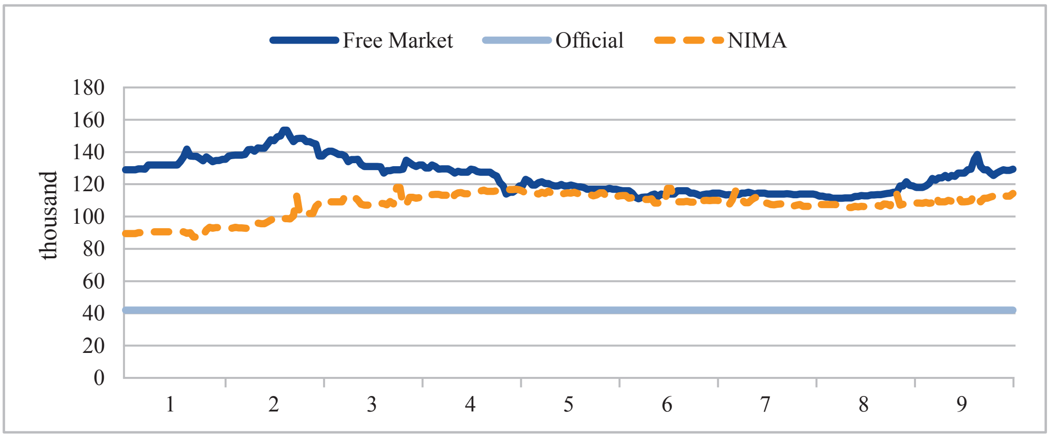
Source: IRI Customs Administration, Preliminary Statistics on Foreign Trade in the first 8 months of 1398

The IRI Customs Administration has ceased releasing of foreign trade details from a couple of months ago and the data on major imports and exports items are eliminated from the preliminary reports of this organization as well.
China still ranks as the first exports destination of Iran with USD6.8 billion of exports which accounts for 25.2 percent of Iran's total exports in the first 8 months of 1398, up from the 20.8 percent in 1397.
As a result of imposition of sanctions by the USA on Iran, the non-oil exports of Iran (including petrochemicals and natural gas condensates) have mostly been directed towards China, contributing to cover the shortage of oil exports to China and a source of finance for imports from that country. Iraq also ranked as the 2nd exports destination with the value of USD5.7 billion in the period under review, accounting for 21.1 percent share in Iran's total exports, one percentage point above that in 1397. The UAE with USD2.9 billion imports from Iran and a share of 10.8 percent in Iran's total exports belongs the 3rd place of Iran's exports destinations. This share was equivalent to 13.4 percent in 1397 and 9.4 percent in the first 5 months of 1398. During the 3-month period ending in the 2nd month of fall, the non-oil exports of Iran to the UAE experienced 19.1 percent rise compared to its preceding 3-months period, while total exports of the country has fallen by 1.6 percent in the same period. This fact translates to the promotion of the trade between Iran and UAE. The fourth exports destination of Iran was Turkey with USD2.8 billion of non-oil exports, accounting for 10.4 percent of Iran's total exports in the period under review, showing 2 steps climb from the 6th place in 1397 (with share of 5.3 percent).
Afghanistan that ranked as the 4th exports destination of Iran in 1397 with 6.6 percent share in Iran's total exports, descended to the 5th place with USD1.5 billion imports from Iran and 5.5 percent share in Iran's total exports in the first 8 months of 1398. All in all, the top 5 trade parties of Iran have accounted for 73.0 percent of Iran's total exports, up from the 66.8 percent in 1397.
In the first 8 months of 1398, China with USD7.3 billion of exports to Iran ranked as the 1st source of imports to Iran as in 1397. China's share in Iran's imports that was 24.1 percent in 1397 climbed to 25.6 percent in the first 8 months of 1398. The share of UAE in Iran's total imports rose to 18.8 percent in the 8-month period under review in 1398 from 15.3 percent in 1397 and gained the 2nd place in exporting to Iran. Turkey that was the 4th source of imports to Iran with share of 1.6 percent in 1397, outperformed India and ascended by one place with USD3.45 billion of exports to Iran, corresponding to 11.9 percent share in Iran's imports in the period under study. Despite the rise in its share from 6.4 percent to 8.9 percent, India was the fourth exporter to Iran with the value of USD2.5 billion in the same period. Germany on the other hand kept its 5th place in exporting to Iran with USD1.4 billion and share of 4.9 percent in Iran's total imports even though its share shows a drop from 5.8 percent in 1397. The available data shows that the 5 major sources of imports to Iran accounted for 70.0 percent of total imports in value in the first 8 months of this year. This share has been 57.7 percent in 1397 for the whole year.
On the basis of CBI's report, the balance of Iran's foreign debt has registered USD8.7 billion at the end of 1398Q1 which indicates 16.9 percent fall form the same point in 1397. Out of this USD8.7 billion debt, about USD7.0 billion belongs to the long and mid-run debts with 7.5 percent growth. However, the country's short-term debts in this period has experienced a dramatic fall of 56.8 percent to USD1.7 billion.

4. Foreign Exchange Market

The Iranian Rial (IRR) that was gently appreciating against foreign currencies in summer 1398, kept on this trend during the first half of fall, but again it depreciated against those currencies in the remainder of that season. USD/IRR exchange rate in the free market that had started the year 1398 at 128.9 thousand, diminished to 113.9 thousand at the end of summer, but again rose and hit 129.4 thousand at the end of fall. The official USD/IRR exchange rate remained unchanged in 1398, while its transfer rate in the secondary market (known as NIMA) experienced an upward trend in the first three quarters of 1398, reaching from 90.1 thousand in the beginning of the year to 114.4 thousand at the end of fall. The USD/IRR exchange rate in the secondary market that should normally lay between the official rate and the free market rate, exceeded the latter in some days of summer. However, following the increase in free market rate in fall, the rate in the secondary market again stood below that of the free market. The rate in the secondary market has experienced 27.0 percent growth in the last day of fall compared to the first day of spring, while between the same points, the free market rate has just risen by 0.4 percent. The average USD/IRR exchange rate in free market in fall 1398 was 1.0 percent and 11.0 percent below those in summer 1398 and in fall 1397, respectively. Figure 5 exhibits the official, secondary as well as free market USD/IRR exchange rates in 1398.

Figure 5- USD/IRR Exchange Rate in 1398



Source: Central Bank of Iran and Financial Informing Network: sanarate.ir

It seems that after the social protests due to decreed rise in gasoline price, the CBI acts more cautiously in foreign exchange market. The sharp decline in oil revenues in the 1399 budget bill in conjunction with the government decision to allocate foreign currencies at official rate for basic goods could be considered as the drivers of CBI caution in the market. Given that the Government has decided to cut allocation of foreign currencies at official rate by 25 percent (in 1399 budget bill compared to 1398 budget law), it is projected that the oil revenues would cover about half of the USD10.5 billion of planned imports of basic goods in 1399. Accordingly, it seems that the net change in CBI's foreign reserves from market intervention in fall 1398 is positive, so that the CBI would have sufficient funds for allocating USD at official rates in 1399. Under current circumstances, the major factor that can help the USD/IRR exchange rate fall in the short-run is ceasing allocation of foreign currencies at official rates. This practice not only eliminates the economic rents from the exchange rate differentials, but also contributes the CBI in order to rein in the inflation rate.

Following the depreciation of IRR in the beginning of 9/1398 in free market, the CBI governor stated that more than USD10 billion and approximately USD15 billion have been allocated at official and secondary market rates, respectively from the beginning of this year. The Rise in the secondary (NIMA) rate caused the supply of foreign exchanges from non-oil exports to climb, resulting in pulling down the free-market exchange rate. However, the gap between the free market and NIMA rates has widened during recent months. This gap was about 13-14 percent at the end of fall, approximately equal to that in the beginning of summer.

The raising of the secondary market USD/IRR exchange rate close to the free market rate not only does not have inflationary effects in the economy, but also can be a contributor for controlling the free market exchange rates. However, as the policymakers still insist on keeping the secondary market rate fixed, this would result in higher USD/IRR exchange rates in the free market coupled with higher rates of inflation.

5. Monetary and Credit Aggregates

The latest balance sheet of the banking system published by the CBI (while finalizing this report) covered 3/1398 which shows that the monetary base (M0) has experienced 3.3 percent growth at the end of spring 1398 compared to the beginning of the year, registering IRR2,744 trillion. During the year ending in spring 1398, CBI net foreign assets coupled with CBI net claims on banks diminished by IRR118.2 trillion. However, due to the IRR343.9 trillion rise in net other items as well as IRR332.0 trillion rise in CBI net claims on the public sector, the monetary base grew by IRR557.7 trillion, corresponding to 25.5 percent rise. Additionally, liquidity reached close to IRR20,000 trillion, through which quasi-money accounts for 84 percent and the rest belongs to M1 money. In the year ending in the 3/1398, M1 approximately rose by 51 percent (mainly caused by the 57.6 percent jump in sight deposits) and quasi-money by about 21 percent, which resulted in 25.1 percent growth in liquidity. This rise in liquidity is not much different from that in 2/1398, but it shows 4.7 percentage points increase compared to 3/1397. The liquidity growth in the time span under study mainly rooted in changes of the monetary base, with the M2 money multiplier remaining unchanged at 7.2 as in its preceding year. Liquidity and monetary base components are not discussed in detail in the current issue to prevent repetition, as it has been done previously in issue 16.

The assets (liabilities) of Banks and non-bank credit institutions (excluding below the line items) totaled IRR30,905.9 trillion at the end of spring 1398, showing 1.9 percent fall from the beginning of the year, while 25.4 percent rise from the end of spring 1397. Non-public banks and non-bank credit institutions accounted for a considerable portion (66.0 percent) of the assets and the specialized banks and public commercial banks accounted for the rest of assets with approximately equal shares. Among components of these assets, non-public sector liabilities had the highest share of 43.6 percent, which was mainly representing the balance of extended facilities to the non-public sector. This component has risen by 21.9 percent in the year ending in 3/1398. Foreign assets (irrespective of other assets) with share of 15.3 percent in total assets have grown by 31.3 percent, registering the highest growth in the period under review. Notes and coins that has the lowest share in total assets (0.4 percent), has risen by only 7.4 percent in the same period. In addition, other assets which has a considerable share of 25.9 percent in total assets, has climbed by 32.0 percent during the year ending in 3/1398 while it has experienced a 14.7 percent decline from the beginning of the year. The latter change was the main reason of the decrease in total assets.

Regarding liabilities, non-public deposits with the highest share of 62.4 percent has grown by 25.1 percent in the time span under study. In this period, loans and deposits of public sector fell by 14.2 percent while those in foreign currencies have registered 36.3 percent growth. The capital account with its negligible share of 1.4 percent in liabilities of banks and non-bank credit institutions has grown by 55.9 percent in the one-year period under review. Table 6 exhibits a summary of assets and liabilities of banks and non-bank credit institutions by public, non-public, and non-bank at the end of spring 1398.

Table 6- Summary of Assets and Liabilities of Banks and Non-Bank Credit Institutions (IRR trillion)

Description	Balance at the End of 03/1398	Share of Banks and Non-bank Credit Institutions (percent)			Percentage Change from	
		Public Commercial	Public Specialized	Non-public and Non-bank	03/1397	12/1397
Assets (excluding below the line items)	**30,905.9**	**17.1**	**16.9**	**66.0**	**25.4**	**-1.9**
Foreign Assets	4,718.2	11.9	23.7	64.4	31.3	4.4
Notes and Coins	122.8	42.8	9.0	48.3	7.4	38.9
Deposit with the CBI	2,119.3	20.6	7.2	72.2	27.2	4.9
Public Sector Debt	2,466.7	28.7	24.5	46.8	14.6	4.2
Non-public Sector Debt	13,475.1	16.3	20.6	63.1	21.9	2.7
Other Assets	8,003.8	16.5	6.9	76.6	32.0	-14.7
Liabilities (excluding below the line items)	**30,905.9**	**17.1**	**16.9**	**66.0**	**25.4**	**-1.9**
Non-public Sector Deposits	19,296.9	20.6	10.1	69.3	25.1	5.6
CBI Claims	1,345.5	4.1	34.7	61.2	-3.7	-2.6
Loans and Deposits of Public Sector	237.8	38.9	41.8	19.3	-14.2	-4.8
Capital Account	421.5	-39.9	120.5	19.4	55.9	13.7
Loans and Deposits in Foreign Currencies	3,882.2	11.2	22.5	66.2	36.3	5.4
Other Liabilities	5,722.0	15.7	22.8	61.5	29.4	-24.1

Source: Central Bank of Iran, Selected Economic Statistics, various issues

The latest data on sources and uses of banking system while finalizing this report covered 5/1398. Based on this data, at the end of 5/1398 the balance of extended facilities reached IRR16,089.3 trillion and deposits at banks and non-bank credit institutions totaled IRR22,630.7 trillion, indicating 6.6 percent and 9.5 percent rises from the end of 1397 and 20.2 percent and 27.4 percent point-to-point growth, respectively. Out of total deposits, IRR2,339.2 trillion is at the CBI as legal reserves which indicates an average legal reserve ratio of 10.3 percent, not far different from those in previous years. Ultimately, the ratio of balance of extended facilities to deposits (less legal reserves) has registered 79.3 percent, 2.0 percentage points below that in the year earlier. This ratio has been continually decreasing in recent years. Table 7 present these statistics in detail.

In the first 8 months of 1398, 6.3 million facilities valued at IRR5,313.9 trillion were extended to various economic sectors by the banking system, 27.6 percent up from the year before in terms of value. The facilities aimed at financing working capital had the highest share of 53.8 percent (valued at IRR2,857 trillion), out of which IRR1,156 trillion was allocated to the industries and mining sector. Private purchase, creation and development were the next three recipients of extended facilities, each accounting for 10-12 percent of total extended facilities. Among the economic sectors shown in Table 8 that are classified based of ISIC, the highest amount of facilities aimed at creation has been extended to services (IRR236 trillion) and at development has been extended to industries and mining (IRR231 trillion). Services sector and industries and mining sector have respectively accounted for

34.6 percent and 30.5 percent of the total extended facilities, followed by the commerce sector with 19.0 percent. The rest of the facilities in terms of value has been allocated to sectors agriculture, housing and others, respectively.

Table 7- End of Period Balance of Facilities and Deposits at Banks and Credit Institutions (in IRR and foreign currencies)

	1395	1396	1397	05/1398	Percentage Change in 05/1398 Compared to	
					12/1397	05/1397
Facilities (in IRR trillion)	9,866.6	12,587.1	15,090.2	16,089.3	6.6	20.2
Deposits (in IRR trillion)	12,728.4	16,464.1	20,673.4	22,630.7	9.5	27.4
Deposits less legal reserves (in IRR trillion)	11,374.1	14,741.9	18,568.3	20,291.5	9.3	27.5
Legal reserve ratio (percent)	10.6	10.5	10.2	10.3	-	-
Ratio of facilities to deposits less legal reserves (percent)	86.7	85.4	81.3	79.3	-	-

Source: Central Bank of Iran, Banking statistics

Table 8- Extended Facilities by Economic Sectors and Their Usage in the First 8 Months of 1398

	Agriculture		Industries and Mining		Housing and Construction		Commerce		Services		Miscellaneous		All Sectors	
	Value (IRR billion)	Share in Total (percent)	Value (IRR billion)	Share in Total (percent)	Value (IRR billion)	Share in Total (percent)	Value (IRR billion)	Share in Total (percent)	Value (IRR billion)	Share in Total (percent)	Value (IRR billion)	Share in Total (percent)	Value (IRR billion)	Share in Total (percent)
Creation	92,001	20.7	172,787	10.6	60,277	15.4	39,385	3.9	236,151	12.8	153	3.7	600,755	11.3
Working Capital	275,272	62.0	1,156,575	71.2	100,052	25.6	379,490	37.6	942,403	51.2	3,555	86.4	2,857,346	53.8
Repair	2,258	0.5	7,144	0.4	79,508	20.3	2,509	0.2	61,474	3.3	58	1.4	152,952	2.9
Development	41,096	9.3	230,872	14.2	10,584	2.7	111,332	11.0	181,247	9.8	235	5.7	575,366	10.8
Private Goods Purchase	7,512	1.7	37,590	2.3	1,907	0.5	459,141	45.4	148,932	8.1	66	1.6	655,148	12.3
Housing Purchase	1,237	0.3	7,993	0.5	134,364	34.4	3,848	0.4	25,062	1.4	15	0.4	172,519	3.2
Other	24,564	5.5	10,401	0.6	4,250	1.1	14,804	1.5	245,791	13.4	34	0.8	299,844	5.6
Total	443,941	100.0	1,623,361	100.0	390,943	100.0	1,010,509	100.0	1,841,060	100.0	4,116	100.0	5,313,930	100.0

Source: Central Bank of Iran, adopted from the system of facilities and guarantees based on the data gathered from banks

6. Government Fiscal Performance

The 1399 budget bill is far different from the budget law of 1398 in terms of macro figures and numbers, which originates from the significant drop in the oil revenues due to imposition of sanctions by the US. However, no structural change is observed in the bill. According to the 1399 budget bill, it is drawn that the government has tried to cover much of the shortage in oil revenues via making debts as well as disposal of state-owned assets rather than making a structural reform in the budget, especially in the uses of general budget.

For instance, the reform in government’s relation with National Oil Company and CBI, elimination of foreign exchange rate rents, imposition of direct transfers from the treasury to the final beneficiary and elimination of redundant plans are not considered in the budget bill of 1399.

The macro figures of the 1399 budget bill indicated that the government size has diminished in comparison to the figures in 1398 budget law. The country's total budget which consists of "state-owned companies' budget" and "general budget" has risen by 14.0 percent in nominal terms, but given the expected inflation of the coming year, it has in fact contracted in real terms. However, in 1398H1 and after the overestimation of oil revenues appeared, a revision was made to 1398 budget law. Accordingly, the 1399 budget bill shows an 18.7 percent expansion compared to the revised 1398 budget law, still below the expected inflation rate of 1399.

The budget of state-owned companies has risen by 16.2 percent compared to the legislated figure in 1398 budget law, while the general budget has increased by only 8.4 percent. The general budget, by the way, shows 23.3 percent growth compared to its corresponding figure in the revised version of 1398 budget law. The general budget consists of "general sources and uses" and "sources and uses of dedicated revenues". Dedicated revenues are gained by the public organizations and will be spent within them. In other words, such revenues will not be directed to the treasury so that they cannot be reallocated to other sectors. The general sources are only in hands of government and treasury, which consists of current revenues (mainly tax), disposal of non-financial assets (mainly oil exports and disposal of government assets) and disposal of financial assets (mainly selling of debt securities). The treasury on the other hand spends these sources for current expenditures (mainly employees' salaries and payments to the pension funds), acquisition of non-financial assets (development expenditures) and acquisition of financial assets (payment of previous debts). Table 9 depicts a general overview of the 1399 budget bill.

Table 9- General Overview of the 1399 Budget Bill (IRR trillion- percent)

Sources				Uses			
	1399 Budget Bill	Growth Compared to 1398 Budget Law	Growth Compared to 1398 Revised Budget Law		1399 Budget Bill	Growth Compared to 1398 Budget Law	Growth Compared to 1398 Revised Budget Law
Revenues	2,611	9.2	31.6	Expenditures	3,672	4.2	18.0
Disposal of Non-Financial Assets	988	-37.6	64.6	Acquisition of Non-Financial Assets	704	5.2	63.6
Disposal of Financial Assets	1,247	144.2	-2.3	Acquisition of Financial Assets	470	60.1	48.4
General Sources	**4,846**	**8.0**	**25.5**	**General Uses**	**4,846**	**8.0**	**25.5**
Dedicated Revenues	792	10.9	10.9	From Dedicated Revenues	792	10.9	10.9
Sources of General Budget	**5,638**	**8.4**	**23.3**	**Uses of General Budget**	**5,638**	**8.4**	**23.3**
Sources of State-owned Companies	14,839	16.2	16.2	Uses of State-owned Companies	14,839	16.2	16.2
Sources of Total Budget	**19,887**	**14.0**	**18.7**	**Uses of Total Budget**	**19,887**	**14.0**	**18.7**

Source: 1399 budget bill and 1398 budget law

In 1399 budget bill, 20 percent of the oil revenues belongs to National Development Fund (NDF) which is 16 percentage points below the specified figure in the "6th Development Plan". The 16 percentage point difference, however has been added to the subgroup of "Disposal of Financial Assets" under the title of "Use of NDF Sources" instead of being included in "Disposal of Non-Financial Assets". Accordingly, government share in proceeds from oil exports in the "Oil Revenues" section of 1399 budget bill is 49.5 percent after deducting 14.5 percent share of National Companies of Oil and Gas and 36 percent share of the NDF. In 1399 budget bill, exports of oil and natural gas condensates is projected at 1 million bpd with price of approximately USD50 per barrel while in 1398 budget law it was projected at 1.5 million bpd and USD54 a barrel- albeit the projected exports in 1398 Budget Law was revised to 300 thousand bpd. Table 10 presents the forecasted oil revenues in 1399 budget bill.

Table 10- Forecasted Oil Revenues in 1399 Budget Bill

	Volume (Million Barrels per Day)	Oil and Condensates Price (USD per barrel)	Total Revenues (USD billion)	Share of NDF (percent)	Share of Oil or Gas Company (percent)	Government's Share (percent)	Government's Revenues (USD billion)
Exports of Oil and Natural Gas Condensates	1.0	50.0	18.3	36.0	14.5	49.5	9.1
Net Exports of Gas	-	-	3.9	36.0	14.5	49.5	1.9
Total	**-**	**-**	**22.2**	**-**	**-**	**-**	**11.0**

Source: 1399 budget bill and its implicit assumptions

Also, it is specified that USD10.5 billion out of the USD11.0 billion of oil revenues be converted to IRR at official rate (IRR42,000 per USD) and the rest at the secondary market rate (a projection of IRR85000 per USD). Given these exchange rates, government's oil revenues in IRR would amount to 483.0 trillion. Adding the 16 percent share of NDF in oil revenues (IRR302.1 trillion - exchanged at secondary market rate), government's oil revenues totals IRR785.1 trillion which is 48.7 percent below that in 1398 budget bill while 41.2 percent above that in the revised version of 1398 budget law. It should be noted that share of NDF in proceeds from the oil exports in 1398 budget law was legislated at 20 percent.

Assuming that oil exports in 1399 approximately remains the same as that in 1398, the revision of oil revenues in 1398 budget law to 300 thousand bpd which seems more realistic signals that the oil revenues projection in 1399 budget bill are considerably overestimated. Precisely speaking, it should be noted that in 1398 budget law the proceeds from selling of natural gas condensates to domestic petrochemical companies less the share of National Oil Company (IRR2.2 billion) are considered as part of government's oil revenues, but these funds in 1399 budget bill have been directed to the sources of Targeted Subsidies Plan. Should the exports of oil and natural gas condensates be 300 thousand bpd, the government's oil revenues would total USD4.6 billion. Hence, in order to finance the USD10.5 billion imports of essential goods at official exchange rates, through converting part of NDF funds at official exchange rate to IRR seems inevitable - a practice that violates the budget bill. In 1398 budget law, USD14 billion has been considered for imports of essential goods at official exchange rates. Besides, given the 300 thousand bpd exports of oil and natural gas condensates, the 16 percentage point share of NDF covers less than one third of the IRR302.1 trillion in 1399 budget bill.

Under such circumstances, it is not known if the government uses of NDF funds will be limited to this amount or the NDF will be subjected to be responsible for financing more the deficit.

The uses of NDF funds however are not limited to these cases. In 1399 budget bill, some other requirements have been specified for the NDF which violate the "6th Development Plan". Extending EUR3.425 billion facilities guaranteed by the government aimed at promotion of defense affairs, watershed management, IRI Broadcasting, and the like, in conjunction with the financing of 15 percent of foreign finances are another two obligations of NDF based on 1399 budget bill.

Settlement of IRR400 trillion of government debt through delivering crude oil to creditors is a note that has been added to 1399 budget bill. However, the sources from implementation of the note are not considered in government oil revenues. In the budget law of 1398, approximately IRR100 trillion of government debts were considered to be settled via delivering crude oil which were added to the total government oil revenues. Although settlement of debts in this way is impossible because of various reasons, the government maximum legislated amount in 1399 budget bill for this practice is 4 times that in 1398 budget law.

In the budget bill of 1399, the share of disposal of government's moveable and immovable properties in disposal of non-financial assets exceeded oil revenues for the first time. The performance of budget regarding disposal of moveable and immovable properties was IRR3.8 trillion in 1397 and IRR2.6 trillion in the first 8 months of 1398 while this figure amounts to IRR495.5 trillion in the budget bill of 1399. Regardless of the fact that implementation of this amount of disposals is not plausible and exacerbates the budget deficit, it prepares ground for corruption. It should be noted that 80 percent of this disposals are in terms of Sukuk which, in practice, translates to asset based finance and should be placed in the category of disposal of financial assets rather than that of non-financial assets.

In addition to the IRR80 trillion Sukuk, the government has been allowed to issue IRR 800 trillion Islamic debt securities, while in the "6th Development Plan" it was allowed to only use IRR500 trillion of the revenues from disposal of debt securities in 1399. All in all, the government would bear IRR970 trillion of debt in the budget bill in terms of IRR debt securities.

On the other hand, the government has considered IRR627 trillion in order to cover the previously matured securities in 1399. Out of this amount, IRR400 trillion is aimed at principal repayment, IRR100 trillion at issuance of new securities in order to raise funds for principal and interest repayments of the previously matured securities in 1399, and the rest belongs to interests and issuance fees of government debt securities. It should be noted that IRR100 trillion has been included in the category of disposal of financial assets for the issuance of securities aimed at financing principal and interest repayments of previously matured securities, but its corresponding category in terms of uses shows figure "one". Thus, another IRR100 trillion of budget deficit is confined via this practice. Table 11 presents general source and uses of government.

Table 11- General Sources and Uses of Government in 1399 Budget Bill (IRR trillion- percent)

	1399 Budget Bill	Share in Total General Sources	Growth Compared to 1398 Budget Law (unrevised version)		1399 Budget Bill	Share in Total General Uses	Growth Compared to 1398 Budget Law (unrevised version)
Current Revenues	2,610.5	53.9	9.2	Current Expenditures	3,672.3	75.8	4.2
Tax Revenues	1,950.0	40.2	13.0	Compensation of Employees	1,134.4	23.4	16.3
Proceeds of State-owned Properties	305.1	6.3	10.8	Use of Goods and Services	262.8	5.4	3.6
Proceeds of Sale of Goods and Services	112.7	2.3	10.4	Cost of Properties	0.1	0.0	-92.8
Proceeds of Fines and Damage	56.5	1.2	-31.4	Subsidies	31.1	0.6	-73.4
Other	186.2	3.8	-9.1	Grants	60.3	1.2	-16.6
				Social Welfare	1,306.4	27.0	2.1
				Other	877.3	18.1	6.3
Operating Balance					**-1,061.8**	**-**	**-6.4**
Disposal of Non-financial Assets	988.4	20.4	-37.6	Acquisition of Non-financial Assets	703.6	14.5	5.2
Receipts from Crude Oil and Oil Products	483.0	10.0	-68.4	Building	504.5	10.4	3.4
Receipts from Sale or Disposal of Properties	495.5	10.2	1,013.4	Machinery and Equipment	100.3	2.1	14.9
Receipts from disposal of Development Projects	10.0	0.2	0.0	Other Fixed Assets	1.6	0.0	65.5
				Inventory Use	0.1	0.0	-
				Precious Items	0.1	0.0	-78.9
				Land	6.7	0.1	150.3
				Other Non-produced Assets	90.4	1.9	1.7
Non-financial Balance					**284.8**	**-**	**-68.9**
Disposal of Financial Assets	1,247.0	25.7	144.2	Acquisition of Financial Assets	470.0	9.7	60.1
Sale of Islamic Securities	800.0	16.5	86.0	Credit Related to Disposal of Stocks	27.8	0.6	-36.1
Use of Foreign Loans	0.5	0.0	0.0	Principal of Islamic Securities Repayment	400.1	8.3	82.7
Principal of Loans Receipt	13.1	0.3	-38.7	Principal of Bank Facilities Repayment	1.6	0.0	-
Disposal of State-owned Companies	114.9	2.4	145.7	Unpaid Obligations from Previous Years	1.1	0.0	-
Last Year's Payments Return	12.5	0.3	53.0	Principal of Foreign Loans Repayment	39.5	0.8	39.4
Use of National Development Fund	302.1	6.2	-				
Other	4.0	0.1	0.0				
Financial Balance					**777.0**	**-**	**257.6**

Source: 1399 budget bill and 1398 budget law

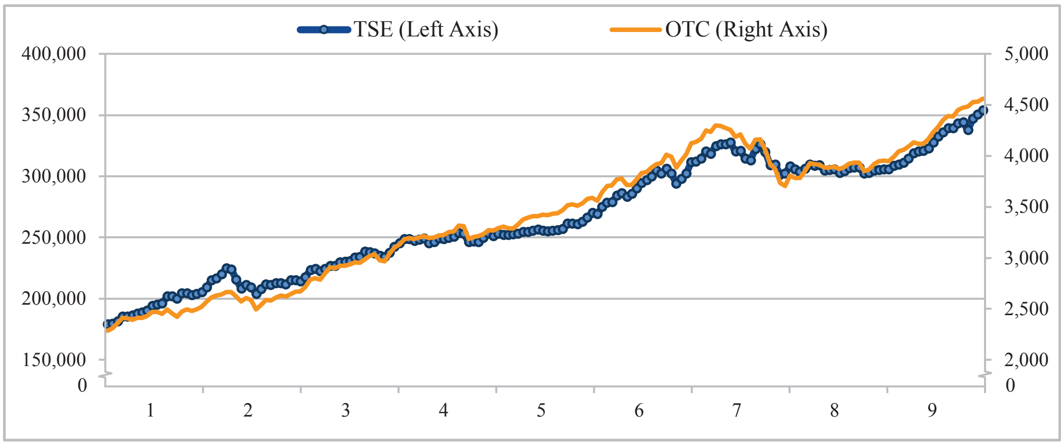
7. Capital Market

The capital market of the country started an intense bearish trend from the 2nd week of fall 1398 after a considerable bullish trend in 1398H1, igniting concern and anxiety among market agents. In less than 9 working days (from the 21st of 07/1398) the Tehran Stock Exchange (TSE) index fell by 7.0 percent and Over the Counter (OTC) index plummeted by 13.8 percent in less than 15 working days (from 8th of 07/1398), imposing undesirable conditions to market players especially newly entered investors.

This coincided with entering a large number of retail investors that were absorbed to the market due to the boom in 1398H1. This sort of investors who immediately caught the initial signals of a drop in stock prices became suppliers, exacerbating the market instability. However, the market corrected itself in less than a month and in 8/1398 the index ultimately witnessed a positive growth. In the last month of fall, the stock market became bullish again and at the end of that month, TSE index grew by 16.1 percent and the OTC index by 15.4 percent. In the last day of fall 1398, the TSE and OTC indices closed at 354 thousand and 4,500, respectively, indicating 101.3 percent and 106.6 percent climbs compared to last day of 1397. Figure 6 exhibits the developments of TSE and OTC indices.

The growth rate of the TSE index slowed down in the first three quarters of the year. It dropped from 33.5 percent in spring to 28.6 percent in summer and finally registered 17.2 percent in fall. The equally-weighted index which assigns similar weights to stocks (regardless of their size and weight) followed the same trend as the TSE's, albeit at a higher pace-its growth rate of 70.6

Figure 6- TSE and OTC Overall Indices in the First 9 Months of 1398



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

percent in spring collapsed to 27.4 percent in fall. It is worth to mention that even though the changes in the equally-weighted index was much volatile than the changes in the TSE index, the sharper decline in the growth rate of the former might represent that temporary jumps in minor symbols are diminishing.

A comparison of the financial index and that of the industry reveals that in the recent year "banking and finance" stocks have gained more value than "industrial companies and factories" stocks. The aforementioned indices have grown by 111.8 percent and 96.6 percent in the first 9 months of the year and 172.7 percent and 141.2 percent in the year ending in fall 1398, respectively.

Besides, TSE's market capitalization hit IRR13,000 trillion at the end of fall, 118 percent above that in the same point of the year before. In the first three quarters of the year, more than 713 billion of "equity securities", valued at IRR2,449 trillion, were traded which shows 140.6 percent growth from the same time span in 1397. The value of TSE transactions in the first 9 months of 1398 rose by 132.9 percent to IRR2,695 trillion, out of which IRR63.5 trillion belongs to the debt market, IRR1.6 trillion to derivatives, and IRR180.3 trillion to tradable funds.

Among various segments of the TSE, "debt securities" was the only one that had contracted in value. Table 12 presents some important indices and statistics of the TSE.

Table 12- Some Important Indices and Statistics of the TSE

	During the period			End of the Period				
	The Number of Equities Traded (billion shares)	The Value of Equities Traded (IRR trillion)	The Total Value of Transactions (IRR trillion)	Market Capitalization (IRR trillion)	Equally-weighted Index (thousand)	Overall Index (thousand)	Financial Index (thousand)	Industrial Index (thousand)
First 9 Months of 1398	713.3	2,449.6	2,694.9	12,915.6	111.9	354.0	434.8	316.2
First 9 Months of 1397	367.5	1,018.2	1,157.1	5,924.3	26.6	156.1	172.7	141.2
Percentage Change	94.1	140.6	132.9	118.0	320.1	126.8	151.7	123.9

Source: Tehran Stock Exchange, monthly comprehensive report of market, various issues

8. Other Developments

At the end of 8/1398, the government increased price of normal gasoline from IRR10,000 per liter to IRR30,000. As for super gasoline, its price rose from IRR12,000 to IRR35,000. However, private vehicles were entitled with a quota of 60 liter of gasoline at IRR15,000 per month. This quota was different for the other categories of vehicles. The government that had previously ceased multiple-price gasoline system aimed at eliminating corruption, again implemented this policy which obviously would entail adverse consequences. Precisely speaking, even though the gasoline price has been raised, it is far below its international price. Hence, the smuggling motives still exists. In addition, as the redistribution of the proceeds from this policy is not transparent enough, it would not be welcomed by the public. Also, another rise in gasoline prices will be inevitable due to expected inflation rate in the coming years. It should be noted that as much of burden was put on the government budget, the rise in price of gasoline was inevitable. However, as the current mechanism of rising gasoline price is in fact a repetition of the gasoline rationing, the policy would result in multiple drawbacks. As there exist no clear data of daily gasoline consumption in Iran, an appropriate projection of proceeds from the rise in gasoline price seems implausible. The government has projected IRR770.7 trillion from domestic sale of oil products which is IRR314.8 trillion above the legislated figure in 1398 Budget Law. Besides, IRR310 trillion is also included in the uses of "Targeted Subsidies Plan" in order to redistribute the funds from gasoline price increase in 1399. Table 13 shows the sources and uses of "Targeted Subsidies Plan" in the budget bill of 1399.

Based on the announcement of the "National Company of Distribution of Oil Products", the daily gasoline consumed from the beginning of 1398 up to the end of 23/8/1398 (prior to the gasoline price rise) averaged 98 million liters. However, during the 10 days after the price rise the average daily consumption reached 79 million liters.

Even though the exact daily consumption of the remainder of the year 1398 and the whole 1399 cannot be projected, considering the current daily consumption and price of IRR60 thousand per liter of exported gasoline (the USD/IRR exchange rate=130 thousand), the total hidden gasoline subsidy amounts to approximately IRR2.4 trillion per day. So the gasoline hidden subsidy in a year equals the value of debt securities that the government is about to publish in 1399. However, this figure accounts for a part of the total hidden subsidies in the economy in one year which is mostly in favor of high income deciles.

Table 13- Sources and Uses of Targeted Subsidies Plan (IRR trillion - percent)

Sources	1399 Bill	Growth Compared to 1398 Law
Domestic Sale of Oil Products	770.7	69.0
Exports of Products Less the Differential of Delivered Feedstock and Received Products from refineries	888.0	104.1
Sale of Natural Gas Including Gas Transfer Fees and Value-added Tax	309.6	26.0
Sale of Electricity to Subscribers Includ-ing Fees and Value-added Tax	243.8	11.1
Power Plants Fuels	4.3	-76.1
Sale of Water	31.0	-7.2
Sale of Natural Gas Condensates Feed-stock to Petrochemical Companies	259.9	-
Total Sources	**2,507.3**	**78.1**

Corresponding Sector	Uses	1399 Bill	Growth Compared to 1398 Law
Refining and Distribution of Oil Products	Fees and Value-added Tax of Oil Products	100.9	4.7
	Fees of Expansion, Maintenance, and Reconstruction of Pipelines, Equipment, and Warehouse of Oil Products	20.0	33.3
	Cost of Shipment, Distribution, and Sale of Oil Products	104.6	-5.4
Oil	Repayment of Obligations of Energy Consumption Optimization Plans, Gas Transfer, Collection of Associated Gases Including Flare Gas	80.0	95.1
	Share of National Oil Company in Domestic Sale and Exports of Oil Products and Petrochemicals Feedstock	220.3	101.7
Gas	Fees and Value-added Tax of natural Gas	23.7	55.4
	Gas Transfer Fees	26.4	54.7
	CNG Station Fees and Improving Their Safety	3.5	-68.0
	Fees of Production, Transfer, Distribution, and Sale of Natural Gas	128.3	36.4
	Payments to Ministry of Education for Gas Fees of Schools	0.6	0.0
Electricity	Fees and Value-added of Electricity	18.4	1.9
	Electricity Expansion Fees	0.0	-
	Payments to Ministry of Education for Electricity Fees of Schools	0.3	0.0
	Tax and Fees of Power Plants Fuels	0.4	-87.5
	Repayment of Obligations of Ministry of Energy for Combined Cycle Power Plants	3.6	-75.9
	Fees of Production, Distribution, Sale and Purchase of Electricity (private Power Plants and imports)	225.0	12.0
Water	Fees of Production, Transfer, distribution and Sale of Water	30.9	-7.3
	Payments to Ministry of Education for Water Fees of Schools	0.1	0.0
Uses of Organization of Targeted Subsidies			
Uses of Targeted Subsidies	Cash and Non-Cash Subsidies to Households	428.0	4.1
	Reduction of Absolute Poverty	155.5	85.1
	Healthcare Sector	52.0	6.1
	Subsidy of Bread and Guaranteed Purchase of Wheat	121.0	96.9
	Implementation of Financial Aids to Households Plan	310.0	-
	Food and Welfare Affairs of University Students	4.0	-
	Production and Employment, Rail Transport, Housing and Agriculture Inputs	102.0	-
	Other Objectives of Targeted Subsidies Law and 6th Development Plan	55.3	161.0
	Other Uses of Public Entities and Miscellaneous	292.5	-
	Total Uses of Targeted Subsidies Plan	**1,520.3**	**142.6**
Total Uses		**2,507.3**	**78.1**

Source: 1399 budget bill and 1398 budget law

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