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# Recent Economic Developments in Iran

A Quarterly Report



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## Notes

**Note 1:** In this Report, the growth rate of a variable refers to the percentage change of that variable, at the point in time or during the time period under review, from the same point in time or period in the preceding year. As such, for instance “the growth rate of exports in the first half of 1395” refers to the percentage change of exports in the first half of 1395 from its level in the first half of 1394.

**Note 2:** The Persian calendar is a solar calendar in which years start on the first day of spring and end on the last of winter. The four quarters of the year correspond exactly to the four seasons. The current Persian year is 1395, which happens to be a leap year. It started on March 20, 2016 and will end on March 20, 2017. The first quarter of 1395 (1395Q1) overlaps with spring and roughly corresponds to the second quarter in the Gregorian calendar (2016Q2). Similarly, 1395Q4 roughly corresponds to 2017Q1, etc.

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

<b>1395Q1</b>	= 03/20/2016 – 06/20/2016, roughly	<b>2016Q2</b>
<b>1395Q2</b>	= 06/21/2016 – 09/21/2016, roughly	<b>2016Q3</b>
<b>1395Q3</b>	= 09/22/2016 – 12/20/2016, roughly	<b>2016Q4</b>
<b>1395Q4</b>	= 12/21/2016 – 03/20/2017, roughly	<b>2017Q1</b>

## Iran's Economy at a Glance

	1394Q3	1394Q4	1394	1395Q1	1395Q2	1395Q3	1395Q4
<b>Participation &amp; Unemployment Rates (percent)</b>							
Participation (10 years and over)	38.1	37.7	38.2	39.5	40.4	38.9	38.9
Unemployment (10 years and over)	10.7	11.8	11.0	12.2	12.7	12.3	12.5
Unemployment (Youth ages 15-24)	25.4	28.6	26.1	27.8	30.2	30.4	28.1
<b>Real Growth Rates of GDP and its Subsectors (percent)*</b>							
Gross Domestic Product (GDP)	0.1	2.1	0.7	4.1	8.3	8.9	-
Oil	-9.0	16.5	3.6	57.3	94.8	109.1	-
Agriculture	2.8	6.1	5.3	3.9	7.1	5.4	-
Industries and Mines	-3.7	-0.8	-1.9	0.1	3.2	4.8	-
Services	0.7	1.3	0.2	3.3	6.3	6.6	-
GDP (Excluding Oil)	0.4	1.6	0.7	2.3	6.1	6.4	-
Gross Fixed Capital Formation	-13.6	-10.1	-10.2	-7.0	-3.4	-0.5	-
<b>Oil (thousand barrels per day)</b>							
Production	3,299	3,379	3,231	3,544	3,639	3,993**	-
Export	1,561	1,787	1,574	2,008	2,063	-	-
<b>Inflation Rates (percent)</b>							
Growth Rate of Consumer Price Index	10.1	8.9	11.9	7.2	8.9	9.2	10.7
Growth Rate of Producer Price Index	4.0	3.2	4.9	2.7	3.0	5.2	8.8
<b>Balance of Payments (USD millions)</b>							
Oil Exports	7,028	6,476	33,569	11,640	13,167	-	-
Non-Oil Exports	9,740	7,737	31,028	7,264	6,073	-	-
Imports of Goods	12,510	13,836	52,419	12,382	15,114	-	-
Goods Account (Net)	4,258	377	12,177	6,522	4,126	-	-
Non-Oil Goods Account (Net)	-2,149	-5,577	-19,158	-4,817	-8,718	-	-
Current Account	3,816	-937	9,016	5,231	3,459	-	-
Capital Account	2,122	-4,583	-2,513	-5,022	-5,814	-	-
Change in Foreign Reserves	2,206	-1,535	2,233	-6,171	-1,473	-	-
<b>Foreign Exchange Rates (USD/IRR daily average)</b>							
In Free Market	35,465	35,731	34,481	34,691	35,326	36,987	38,581
In Interbank Market	29,997	30,179	29,632	30,358	31,014	31,845	32,380
<b>Monetary and Credit Aggregates (end of period - in IRR trillions)</b>							
Monetary Base (M0)	1,427.8	1,533.6	1,533.6	1,585.2	1,655.1	1,704.7	-
Central Bank Claims on Banks	829.9	836.1	836.1	895.1	942.2	1,047.9	-
Central Bank Claims on Public Sector (Net)	120.0	182.2	182.2	238.9	325.3	233.1	-
Liquidity (M2)	9,251.7	10,172.9	10,172.9	10,595.0	11,227.1	11,848.6	-
Money (M1)	1,158.1	1,367.1	1,367.1	1,364.4	1,480.3	1,540.7	-
Sight Deposits	856.9	995.1	995.1	1,052.8	1,151.1	1,213.0	-
Non-sight Deposits (Quasi-money)	8,093.6	8,805.8	8,805.8	9,230.6	9,746.8	10,307.9	-
<b>Government Budget (IRR trillions)</b>							
Total Revenues	416.4	634.9	1,797.2	255.5	580.9	473.5	-
Tax Revenues	173.9	283.9	791.9	184.9	248.2	221.9	-
Oil Revenues	173.4	217.5	670.3	43.6	201.5	176.8	-
Other	69.2	133.5	335.0	27.1	131.1	74.8	-
Total Expenditures***	479.5	640.5	1,993.6	416.0	674.7	488.2	-
Current Expenditures	358.5	596.4	1,706.9	368.8	582.2	449.2	-
Development Expenditures	117.5	73.3	277.0	1.4	120.9	36.0	-
Budget Balance	-63.1	-5.5	-196.4	-160.4	-93.8	-14.7	-
<b>Tehran Stock Exchange (end of period)</b>							
Overall Index (TEDPIX)	61,519	80,219	80,219	72,615	76,451	80,123	77,230
Financial Index	125,938	158,225	158,225	145,481	155,263	151,049	131,865
Industrial Index	51,010	66,994	66,994	60,464	63,495	67,466	66,100
Market Capitalization (IRR trillions)	2,661.5	3,448.4	3,448.4	3,080.6	3,168.1	3,373.7	3,220.4

Source: Central Bank of Iran (CBI), and Statistical Centre of Iran (SCI), various reports

\* Based on SCI reports at constant 1376 market prices

\*\* According to OPEC (direct sources)

\*\*\* The difference between the sum of current and developmental expenditures and total expenditures is that the revolving funds were not yet settled.

## 1. Real Sector

Official statistics indicate that Iran's economy has performed exceptionally well during the first three quarters of 1395 (almost corresponding to the last three quarters of 2016). The surge in oil production resulting from the implementation of the Joint Comprehensive Plan of Action (JCPOA) and the firming up of global oil prices were the main reasons for this high growth. The implementation of the JCPOA also meant lower uncertainties and fewer trade sanctions that in turn helped boost non-oil exports, especially petrochemicals. Other sectors experienced positive growth rates as well. As the exceptional GDP growth in the first three quarters of 1395 was primarily due to the utilization of unused

production capacity in the oil and gas sector, and since there are currently no signs of a massive investment drive, a comparable performance is not expected in 1396.

Data released by the Statistical Center of Iran (SCI) indicate that on the basis of constant 1376 prices, the GDP grew by 7.2 percent during the first three quarters of 1395. Value-added in the oil and Gas sector grew by 85.4 percent and that gave rise to 10.5 percent growth in the Industries and Mining sector despite an 11.0 percent contraction of the Construction sector. As shown in Table 1, during those three quarters Agriculture grew by 5.7 percent, Services by 5.4 percent and the non-oil GDP by 5.0 percent.

Table 1 - Growth Rates of GDP and its Subgroups at Constant 1376 Market Prices (percent)

	1394	1395			
		Q1	Q2	Q3	First 9 Months
<b>Industries and Mining</b>	<b>-1.4</b>	<b>6.1</b>	<b>11.4</b>	<b>14.0</b>	<b>10.5</b>
Manufacturing	-0.3	2.2	4.9	6.8	4.6
Mining	1.6	41.2	67.5	76.7	61.0
Natural oil and gas extraction	3.6	57.3	94.8	109.1	85.4
Other mines	-3.3	-5.7	-3.6	-3.1	-4.1
Water, electricity, and natural gas supply	3.2	10.1	3.9	13.1	8.9
Construction	-13.1	-17.3	-5.4	-10.9	-11.0
<b>Agriculture</b>	<b>5.3</b>	<b>3.9</b>	<b>7.1</b>	<b>5.4</b>	<b>5.7</b>
<b>Services</b>	<b>0.2</b>	<b>3.3</b>	<b>6.3</b>	<b>6.6</b>	<b>5.4</b>
<b>Gross Domestic Product</b>	<b>0.7</b>	<b>4.1</b>	<b>8.3</b>	<b>8.9</b>	<b>7.2</b>
<b>Non-oil Gross Domestic Product</b>	<b>0.7</b>	<b>2.3</b>	<b>6.1</b>	<b>6.4</b>	<b>5.0</b>

Source: Statistical Center of Iran

After a long delay the Central Bank of Iran (CBI) also released its official GDP statistics in terms of constant 1390 prices during the last days of 1395. As CBI's base year is more recent than the SCI's, CBI statistics present a more "realistic" picture of the current economic conditions. Table 2 presents the main CBI statistics that indicate GDP growth rates with and without oil of

11.6 percent and 1.9 percent, respectively, in the first three quarters of 1395. The value added in the Oil sector grew by 65.4 percent while Industries and Mining sector (excluding oil and gas) grew by only 0.3 percent, pulled down by a 17.1 percent contraction of the Construction sector. Agriculture and Services sectors grew by 4.2 and 2.4 percents, respectively.

Table 2 - Growth Rates of GDP and its Subgroups at Constant 1390 Basic Prices (percent)

	1394						1395				
	Q1	Q2	Q3	First 9 Months	Q4	Year	Q1	Q2	Q3	First 9 Months	
<b>Agriculture</b>	<b>11.3</b>	<b>5.0</b>	<b>-2.2</b>	<b>4.5</b>	<b>8.3</b>	<b>4.6</b>	<b>3.5</b>	<b>4.1</b>	<b>5.0</b>	<b>4.2</b>	
<b>Oil</b>	<b>1.8</b>	<b>6.4</b>	<b>2.8</b>	<b>3.7</b>	<b>18.0</b>	<b>7.2</b>	<b>56.1</b>	<b>65.7</b>	<b>74.6</b>	<b>65.4</b>	
<b>Industries and Mining</b>	<b>-4.2</b>	<b>-5.8</b>	<b>-10.7</b>	<b>-6.9</b>	<b>-3.4</b>	<b>-6.1</b>	<b>-4.9</b>	<b>3.1</b>	<b>2.4</b>	<b>0.3</b>	
Mining	-8.8	-7.9	-11.4	-9.3	-13.8	-10.5	-7.5	-4.0	11.5	-0.2	
Manufacturing	-6.3	-3.0	-5.6	-4.9	-3.8	-4.6	1.7	4.4	11.3	5.8	
Water, electricity, gas	7.8	1.5	4.8	4.6	-0.5	3.3	1.7	6.2	7.3	5.1	
Construction	-11.9	-16.9	-31.8	-20.8	-4.2	-17.0	-27.4	-2.0	-25.4	-17.1	
<b>Services</b>	<b>-1.7</b>	<b>-4.0</b>	<b>-4.9</b>	<b>-3.5</b>	<b>1.3</b>	<b>-2.3</b>	<b>-0.5</b>	<b>2.3</b>	<b>5.6</b>	<b>2.4</b>	
<b>Gross Domestic Product</b>	<b>-1.0</b>	<b>-2.1</b>	<b>-5.4</b>	<b>-2.8</b>	<b>2.3</b>	<b>-1.6</b>	<b>7.4</b>	<b>11.9</b>	<b>15.7</b>	<b>11.6</b>	
<b>Non-oil Gross Domestic Product</b>	<b>-1.5</b>	<b>-3.4</b>	<b>-6.8</b>	<b>-3.9</b>	<b>-5.0</b>	<b>-3.1</b>	<b>-1.5</b>	<b>2.8</b>	<b>4.6</b>	<b>1.9</b>	

Source: Central Bank of Iran, The presentation delivered by Economic Deputy to the CBI Governor, 12/1395

Regarding the different growth rates in SCI and CBI statistics, apart from differences in base years and definitions of Manufacturing and Mining, "Oil" sector in CBI classifications includes a wider range of subgroups (such as refineries) and also taken into account

oil-related industries that are not included in SCI's "Natural Oil and Gas Extraction" group. Accordingly, "Non-oil GDP" in CBI classifications is closer to the common understanding of the term and therefore the growth rates of this variable given by the CBI

present a more realistic picture. On the other hand, as oil prices in 1390 were about twice those in 1395, CBI's GDP growth rates in recent quarters (with oil) overestimates the reality. With the same token, since oil prices in 1376 were about half of those in 1395, SCI's GDP growth rates in recent quarters underestimate the reality.

An examination of the GDP from the expenditures side reveals a considerable rise in net exports of goods and services in the first 9 months of 1395. According to the SCI, exports of goods and services rose by 52.8 percent while their imports rose very little, bringing about an 81.2 percent rise in their net exports. In the

same period, private consumption and government consumption expenditures grew by 2.4 percent and 6.8 percent, respectively. As shown in Table 3, gross fixed capital formation contracted by 3.7 percent during the first 9 months of 1395, indicating that the growth in Oil and Gas has not yet stimulated consumption and investment. The fall in gross fixed capital formation in Construction is not surprising given the continuing recession in this sector, but the persistent fall of gross fixed capital formation in machinery from the beginning of 1394 to the end of the first half of 1395 (1395H1) does not augur well for future GDP growths.

Table 3 – GDP Growth Rate from the Expenditures Side at Constant 1376 Market Prices (percent)

	1394	1395			
		Q1	Q2	Q3	First 9 Months
<b>Private Consumption</b>	2.5	1.5	3.9	1.7	2.4
<b>Government Consumption Expenditures</b>	7.1	6.8	6.8	6.8	6.8
<b>Gross Fixed Capital Formation</b>	-10.2	-7.0	-3.4	-0.5	-3.7
- in Machinery	-8.6	-1.9	-2.3	5.2	0.3
- in Construction	-13.1	-17.2	-5.4	-10.9	-11.0
<b>Net Exports of Goods and Services</b>	54.3	94.7	54.0	102.8	81.2
Exports of Goods and Services	17.1	58.5	40.4	60.3	52.8
Imports of Goods and Services	-16.8	-0.5	7.0	4.2	3.4
<b>Gross Domestic Product</b>	0.7	4.1	8.3	8.9	7.2

Source: Statistical Center of Iran

According to the CBI, during the first 9 months of 1395 private consumption and government consumption expenditures grew, respectively, by 2.4 percent and 5.5 percent at constant 1390 prices. As shown in Table 4, net gross fixed capital formation contracted by 8.9 percent as a result of 14.4 percent drop of

capital formation in Construction and 5.3 percent rise in capital formation in Machinery. Exports and imports of goods and services experienced 45.1 percent and 7.5 percent growth in value, respectively, in the same period.

Table 4 - GDP Growth Rates from the Expenditures Side at Constant 1390 Market Prices (percent)

	1394						1395				
	Q1	Q2	Q3	First 9 Months	Q4	Year	Q1	Q2	Q3	First 9 Months	
<b>Private Consumption</b>	-1.3	-5.1	-5.4	-3.9	-2.2	-3.5	0.2	1.2	5.8	2.4	
<b>Government Consumption Expenditures</b>	-5.2	-3.1	-2.5	-3.6	26.0	4.8	-1.3	12.2	5.4	5.5	
<b>Gross Fixed Capital Formation</b>	-8.7	-13.5	-25.7	-16.8	2.2	-12.0	-16.1	5.5	-19.5	-8.9	
- in Machinery	-12.7	-15.8	-15.7	-14.8	-16.1	-15.2	2.3	3.5	10.1	5.3	
- in Construction	-6.7	-12.7	-29.0	-17.6	11.9	-10.7	-24.4	6.2	-31.1	-14.4	
<b>Exports of Goods and Services</b>	7.5	5.5	18.7	10.7	16.4	12.1	50.7	48.6	37.0	45.1	
<b>Imports of Goods and Services</b>	-20.2	-26.2	-20.3	-22.4	-14.1	-20.2	-6.4	5.6	23.1	7.5	
<b>Gross Domestic Product</b>	0.4	-1.4	-5.4	-2.2	1.3	-1.3	8.9	10.7	16.0	11.8	

Source: Central Bank of Iran, The presentation delivered by Economic Deputy to the CBI Governor, 12/1395

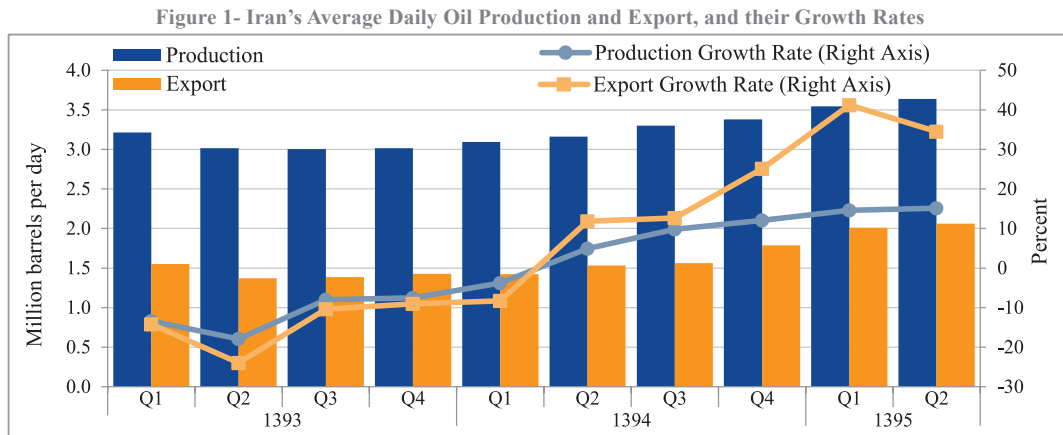
## 1.1 Energy

Following the upward trends in 1393 and 1394, in 9/1395 Iran's crude oil production reached its maximum since the beginning of the 1390s. According to OPEC reports, crude oil production averaged 4.01 million barrels per day (bpd) in 9/1395, indicating a 20 percent rise from 9/1394. Although oil production in 10/1395 fell slightly to reach 3.92 million bpd, given the recent OPEC agreement to raise Iran's production by 90 thousand bpd, it should rise back to 4.1 million bpd in

coming months.

Concurrent with the rise in production, the price of Iran's heavy crude oil reached USD53.2 per barrel in 11/1395 which is the highest since 5/1394.

As shown in Figure 1, oil exports in the summer of 1395 (1395Q2) was higher than in 1395Q1 and registered 2.63 million bpd. Exports are expected to have risen further in 1395H2.



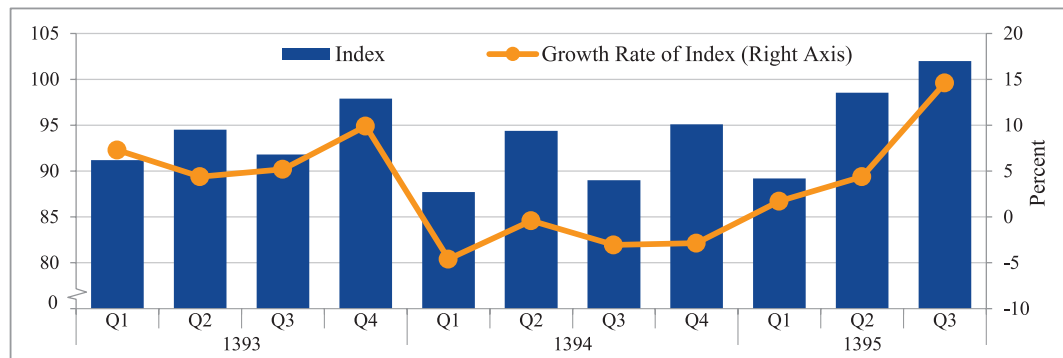
Source: Central Bank of Iran, Economic trends

## 1.2 Industry

After a 0.3 percent contraction in 1394, the “Manufacturing” sector resumed growth from the beginning of 1395 and registered a 5.8 percent growth in the first 9 months of 1395, helped by 6.8 percent rise in the production of large manufacturing establishments. As shown in Figure 2, the production index of large manufacturing establishments experienced positive growth rates in that period and in 1395Q3 registered 102.0, which is its maximum since the beginning

of 1391. Manufacturing sector’s growth was mostly attributed to the 35.6 percent rise in the production of motor vehicles, thanks to the unused production capacity. According to data released by the ministry of Industry, Mine & Trade, the value of investment in development of manufacturing units and the number of permits for operation of manufacturing units rose by 49.5 percent and 8.8 percent, respectively, in the first 9 months of 1395.

Figure 2- The Production Index of Large Manufacturing Establishments (1390=100) and its Point-to-point Growth Rates



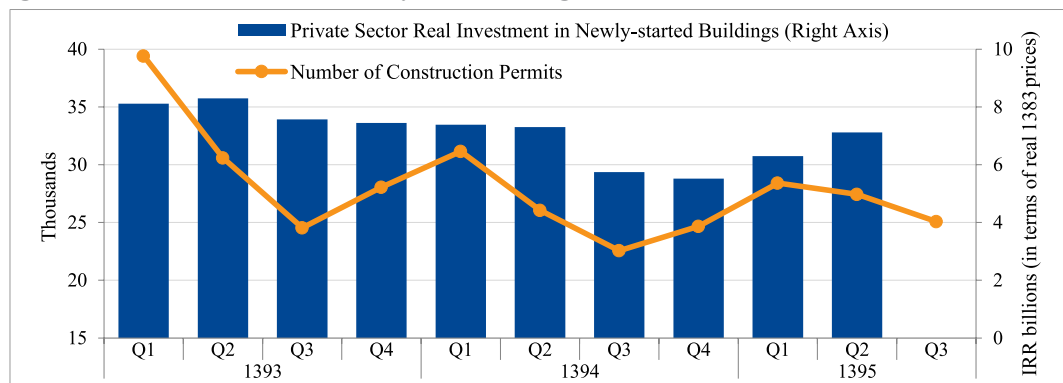
Source: Central Bank of Iran, Economic trends, and the presentation delivered by Economic Deputy to the CBI Governor, 12/1395

## 1.3 Housing

The housing market did not experience much fluctuations in 1395 while its recession that had started in 1392H2 continued. The value-added of Housing, which accounts for the bulk of the Construction sector, contracted in 1395. As shown in Figure 3, the moving average of real investments in newly-

started buildings in 1395Q1 and Q2 were lower than in their corresponding quarters in 1394. The number of construction permits grew by 7.7 percent in the first 9 months of 1395 but that did not signal a boom in the market.

Figure 3- Real Value of Investment in Newly-started Buildings and Number of Construction Permits in Urban Areas



Source: Central Bank of Iran, Economic Indicators, and the presentation delivered by Economic Deputy to the CBI Governor, 12/1395

Since the data on the country's housing market is released with several months lag, one has to rely on the available information on Tehran's housing market as a proxy. Although the average price of a square meter of residential units in Tehran did not fall in 1395, it rose at rates below the inflation rate and was not enough to attract investors. In real terms, the fall in the price of a square meter of residential units that had started in 1392H1 has so far continued through the end of 1395. Nevertheless, in 1395Q4 the average nominal

### 1.4 Labor Force

Despite the considerable GDP growth rate in 1395, the unemployment rate rose by 1.4 percentage points to 12.4 percent and the share of underemployment rose by 0.5 percentage points to 10.3 percent. These statistics indicate that the conditions in the labor market have worsened. As shown

price in Tehran showed increases of 2.4 percent and 7.5 percent from 1395Q3 and 1394Q4, respectively. The monthly number of transactions in the housing market has been volatile. In monthly terms, between 9/1395 and 10/1395 the number of transactions surged by more than 40 percent but fell again in 11/1395 and 12/1395 by 6.7 percent and 21.6 percent, respectively. All in all, in winter 1395 the number of transactions in Tehran housing market experienced a 2.3 percent drop and reached 44.6 thousand.

in Table 5, in 1395 the economic participation rate rose by 1.2 percentage points to 39.4 percent, indicating that the active population has grown at a slower pace than the total working age population.

Table 5 - Labor Market Indices for the Population Aged 10 and Over (percent)

	1394		1395			
	Total	Q1	Q2	Q3	Q4	Total
Unemployment Rate	11.0	12.2	12.7	12.3	12.5	12.4
Economic Participation Rate	38.2	39.5	40.4	38.9	38.9	39.4
Share of Underemployment	9.8	8.5	9.5	11.3	10.9	10.3

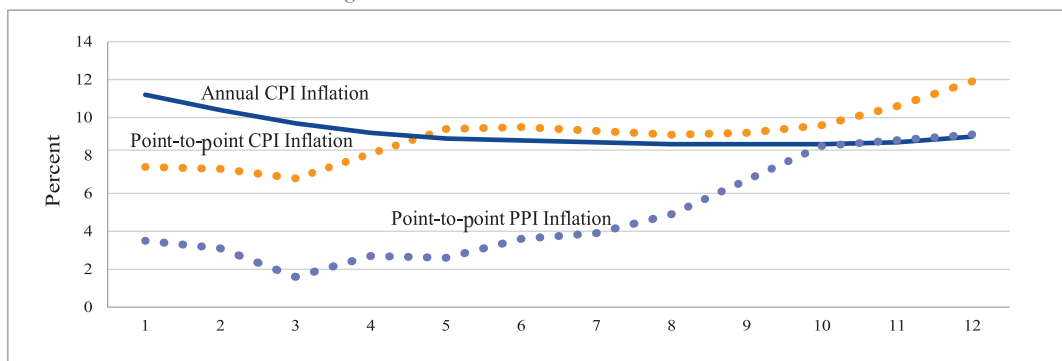
Source: Statistical Center of Iran, Summary results of the workforce survey

## 2. Prices and Inflation

After a decreasing trend starting in 10/1394, the point-to-point CPI inflation rate touched the low of 6.8 percent in 3/1395 and then reversed course to reach 11.9 percent in the last month of 1395 and register its maximum during this year. As for the average "annual" inflation rate, after 3 months of remaining at 8.6 percent it gradually increased to register a 9.0 percent inflation rate in 1395. That was the first time in the past 26 years that the country experienced a single-digit inflation rate. An examination of the monetary aggregates reveals that at the end of 10/1395, liquidity (M2) grew by 26.0 percent, quasi-

money by 25.8 percent, and money (M1) by 27.8 percent. While the inflation rate was decreasing continuously from 1392 to 1394, M2 liquidity and quasi-money experienced high growth rates while money grew much less and thus the developments of inflation rate are mostly attributed to the changes in M1 money. Given the faster growth rate of money mentioned earlier, further increases in CPI in the early months of 1396 is plausible. Figure 4 exhibits CPI and PPI inflation rates during the 12 months of 1395.

Figure 4 - CPI and PPI Inflation Rates in 1395



Source: Central Bank of Iran, Consumer Price Index and Producer Price Index

As can be seen in this Figure, the point-to-point PPI inflation, that is a precursor to CPI inflation, started an increasing trend from 6/1395 and eventually reached 9.1 percent in the last month of 1395, indicating an expected rise in the point-to-point CPI inflation in coming months.

The degree to which PPI inflation rates affect the CPI inflation rates is positively correlated with the share of the domestically produced goods and services in the consumption basket. This calls for the differentiation of price changes in the two

categories of tradable and non-tradable goods. The point-to-point inflation rate of tradable goods increased from 7.5 percent in 9/1395 to 10.0 percent in 11/1395, helped by the depreciation of IRR against foreign currencies in the fall and winter of 1395. But the point-to-point inflation rate of the non-tradable goods increased by only 0.2 percentage points during the same period, from 10.9 percent to 11.1 percent. Looking at price developments in various categories of the consumption basket of goods and services, the point-to-point



inflation rate in Food and Beverages, which is the second largest group in the basket, jumped in the last two months of the year from 12.9 percent to 17.8 percent. On the other extreme, the point-to-point CPI inflation in the “Miscellaneous Goods and Services” fell during the last two months of the year from 11.5 to 9.5 percent. The point-to-point inflation rate in “Housing, Water, Electricity, Gas and other Fuels” with the

highest weight in the basket remained at 9.2 percent during the last three months of the year. Accordingly, the rise in point-to-point inflation in “Food and Beverages” was the main cause of the rise of inflation in the last month of 1395. Table 6 shows the inflation rates in major groups of consumption basket of goods and services in 1394 and 1395 as well as the last 3 months of these years.

Table 6 - Inflation Rates in Major Groups of Consumption Basket (percent)

	Weight in the basket	Point-to-point			Annual 1394	Point-to-point			Annual 1395
		10/1394	11/1394	12/1394		10/1395	11/1395	12/1395	
<b>Overall</b>	<b>100.0</b>	<b>9.6</b>	<b>8.9</b>	<b>8.3</b>	<b>11.9</b>	<b>9.6</b>	<b>10.6</b>	<b>11.9</b>	<b>9.0</b>
Food and Beverages	27.38	6.0	4.6	3.5	10.3	9.8	12.9	17.8	8.2
Tobacco	0.35	-1.3	-1.1	-0.9	-3.1	10.7	10.7	10.9	10.0
Clothing and Footwear	4.94	9.1	8.5	7.4	10.4	6.4	6.0	6.1	6.6
Housing, Water, Electricity, Gas and other fuels.	32.82	11.4	11.1	10.7	12.2	9.2	9.2	9.2	9.5
Household Equipment and Routine Household Maintenance	5.13	4.7	4.8	4.3	5.7	6.3	6.8	7.1	5.1
Health	6.98	18.3	18.1	17.4	23.8	17.2	17.1	16.9	16.7
Transport	9.87	10.1	9.4	9.1	11.0	7.8	8.3	8.0	7.0
Communication	2.38	5.3	4.7	5.3	3.5	6.1	6.3	6.5	3.5
Recreation and Culture	2.85	9.4	9.6	10.0	14.9	8.4	8.2	7.9	8.6
Education	2.24	21.4	21.3	21.7	16.4	11.3	11.2	10.8	15.9
Restaurants and Hotels	1.86	14.0	13.3	12.0	16.1	9.3	9.7	10.3	9.4
Miscellaneous Goods and Services	3.20	10.1	9.7	9.6	11.1	9.6	11.5	9.5	9.7

Source: Central Bank of Iran, Consumer Price Index Reports

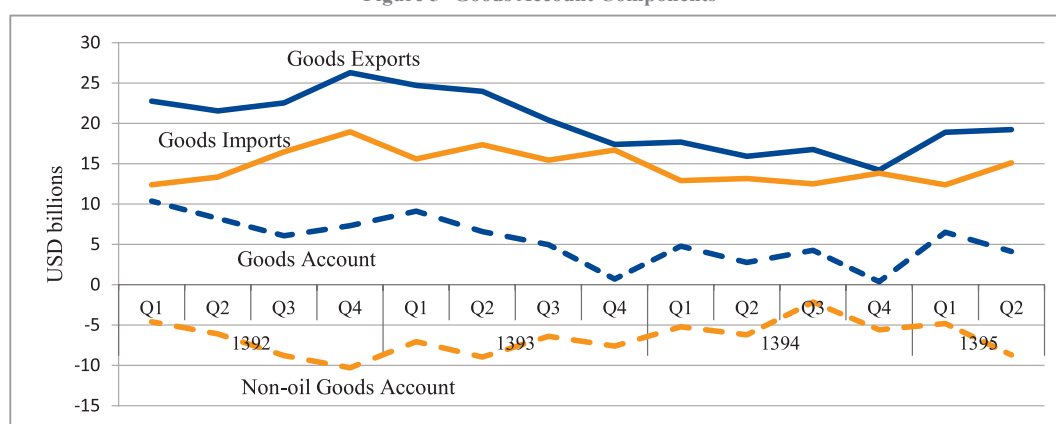
### 3. Balance of Payments

On the basis of CBI data, Iran’s average daily oil exports (including crude oil and oil products) rose by 41.2 percent in 1395Q1 and 34.6 percent in 1395Q2 to surpass 2 million bpd. Despite the rise in Iran’s crude oil price from the low of USD24.1 per barrel in 10/1394, according to OPEC reports the average price during 1395H1 was still 23.3 percent below that in 1394H1. Overall, the value of oil exports (including crude oil, oil products, natural gas, natural gas condensates and liquids) rose by 23.6 percent in 1395H1 while the imports

value fell by 42.7 percent to reach USD624 million. The balance of oil trade rose by 27.4 percent in 1395H1 to reach USD24.2 billion.

Non-oil exports decreased by 1.6 percent in value and non-oil imports increased by 7.6 percent in 1395H1, reaching USD13.3 billion and USD26.9 billion, respectively. Accordingly, the non-oil trade deficit reached USD13.5 billion, showing an 18.4 percent rise in that period. Figure 5 depicts the goods account components from 1392Q1 to 1395Q2.

Figure 5- Goods Account Components



Source: Central Bank of Iran, Economic Indicators

The 13.5 percent rise in the value of goods exports in conjunction with the 5.5 percent rise in the value of goods imports resulted in a 41.2 percent increase in goods account to USD10.6 billion in 1395H1. The services account deficit also increased in that period as a result of the rise in net imports,

but changes in income account and current transfers account were negligible. Overall, the net current account rose by a 41.6 percent in 1395H1 mostly as a result of the increase in goods account and reached USD8.7 billion. Table 7 exhibits current account components from 1394Q1 to 1395Q2.

Table 7- Current Account Components (USD million)

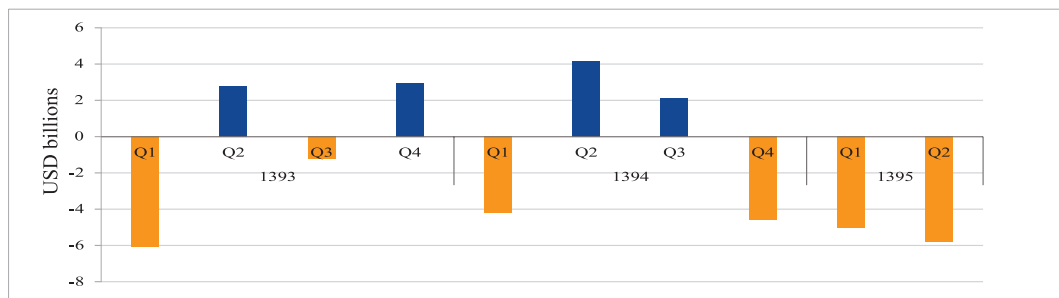
	1394				1395	
	Q1	Q2	Q3	Q4	Q1	Q2
Goods Account (net)	4,778	2,765	4,258	377	6,522	4,127
Services Account (net)	-1,206	-1,077	-759	-1,430	-1,610	-1,184
Income Account (net)	237	360	189	-23	198	360
Current Transfers Account (net)	138	142	128	139	121	156
Current Account Balance	3,947	2,190	3,816	-937	5,231	3,459

Source: Central bank of Iran, Economic Indicators

Disappointing many who expected capital inflow to increase in the aftermath of the JCPOA implementation, data on net capital account indicates USD15.4 billion net outflow during the nine months of winter 1394 and the first half of 1395. Figure 6 presents capital account developments from 1393Q1

to 1395Q2. Given USD5.5 billion of errors and omissions during 1395H1, Iran's foreign reserves appear to have decreased by USD7.6 billion during this period and reached USD120.8 at the end of 6/1395.

Figure 6- Quarterly Developments of Net Capital Account

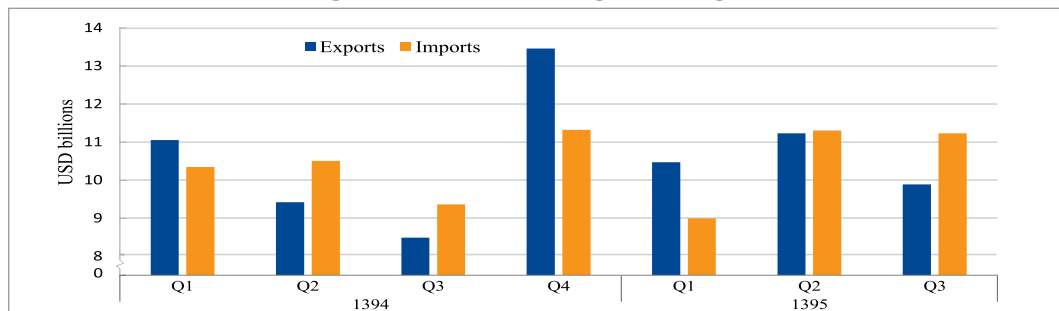


Source: Central Bank of Iran, Economic Indicators

In 1395Q3 the value of exports (excluding oil and suitcase trade) experienced a 12.0 percent fall from its preceding quarter but 16.4 percent rise from 1394Q3. Imports value also experienced 0.7 percent fall from its preceding quarter but 20.0 percent rise from 1394Q3. Figure 7 exhibits the values

of imports and exports from 1394Q1 to 1395Q3. The latest statistics indicate that the values of imports and exports in the first 11 months of 1395 reached USD38.4 billion and USD38.5 billion, respectively, indicating 3.5 percent and 0.2 percent rises.

Figure 7- Value of Customs Imports and Exports



Source: Islamic Republic of Iran Customs Administration, Preliminary Statistics for 1394 and 1395

During the first 11 months of 1395, in terms of export values, exports of petrochemicals and liquefied natural gas (LNG) dropped by 14.9 percent and 8.7 percent, respectively, while that of natural gas condensates rose by 55.5 percent. Exports of other goods did not change much in this period. The value of LNG exports fell despite the 51.8 percent rise in its volume.

Accordingly, the aggregate value of exports compared to the same period in the preceding year did not fall since the volume of exports in the four aforementioned groups rose. Table 8 shows export data by these groups for the first 11 months of 1394 and 1395.

Table 8 - Customs Exports Statistics

	First 11 Months of 1394				First 11 Months of 1395			
	Weight (1000 tons)	Value (USD millions)	Share in Total (percent)		Weight (1000 tons)	Value (USD millions)	Share in Total (percent)	
			Weight	Value			Weight	Value
Petrochemicals	24,036	13,935	28.5	36.3	25,971	11,863	23.2	30.8
Natural Gas Condensates	9,367	4,225	11.1	11.0	16,740	6,571	15.0	17.1
Natural Gas	5,817	2,139	6.9	5.6	8,832	1,952	7.9	5.1
Other Goods	45,172	18,111	53.5	47.2	60,268	18,106	53.9	47.0
Total Export	84,392	38,410	100.0	100.0	111,811	38,492	100.0	100.0

Source: Islamic Republic of Iran Customs Administration, Preliminary Statistics for 1394 and 1395

During the first 11 months of 1395, natural gas condensates and LNG were the main export items followed by USD 1.4 billion in exports of light crude oil except gasoline, USD 1.1 billion in exports of liquefied petroleum gas and USD 1.0 billion in exports of liquefied propane gas (LPG). The main export destinations were China, UAE, Iraq, Turkey, and South Korea. A notable development is the jump in South Korea's share of Iran's exports from 1.7 percent in the first 11 months

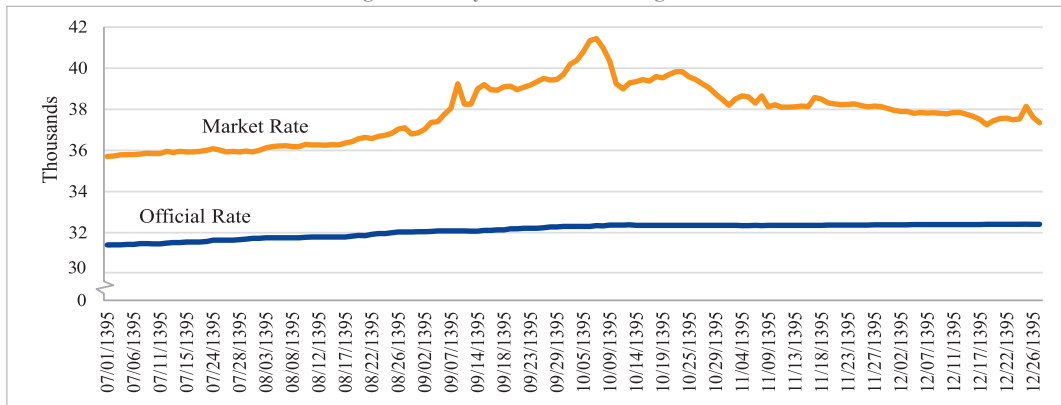
of 1394 to 7.0 percent in the first 11 months of 1395. Cattle-feed corn valued at USD 1.3 billion, soybean at USD 848 million and auto parts at USD 730 million were the main import items in the first 11 months of 1395. China, United Arab Emirates, South Korea, Turkey and Germany were the main sources of imports in this period. Imports from China accounted for about 25 percent of the total value of imports.

### 4. Foreign Exchange Market

The USD/IRR market exchange rate that had surpassed IRR 39,000 in late 1395Q3, surged to IRR 41,450 in the first week of 1395Q4 to mark the maximum nominal exchange rate of the USD since President Rouhani took office. The drop in the supply of foreign exchange as a result of petrochemical companies' reluctance to exchange their exports proceeds in the market in the hope of benefiting from the surge in this exchange rate coupled with increased demand by commercial companies for their international settlements exerted an

upward pressure on the USD/IRR exchange rate in late 1395Q3 and the first week of 1395Q4. Expectations for the further strengthening of the USD against IRR also had its share in this trend. CBI's intervention brought this rate down to below 40,000 in the second week of 1395Q4. In 12/1395 this rate reached below 38,000 and was fluctuating around 37,700. Figure 8 exhibits the daily market and official USD/IRR exchange rates in 1395H2.

Figure 8- Daily USD/IRR Exchange Rates

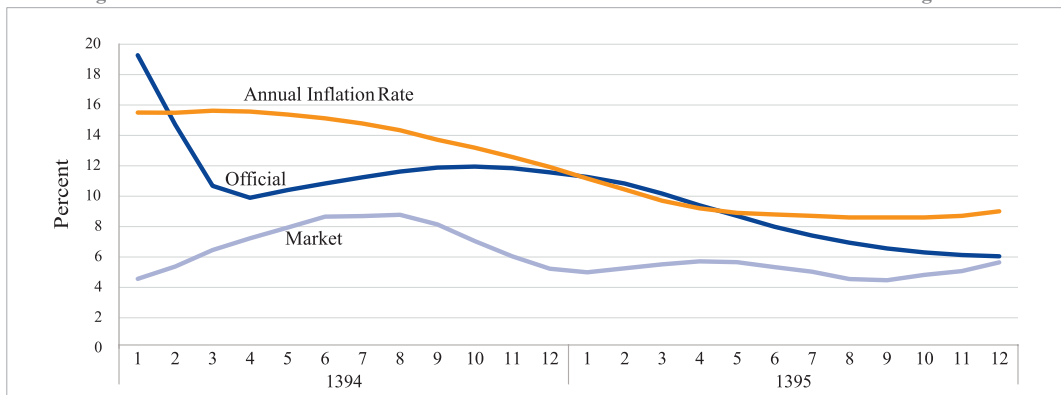


Source: Central Bank of Iran; Royal Exchange

As observed in Figure 8, in contrast to the market USD/IRR exchange rate, its official rate did not experience much change in the second half of 1395 and on average increased by less than one percent a month during the last five months of the year. These developments have widened the gap between the official and the market exchange rates from 14 percent at the beginning of the fall

to 16.4 percent at the end of winter, making it more difficult for the CBI to proceed with its long-overdue exchange rate unification. Figure 9 depicts the average annual inflation rate and the average growth rates of official and market USD/IRR exchange rates in 12-month periods culminating in the last day of each month in the past two years.

Figure 9- Annual Inflation Rate and Growth Rate of Official and Market USD/IRR Exchange Rates



Source: Central Bank of Iran; Research calculations

As can be seen in Figure 9, the domestic annual inflation rate increased to 9.0 percent in 12/1395 after 3 months of remaining at 8.6 percent. The inflation rate is expected to rise further in 1396 and this should result in rises in the USD/IRR exchange rate if the CBI does not intervene in the market. Apart from the obvious factors of domestic inflation rate and CBI's policies, uncertainties relating to the new US administration's policy towards Iran and the JCPOA are among the factors affecting the USD/IRR exchange rate developments in 1396.

Changing the currency in the reporting of foreign trade statistics from USD to other foreign currencies was planned to be implemented at the end of 1395 by the CBI. Given that majority of Iran's international trade is with European countries and China, the USD accounts for a small proportion of Iran's international transactions. Besides, as the USD exchange rate against other

major currencies has been volatile in recent months, reporting of all foreign revenues in terms of USD will result in imprecise figures in income statements. Also, from the CBI's point of view, it is more preferable to report foreign revenues in terms of a currency with low volatility. On the other hand the CBI likes to lighten the dominant role of USD in the formation of domestic inflation expectations. The change of reporting currency can be implemented by either selecting "the foreign currency with the highest share in international trade" or a "basket of currencies". According to CBI authorities, change of the reporting currency will reduce the fluctuations in foreign exchange market. But this expectation may not be realistic given the fact that changing the reporting currency is an accounting issue that will only result in nominal changes rather than real ones.

## 5. Monetary and credit Aggregates

The monetary base grew by 17.3 percent in 10/1395 to reach IRR1,722.3 trillion which is 3.2 percentage points lower than its growth rate at the same point in 1394. The 30.5 percent rise in CBI claims on banks is the major factor of the rise in monetary base which itself is attributed to the 172.0 percent increase in CBI claims on non-state banks and non-bank financial institutions. As a result, the share of CBI claims on non-state banks and non-bank financial institutions rose to 31.3 percent, while the share of specialized banks dropped to 54.5 percent. The increase in CBI

claims on non-state banks and non-bank financial institutions along with the competition to attract depositors by offering higher interest rates, especially from 8/1395 onwards, indicates that the cash flow problem of the banking system has exacerbated.

The 5.0 percent rise in CBI's net foreign assets is the second main reason for the growth of the monetary base, accounting for 6.1 percentage points of its growth. Table 9 exhibits monetary base components from 1394Q1 to 1395Q3 and the first month of winter 1395.

Table 9- Monetary Base Components (end of period, in IRR trillions)

	1394				1395				10/1395 to 10/1394	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	10/1395	Growth Rate (percent)	Share of Growth (percentage point)
<b>Monetary Base</b>	1,317.2	1,375.0	1,427.8	1,533.6	1,585.2	1,655.1	1,704.7	1,722.3	17.3	17.3
CBI Foreign Assets (net)	1,653.4	1,769.8	1,806.6	1,936.4	1,876.6	1,859.4	1,898.2	1,881.6	5.0	6.1
CBI Claims on Public Sector (net)	112.7	107.2	120.0	182.2	238.9	325.3	233.1	228.8	31.8	3.8
CBI Claims on Banks (net)	813.7	806.0	829.9	836.3	895.1	942.2	1,047.9	1,092.0	30.5	17.4
Others (net)	-1,262.6	-1,308.0	-1,328.7	-1,421.3	-1,425.4	-1,471.8	-1,474.5	-1,480.1	10.9	-9.9

Source: Central Bank of Iran, Selected Economic Indicators, 12/1395

The third main reason for the rise in the monetary base was a 31.8 percent increase in net CBI claims on public sector, accounting for 3.8 percentage points of the overall monetary base growth. This 31.8 percent growth is mostly due to the positive CBI net claims on public sector, i.e., a 27.0 percent rise in CBI claims on public sector and a 0.6 percent rise in government deposits with the CBI. In contrast, CBI net claims on state-owned companies decreased by 6.2 percent. At the end of 10/1395, CBI net claims on state-owned companies accounted for 95.1 percent of CBI net claims on public sector. According to CBI authorities, government expenditures through CBI's revolving fund is the main reason for the rise in CBI claims on public sector. The law permits the government to receive up to 3 percent of its general budget from the CBI as revolving fund, provided that the government settles it by the end of the financial year. However, the end of year balance of CBI claims on the public sector has continuously increased in recent years. Therefore, either the revolving fund has not been completely settled or a proportion of the government debt is

due to the purchase of government bonds (Sukuk) by the CBI. Eventually, the "Others" component of the monetary base by a 10.9 percent increase contributed -9.9 percent to the monetary base growth.

The M2 money multiplier increased by 0.5 point to reach 6.9 at the end of 10/1395. In this period, the fall in the ratio of notes and coins with the public to deposits, and the ratio of excess reserves to deposits were the factors that increased the M2 money multiplier, while the rise in the ratio of legal reserves to deposits was a factor in decreasing it. The liquidity (M2) rose by 26.0 percent at the end of 10/1395 and registered IRR11,966.0 trillion, helped by the rise in monetary base and M2 money multiplier. Among liquidity components, money (M1) and quasi-money grew by 27.8 percent and 25.8 percent, respectively, accounting for 3.5 and 22.6 percentage points of the liquidity growth. Notes and coins with the public and sight deposits rose by 8.8 percent and 34.3 percent in this period, respectively, accounting for 2.2 and 25.6 percentage points in money (M1) growth.

The growth rate of sight deposits in 1395Q3 was higher than in 1394Q3, but considerably lower than the growth rates in the 3 preceding quarters. Besides, the quarterly growth rate of quasi-money in first 3 quarters of 1395 has dropped compared to the rates in the same quarters of 1394. In 10/1395, the share of

quasi-money in liquidity rose compared to its preceding month. As a result, in 10/1395 the share of money and quasi-money in liquidity reached 12.6 percent and 87.4 percent, respectively. Table 10 shows M2 money multiplier and liquidity components from 1394Q1 to 1395Q3 and in 10/1395.

Table 10 - M2 Money Multiplier and Liquidity Components (end of period, in IRR trillions)

	1394				1395				10/1395 to 10/1394 Growth Rate (percent)
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	10/1395	
M2	8,166.7	8,727.5	9,251.7	10,172.8	10,595.0	11,227.1	11,848.6	11,966.0	26.0
Money (M1)	1,123.8	1,180.2	1,158.1	1,367.0	1,364.4	1,480.3	1,540.7	1,509.7	27.8
Notes and coins with the public	297.6	306.4	301.2	371.9	311.6	329.2	327.7	324.1	8.8
Sight deposits	826.2	873.8	856.9	995.1	1,052.8	1,151.1	1,213.0	1,185.6	34.3
Quasi-money	7,042.9	7,547.3	8,093.6	8,805.8	9,230.6	9,746.8	10,307.9	10,456.3	25.8
M2 Money Multiplier (unit free)	6.2	6.3	6.5	6.6	6.7	6.8	7.0	6.9	7.4

Source: Central Bank of Iran, Selected Economic Indicators, 12/1395

The balance of extended facilities by the banking system rose by 26.0 percent at the end of fall 1395. Also, the balance of deposits before and after the deduction of legal reserves rose by 24.4 percent and 26.0 percent, respectively. Hence, the ratio of facilities to deposits (after deduction of legal reserves) remained unchanged at 84.7 percent. The ratio of legal reserves to deposits in fall 1395 averaged 9.5 percent, indicating a 1.6 percentage points increase.

According to the CBI, approximately IRR4,775.8 trillion of facility has been extended to the applicants in the first 11 months of 1395, showing 37.1 percent rise. Extended facilities aimed at financing working capital accounted for 63.7 percent of

all facilities, and 81.8 percent of the facilities extended to the Industries and Mining sector. The main recipients of the extended facilities for working capital were Industries and Mining sector with 37.6 percent, Services sector with 33.4 percent, and Commerce sector with 15.0 percent. Extended facilities aimed at financing creation plans with 9.9 percent share, ranked second in total extended facilities, in which Services accounts for the highest value share. Services sector also accounts for the highest share in facilities aimed at financing developmental plans and private consumption. As expected, the Housing and Construction sector had the highest share of facilities extended for mortgages and reconstruction.

## 6. Government Budget

### 6.1 Performance in the first 10 months of 1395

Government tax revenues grew by 28.4 percent during the first 10 months of 1395 to reach IRR746.9 trillion. This amount is below the legislated amount of IRR870.4 trillion but its nominal growth rate is much higher than the 7.7 percent it experienced in the same period of 1394. Considering that the inflation rate in 1395 was only 9.0 percent, the real growth of tax revenues is considerable. The growth in tax revenues in conjunction with controlling current expenditures could have helped either lowering the budget deficit or completing some unfinished development projects. But current expenditures in those 10 months rose by 20.6 percent and reached IRR1,578.5 trillion. Hence, considering IRR285.4 trillion other current revenues as well as IRR45.4 trillion expenditures on current revolving funds, the deficit in operating balance reached IRR591.6 trillion.

Regarding the net disposal of non-financial assets, government oil revenues dropped by 4.0 percent and reached IRR492.1 trillion in

the first 10 months of 1395. This contraction may seem surprising given the jump in the value of oil exports, but the government had previously spent a proportion of oil revenues to settle its debt to CBI and the latter amount is not reflected in oil revenues figure. This debt to the CBI is rooted in the government's wish to cover the shortage of oil revenues at the end of 1394, thereby over-reporting oil revenues in that period.

Development expenditures fell by 18.5 percent and reached IRR166.5 trillion in the first 10 months of 1395. Considering IRR3.5 trillion other revenues from the disposal of non-financial assets, net disposal of non-financial assets amounted to IRR329.1 trillion in that period, which is much lower than the operating balance deficit. Therefore, the government's budget deficit reached IRR262.5 trillion in this period. Table 11 shows the government's fiscal performance in the first 10 months of 1395.

Table 11- Government Revenues and Expenditures (IRR trillions - percent)

	1395Q1	1395Q2	1395Q3	1395Q3 to 1394Q3 Growth Rate (percent)	First 10 months of 1395	1395 first 10 months to 1394 first 10 months Growth Rate (percent)	1395 first 10 months Performance (percent of approved)
Revenues	255.5	580.9	473.5	13.7	1,527.9	19.9	77.1
Tax Revenues	184.9	248.2	221.9	27.6	746.9	28.4	85.8
Other Current Revenues	26.3	130.2	73.8	7.5	285.4	31.3	63.6
Oil Revenues	43.6	201.5	176.8	2.0	492.1	4.0	78.8
Other Non-financial Revenues	0.7	1.0	1.0	88.3	3.5	45.8	9.2
Expenditures	416.0	674.7	488.2	1.8	1,790.4	16.0	78.7
Current Expenditures	368.8	582.2	449.2	25.3	1,578.5	20.6	88.1
Development Expenditures	1.4	120.9	36.0	-69.4	166.5	-18.5	34.6
<b>Budget Balance</b>	<b>-160.4</b>	<b>-93.8</b>	<b>-14.7</b>	<b>-76.7</b>	<b>-262.5</b>	<b>-2.6</b>	<b>90.0</b>

Source: Central Bank of Iran, Selected Economic Indicators Reports, Government Budget and Fiscal Data

Note: The difference between the sum of current and development expenditures and total expenditures is that the revolving funds were not yet settled.

Regarding the financing of budget deficit, the latest CBI's statistics only covers the period 1395H1. The budget deficit amounted to IRR254.1 trillion in this period. Adding IRR20.1 trillion acquisition of financial assets to the budget deficit,

IRR274.2 trillion disposal of financial assets has taken place in 1395H1, out of which the selling of Islamic securities accounted for IRR60 trillion. Table 12 exhibits statistics on the financial performance of government budget in 1394 and 1395.

Table 12 - Financial Performance of Government Budget (IRR trillions)

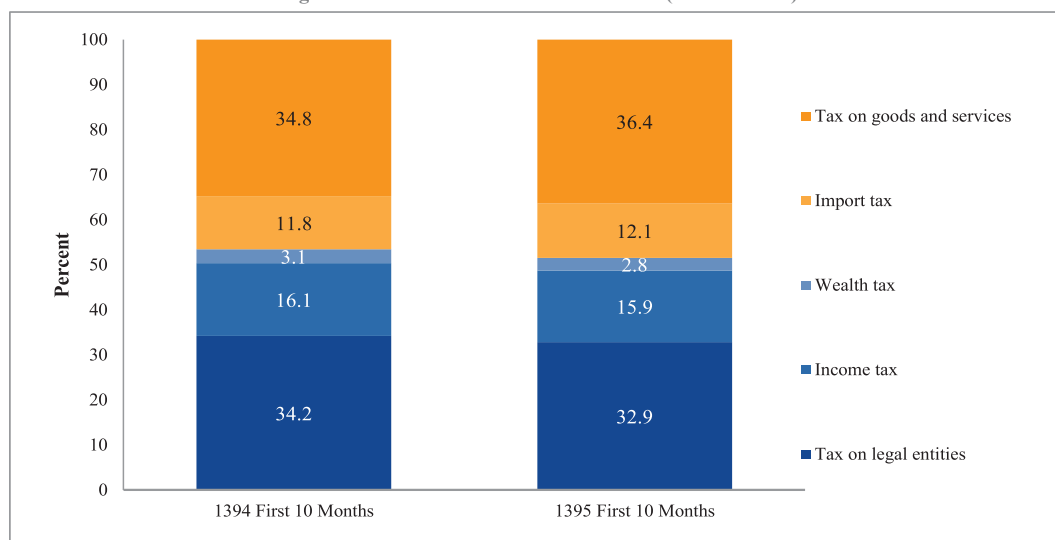
	1394				1395	
	Q1	Q2	Q3	Q4	Q1	Q2
Disposal of Financial Assets	90.3	37.6	24.0	67.9	165.0	109.2
Sales of Islamic financial instruments	0.1	0.0	0.0	105.0	0.0	60.0
Foreign borrowing	0.0	0.0	0.0	0.0	0.0	0.0
Privatization revenues	24.8	16.7	23.4	34.6	8.0	15.5
Return from previous years	2.0	1.2	0.5	0.9	1.4	0.8
Others	63.4	19.7	0.1	-72.6	155.6	32.9
Acquisition of Financial Assets	0.0	0.0	1.0	22.4	4.6	15.5

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

Raising tax revenues in the presence of recession may well hinder economic growth. Details of the tax revenues show that the government has relied more on indirect taxation than on direct taxation. This is consistent with the 33.6 percent increase in indirect tax revenues and 23.9 percent increase in direct tax revenues in the first 10 months of 1395. An examination of revenues from indirect taxation reveals that taxes on imports rose

by 31.5 percent and taxes on goods and services by 34.4 percent in the same period. Tax revenue from value-added taxes rose by only 3.0 percent and its share in total tax revenues declined by 5.7 percentage points to 23.1 percent in that period. Figure 10 exhibits the share of various components of the tax revenues in the first 10 months of 1394 and 1395.

Figure 10- Combination of Tax Revenues (IRR trillions)



Source: Central Bank of Iran, Selected Economic Indicators



## 6.2 Budget Law of 1396

The Budget Law of 1396 was approved by the parliament in 1396 and 1395. Table 13 compares major items in the Budget Laws of

Table 13- Main Components of the Government Budget of 1396

	1396 Budget Bill		1396 Budget Law		
	Amount	Growth Rate in Comparison to 1395 Budget Law	Amount	Growth Rate in Comparison to 1395 Budget Law	Growth Rate in Comparison to 1396 Budget Bill
General government budget	10,849.4	10.9	11,524.6	17.8	6.2
General budget	3,711.2	10.6	3,988.5	18.9	7.5
General resources	3,200.0	8.7	3,467.5	17.8	8.4
Dedicated revenues	511.2	24.4	521.0	26.8	1.9
Budget of State-owned companies, Banks and Profit institutions affiliated to government	7,565.4	11.0	8,005.0	17.4	5.8

Source: Budget Bill of 1396; the Acts of the Parliament

The figures in the budget bill of 1396 were in line with expectations for a 10 percent inflation rate in 1396. However, the parliament changed the figures at rates higher than that expected inflation rate, thereby strengthening the role of the government in the economy. The 1396 budget was 6.2 percent higher than the budget bill and almost 18 percent higher than the Budget Law of 1395. General sources and uses rose by 8.4 in the Budget Law compared to the figure in the budget bill of 1396, while the share

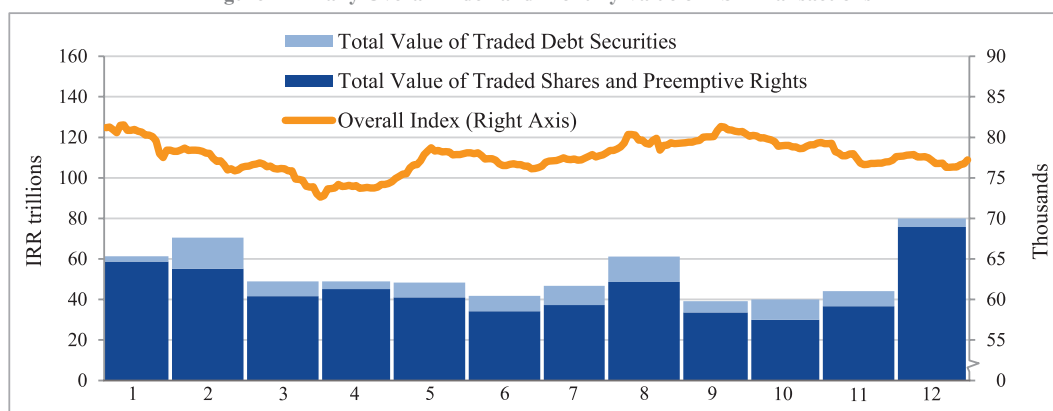
of the government in oil revenues diminished at the expense of increasing the share of the national development fund from 20 percent to 30 percent called for by the Sixth Development Plan. The government is thus expected to be under pressure to finance its 1396 expenditures via new taxation and the sale of Islamic securities, thereby deviating further from the legislated figures in the budget.

## 7. Capital Market

The overall index of the Tehran Stock Exchange (TSE) closed at 77,230 at the end of 1395, showing a 2,900 point drop from the last day of fall. As shown in Figure 11, after surpassing 80,000 at the end of fall, the overall index dropped from the beginning of winter and fluctuated between 76,000 and 79,000 in the last two months of the year. The value of transactions at the TSE

was higher in winter than in fall and peaked in the last month of winter. However, the value of traded debt securities dropped in winter. The value of transactions in “shares and preemptive rights” and “debt securities” were IRR75.7 trillion and IRR4.3 trillion in the last month of winter, respectively.

Figure 11 - Daily Overall Index and Monthly Value of TSE Transactions



Source: Report of Performance of Securities Market, Tehran Stock Exchange; Rahavard Novin Database and Software

The 6th series of Islamic treasury bills matured in winter 1395 and the principals were fully paid on time. All series of these bills are published by the Ministry of Economic and Financial Affairs with a one-year maturity. Normally it takes about 4 months for these bills to become tradable in the stock market. The 7th to 10th series of the bills became tradable in summer and fall of 1395, and the 11th series valued at IRR15 trillion became tradable in winter.

As these securities are essentially risk-free and have higher rates of return than other low-risk investment alternatives, they are more attractive than stocks. This prompted some analysts to blame the low stock returns in 1395H2 to the issuance of a high volume of Islamic treasury bills. In response to this criticism, the scheduled issuance of new series of Islamic treasury bills did not take place through the end of 1395. Although at the end of the year the value share of Islamic treasury bills in the market was

only 1.8 percent, its share of the free float stocks ranged between 15 to 20 percent. Hence, the claim that such securities affect the demand for other securities is not unfounded. However, the roots

of the low stock return are elsewhere and it may not be wise to forego the benefits of the debt market in the hope of achieving higher returns in the stock market.

## 8. Other Developments

The amended "Sixth Economic, Cultural, and Social Development Plan (1396-1400)" bill was approved by the parliament in late

1395 and a week later by the Expediency Council as well. Tables 14 to 16 exhibit various targets of the Plan.

Table 14 - Main Macroeconomic Indicators

Indicator	Unit	1395 (base year)	1396	1400	Average Annual Growth Rate During the Sixth Plan (percent)
Gross Domestic Product	IRR tr, at constant 1383 prices	2,095	2,256	3,078	8.0
Per-capita GDP	IRR mil, at constant 1383 prices	26.1	27.8	36.1	6.7
Total Factor Productivity	(1395=100)	100	102	115	2.8
Gross Fixed Capital Formation	IRR tr. at constant 1383 prices	440	495	1,160	21.4
Consumption Expenditures	IRR tr, at constant 1383 prices	1,197	1,263	1,524	5.0
Non-oil Exports of Goods and Services (excluding natural gas condensates)	USD mil.	42,150	47,583	112,739	21.7
Imports	USD mil	69,967	86,557	152,497	16.9
Liquidity	IRR tr.	13,003	15,604	28,508	17.0
Inflation Rate	Percent	7.9	8.3	7.9	8.8 (average during Plan)
Unemployment Rate	Percent	12.6	12.0	8.6	10.2 (average during Plan)

Source: The Sixth Economic, Cultural, and Social Development Plan

Table 15 – Growth Targets Set for Different Economic Sectors (percent)

Indicator	Agriculture	Oil	Mining	Manufacturing	Water, Electricity & Gas	Construction	Transportation and Inventory	communication	Other Services	Total
Average Annual Value-added Growth	8.0	7.0	8.8	9.3	9.0	7.5	8.3	19.4	5.8	8.0
Average Annual Employment Growth	3.9	2.1	4.6	3.4	6.6	3.7	5.0	9.5	4.3	3.9
Average Annual Investment Growth	20.3	39.5	26.1*	30.2	26.5	22.6	51.8	18.1	21.5	
Average Annual Total Factor Production Growth	3.2	1.8	2.4	2.0	2.0	2.8	2.1	6.5	0.8	2.8

Source: The Sixth Economic, Cultural, and Social Development Plan

\*for both manufacturing and mining

Table 16 - Financing of Investments by Source (IRR trillions)

Source	1395	1396	1400	Average in the Sixth Plan	Share in the Sixth Plan (percent)
Acquisition of Non-financial Assets (Development Expenditures)	575	627	1,470	996	12.9
Facilities from Banks	1,202	1,430	2,575	1,900	24.7
National Development Fund	362	380	928	714	9.3
Capital Market	400	488	1,481	956	12.4
State-owned Companies and Public Non-governmental Institutions	603	712	1,231	957	12.4
Private Capital	144	171	309	228	3.0
Foreign Investment	63	299	1,575	1,955	25.3
Total Sources of Finance in the Sixth Plan	3,349	4,108	9,569	7,706	100.0

Source: The Sixth Economic, Cultural, and Social Development Plan



Among the most important articles in this Plan are those, aimed at alleviating the problems of the banking system. Article 14 expands CBI's supervisory role in overseeing banking activities beyond those previously granted by the Monetary and Banking Act. Accordingly, the CBI will be able to restrict or ban major shareholders from receiving dividend payments and can also temporarily deprive them of their voting rights. It is also allowed to suspend some or all of banking operations, and restrict or ban bonus payments to managers and disqualify the CEO or any member of the board of directors. Besides, in order to extend CBI's authority over the money market, it subjects all banking, leasing, foreign exchange operation, and investment banks and funds to obtaining CBI permits. Interest-free institutions (Qard-

al-hasaneh) with annual deposit takings of below IRR30 trillion are exempted from this law. Although such institutions do not try to attract deposits by offering higher interest rates, they do contribute to money creation and they should be under CBI's supervision.

On membership of the Money and Credit Council, Article 15 of the Plan specifies its members and so undermines CBI's independence. The Guardian Council had also earlier ruled that membership of individuals outside of the Executive branch would violate Article 60 of the Constitution. Nearly all named members are principally sympathetic to loan seekers and are thus prone to favoring lower interest rates regardless of the economic conditions.



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