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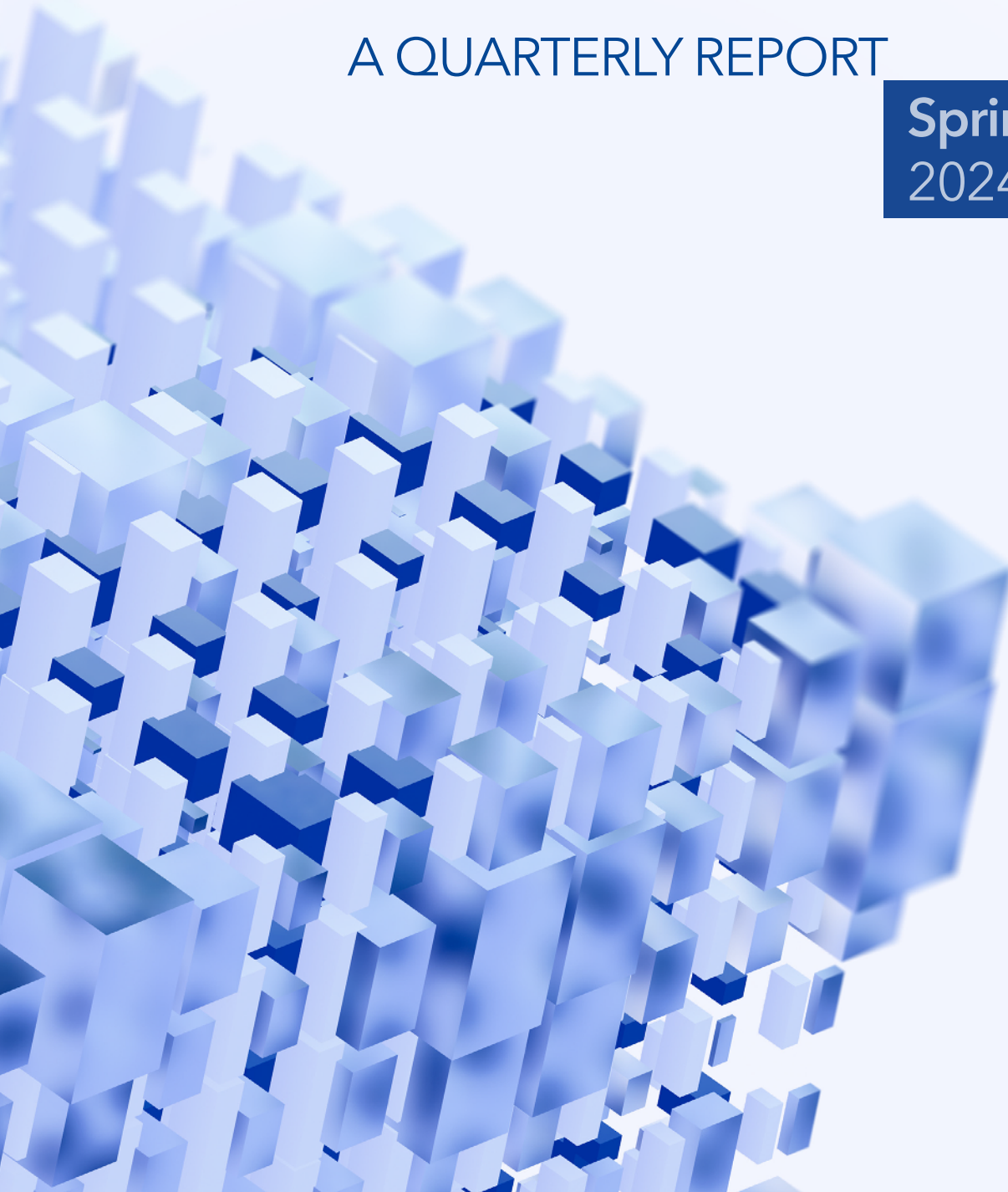


RECENT

ECONOMIC DEVELOPMENTS IN IRAN

A QUARTERLY REPORT

Spring 1403
2024Q2



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NOTE:

- In this Report the growth rate of a variable means the percentage change of that variable during the period under review, or at the point under discussion, compared to the similar period or point the preceding year. As such, “the growth rate of oil revenues in the first quarter of 1403” indicates the percentage change in oil revenues between the first quarter of 1402 and the first quarter of 1403.
- Iran follows the Persian Calendar, a solar calendar in which years start on the first day of spring and end on the last day of winter. The four quarters of the year correspond exactly to the four seasons. This report covers the year 1402 that started on March 21, 2023, and ended on March 19, 2024 and the first quarter of the year 1403 that started on March 20, 2024 and ended on June 20, 2024. The first quarter of 1403 (referred to as 1403Q1), spring of 1403, roughly corresponds to the second quarter of 2024 in the Gregorian Calendar (2024Q2).

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

1402Q1 = 03/21/2023 - 06/21/2023, roughly 2023Q2

1402Q2 = 06/22/2023 - 09/22/2023, roughly 2023Q3

1402Q3 = 09/23/2023 - 12/21/2023, roughly 2023Q4

1402Q4 = 12/22/2023 - 03/19/2024, roughly 2024Q1

1403Q1 = 03/20/2024 - 06/20/2024, roughly 2024Q2

CONTENTS

Iran's Economy at a Glance	6
Introduction	7
1. Real Sector	8
1-1. Oil Sector.....	10
1-2. Housing.....	11
1-3. Labor Market.....	12
2. Prices and Inflation	14
3. Balance of Payments	16
4. Foreign Exchange Market	20
5. Monetary & Credit Aggregates	22
6. Fiscal Policy	25
6-1. Budget Law of 1403.....	25
6-2. Government Fiscal Performance in Spring 1403.....	29
7. Capital Market	31
8. Other Developments	33
9. Key Points	34

IRAN'S ECONOMY AT A GLANCE

	1401Q4	1401	1402Q1	1402Q2	1402Q3	1402Q4	1402	1403Q1
Labor Force Participation & Unemployment Rates (percent)								
Participation (15 Years and Over)	40.5	40.9	41.2	41.6	41.5	40.8	41.3	-
Unemployment (15 Years and Over)	9.7	9.0	8.2	7.9	7.6	8.6	8.1	-
Unemployment (Youth Aged 15-24)	24.2	22.6	21.6	20.1	20.6	22.5	21.2	-
Real Growth Rates of GDP and Its Subsectors at Constant 1395 Prices (percent)								
Gross Domestic Product (GDP)	5.3	4.0	5.7	3.8	4.2	4.5	4.5	-
Industries and Mining	9.0	6.5	3.8	3.7	3.8	6.6	4.5	-
Oil	12.0	10.0	16.5	17.8	14.3	10.2	14.7	-
Agriculture	1.5	1.1	0.6	0.1	0.2	0.1	0.2	-
Services	2.9	2.7	5.6	3.1	3.7	2.8	3.8	-
Non-oil GDP	4.7	3.5	4.6	2.7	3.3	3.9	3.6	-
Gross Fixed Capital Formation (at market prices)	6.0	6.7	1.4	6.2	4.4	14.2	7.2	-
Oil (daily average - thousand barrels)								
Production*	2,572	2,565	2,692	2,999	3,153	3,173	3,004	-
Point-to-Point Inflation Rates (percent)								
Growth Rate of Consumer Price Index (1400=100)	50.3	45.8	50.6	39.5	39.6	35.4	40.7	31.3
Growth Rate of Producer Price Index (1395=100)	46.8	44.3	42.4	45.3	43.6	-	-	-
Balance of Payments (USD million)								
Oil Exports	13,121	55,410	13,626	14,496	14,193	14,469	56,784	-
Non-oil Exports	10,144	42,247	9,926	10,293	11,559	11,804	43,582	-
Imports of Goods	22,167	75,409	17,338	19,639	22,027	18,855	77,904	-
Goods Account (net)	1,098	22,247	6,213	5,151	3,679	7,418	22,462	-
Non-oil Goods Account (net)	-12,023	-33,163	-7,319	-9,251	-9,526	-7,025	-33,122	-
Current Account	-1,602	14,205	4,393	2,622	-688	3,975	10,301	-
Capital Account	1,113	-15,069	-9,354	-6,024	-4,814	-3,042	-23,235	-
Change in Foreign Reserves	1,140	4,033	-81	1,124	182	714	1,939	-
Foreign Exchange Rates (USD/IRR daily average)								
Free Market (bill)	430,816	343,536	507,098	495,618	506,254	554,401	514,999	611,620
Secondary Market (remittance)	307,368	273,571	379,171	376,865	378,503	396,295	382,158	414,654
Monetary and Credit Aggregates (end of period - IRR trillion)								
Monetary Base (M0)	8,600	8,600	9,081	9,811	10,232	11,016	11,016	-
CBI Claims on Banks	3,912	3,912	3,933	5,211	6,205	-	-	-
CBI Claims on Public Sector (net)	-1,986	-1,986	-751	77	-227	-	-	-
CBI Net Foreign Assets	6,824	6,824	5,794	4,927	4,486	-	-	-
Liquidity (M2)	63,377	63,377	65,860	70,991	74,980	78,809	78,809	-
Money (M1)	16,297	16,297	16,947	17,913	18,014	19,149	19,149	-
Sight Deposits	15,071	15,071	15,748	16,678	16,746	-	-	-
Non-sight Deposits (quasi-money)	47,080	47,080	48,913	53,078	56,966	59,660	59,660	-
Government Budget and Fiscal Position (IRR trillion)								
The data in this section is not available								
Tehran Stock Exchange (end of period)								
Overall Index (TEDPIX)	1,960,457	1,960,457	2,173,893	2,121,213	2,210,217	2,195,092	2,195,092	2,043,980
Financial Index	1,706,287	1,706,287	2,007,970	1,903,131	1,949,564	1,917,728	1,917,728	1,795,664
Industrial Index	1,867,406	1,867,406	2,052,976	2,012,057	2,101,115	2,089,989	2,089,989	1,944,126
Market Capitalization (IRR trillion)	75,213	75,213	82,508	77,261	80,094	79,408	79,408	73,477

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

INTRODUCTION

In this quarterly Report, the Iranian economy is investigated by its various sectors. The Report starts with going over the real sector of the economy, including GDP growth rate and its developments in 1402 on the basis of the reports of the Central Bank of Iran (CBI) as well as the those of the Statistical Center of Iran (SCI). The chapter proceeds with the developments of crude oil price and production till the end of the second month of 1403, developments of the labor market in 1402, and the price developments and number of transactions in the housing market in Tehran city. The second chapter covers the developments of the Consumer Price Index (CPI) inflation rate in monthly, annual, and point-to-point terms to the end of spring 1403 and that of the Producer Price Index (PPI) to the end of the first month of the same year. In the third chapter, the balance of payments in 1402 and the changes in customs imports and exports in the first two months of 1403 are investigated. The daily developments of the US Dollar price in the domestic free market and the secondary market are explored in spring 1403. The monetary and credit aggregates are analyzed by monetary base, money, quasi-money, and liquidity. Moreover, a summary of assets and liabilities of the banking system is presented till the end of the eleventh month of 1402. The data on deposits and extended facilities till the end of the first month of 1403 are also provided.

As the Government was yet to publish the data on the budget performance in 1403 while preparation of this Report, the tax revenues and issuance of government debt securities are examined only in the corresponding chapter. The distinctions between the Budget Law and Budget Bill of 1403 are also discussed in the same chapter. As for the capital market, the developments of the total value of transactions, volume of transactions, the number of transactions, market capitalization, and finally the methods of finance by the listed companies in spring 1403 are discussed. The Report concludes with an examination of economic campaign promises of the 14th Presidential Election candidates.

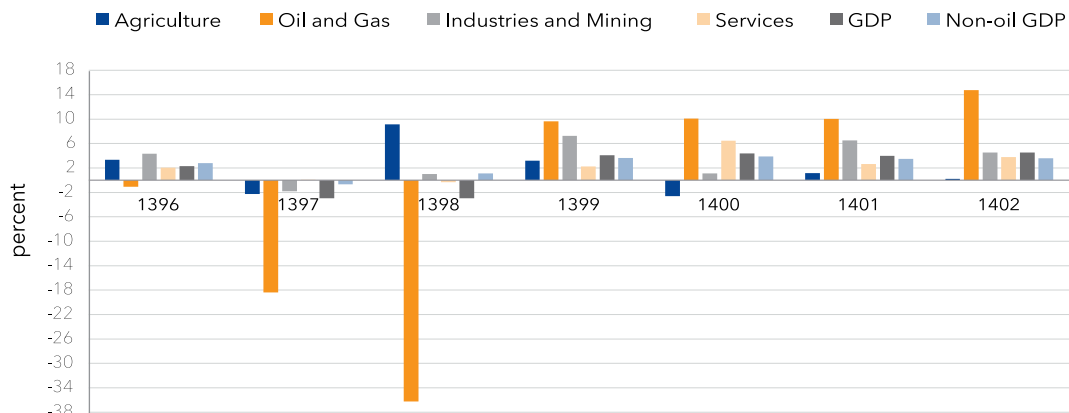
1. REAL SECTOR

The latest report of the Central Bank of Iran (CBI) regarding the national accounts covered the year 1402 only while preparation of this Report, suggesting a positive economic growth rate of 4.5 percent both for winter 1402 (hereafter referred to as 1402Q4) and the whole year. On the basis of the CBI report, throughout 1402 all the sectors of the economy have expanded. The Statistical Center of Iran (SCI) on the other hand reported the economic growth rate of 5.7 percent for 1402 as a whole and 2.9 percent for winter of that year. Note that the CBI reports are based on basic prices (factor cost) while those of the SCI are based on the market prices. In addition, the economic activities are differently categorized by the two issuing authorities and the base year for GDP calculation is 1395 in the CBI reports and 1390 in the SCI reports.

rate in 1402 at 2.2 percentage points according to the CBI. The share of Oil sector in GDP growth rate registered 1.2 percentage points in the same period, above its 0.8 percentage point share in both 1400 and 1401. In line with the 10.0 percent expansion of the Oil sector in 1401, it experienced a remarkable 14.7 percent expansion in 1402. Note that no official news has been released regarding a political agreement between the Islamic Republic of Iran and the USA, therefore loosening of sanctions and consequently more oil exports to China during the period under review were probably originated in the global need for controlling of oil prices. The non-oil GDP growth rate was 3.6 percent in 1402 based on the CBI report. Graph 1 illustrates the GDP growth rate by various sectors of the economy and Graph 2 presents their shares in GDP growth rate based on the CBI reports.

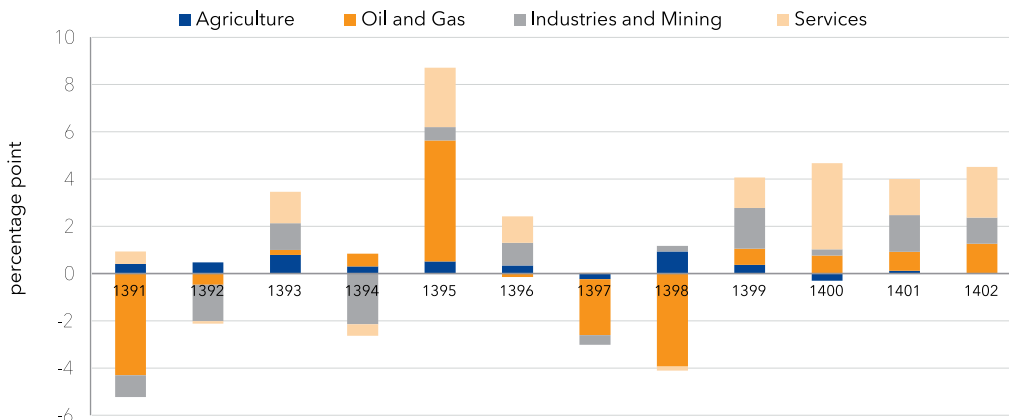
The Services sector constituted about half of the GDP growth

Graph 1. Economic Growth Rate by Various Sectors



Source: Central Bank of Iran

Graph 2. Share of Various Sectors in Economic Growth Rates



Source: Central Bank of Iran

Industries and Mining sector expanded by 4.5 percent in 1402 and so did its subsectors according to the CBI report. Among its subsectors, the highest growth rate belonged to Construction at 7.1 percent while Water Supply, Sewerage, Waste Management, and Remediation Activities registered the lowest growth rate of 2.1 percent. The Construction subsector also experienced a remarkable expansion of 17.0 percent in 1402Q4 compared 1401Q4 in seasonal terms. Moreover, the Services sector grew by 3.8 percent in 1402 on the basis of the CBI report. Information and Communication enjoyed the highest expansion of

22.0 percent while Administrative and Support Services Activities was the worst subsector of Services with 6.4 percent contraction. The Information and Communication constituted 1.0 percentage point of the 4.5 percent GDP growth rate of 1402 per se.

The CBI report suggests 0.2 percent expansion in the Agriculture sector while that of the SCI indicates 2.2 contraction in the same sector during 1402. The GDP growth rates by major subsectors of the economy during 1401 and 1402 are presented in Table 1 on a quarterly basis.

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

	1401					1402					Share in Growth Rate of the Year 1402
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	
Agriculture	1.9	0.8	1.1	1.5	1.1	0.6	0.1	0.2	0.1	0.2	0.0
Oil and Gas	3.5	10.5	15.4	12.0	10.0	16.5	17.8	14.3	10.2	14.7	1.2
Industries and Mining	0.0	8.5	8.2	9.0	6.5	3.8	3.7	3.8	6.6	4.5	1.1
Services	2.3	2.4	3.0	2.9	2.7	5.6	3.1	3.7	2.8	3.8	2.2
Non-oil GDP (at basic prices)	1.7	3.5	4.1	4.7	3.5	4.6	2.7	3.3	3.9	3.6	-
GDP (at basic prices)	1.9	3.9	4.9	5.3	4.0	5.7	3.8	4.2	4.5	4.5	4.5

Source: Central Bank of Iran

In accordance with the CBI data, the downward path of the Private Consumption, which indicated the deterioration of household's welfare in the late 1390s, reversed course from winter 1399 and kept rising in 1402 with 4.1 percent expansion. On the contrary, the Public Consumption contracted by 1.7 percent in 1402. According to the same source, the Gross Fixed Capital Formation experienced a notable growth rate of 7.2 percent during 1402. Till the spring of 1400, the Gross Fixed Capital Formation was categorized into two subgroups of Construction as well as Machinery but from that quarter onwards a third subgroup titled "Other

Capital Formation" was added. The third subgroup includes R&D expenditures, mine exploration, precious items, and other items. The Gross fixed Capital Formation in Machinery grew by 7.9 percent, in Construction by 7.1 percent, and in "Other" subgroup by 0.5 percent throughout 1402.

In terms of foreign trade, the CBI data suggests higher growth rate of the Exports of Goods and Services (17.1 percent) than that of the Imports of Goods and Services (3.0 percent) in 1402. The GDP growth rate from the expenditure side is presented in Table 2.

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

	1401					1402				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Private Consumption	6.4	5.4	10.9	12.1	8.7	8.3	3.6	1.1	3.7	4.1
Public Consumption	-6.5	-9.1	16.2	-10.6	-3.6	4.1	-3.5	-8.7	1.8	-1.7
Gross Fixed Capital Formation	-1.4	6.6	15.1	6.0	6.7	1.4	6.2	4.4	14.2	7.2
Machinery	15.1	11.8	24.9	10.6	15.4	0.5	11.3	6.2	11.3	7.9
Construction	-9.4	3.9	6.9	3.2	1.2	1.7	3.4	3.3	17.1	7.1
Other	-8.7	0.7	19.5	-8.1	-0.4	6.8	-4.1	-8.2	3.9	-0.5
Net Exports of Goods and Services										
Exports of Goods and Services	7.3	6.2	13.8	5.5	8.2	14.3	28.1	12.4	15.2	17.1
Imports of Goods and Services	14.6	13.6	0.6	3.1	7.5	1.3	4.3	12.5	-5.5	3.0
GDP at Market Prices	2.2	3.2	4.1	5.7	3.8	6.3	4.1	4.7	5.3	5.0

Source: Central Bank of Iran

On the basis of the SCI report, the GDP growth rate at market prices (1390=100) registered 5.7 percent in 1402 and the non-oil GDP growth rate reached 3.4 percent in the same period. The Extraction of Oil and Natural Gas (as a subgroup of Industries and Mining in the SCI categorization) that experienced one-digit positive growth rates from 1399 to 1401, considerably expanded by 20.3 percent in 1402, constituting 2.8 percentage points of the GDP growth rate. Taking into account the different categorizations and calculation methods of the issuing authorities, only one-fourth of the GDP growth rate is owed to the Oil sector on the basis of the CBI, whereas in the SCI report the corresponding sector constitutes about half of the GDP growth rate in the period under review.

The Extraction of Oil and Natural Gas as a subsector of Industries and Mining sector in the SCI categorization enjoyed the highest growth rate among other subsectors of that sector during 1402, followed by the Construction

subgroup with 3.4 percent growth rate, far below the 7.1 percent growth rate reported by the CBI for the same subsector. On the other hand, the subgroup of Water, Electricity, and Natural Gas Supply contracted by 6.1 percent in 1402.

As for the Services sector, the SCI report suggests 5.7 percent growth rate in 1402. Financial Intermediation as a subgroup of Services registered a 9.8 percent growth rate based on the SCI, while the corresponding subsector in the CBI report titled Financial and Insurance Activities has experienced a 0.7 percent contraction in 1402.

The developments of Private Consumption in the SCI report is in line with that of the CBI. On the basis of the SCI report, the Private Consumption expanded by 5.2 percent in 1402. Also, the Gross Fixed Capital Formation in Machinery and Construction in 1402 has grown by 6.2 percent and 3.4 percent, respectively, based on the same report.

1-1. Oil Sector

The contribution of the Oil sector to the Iranian Economy that was negligible from early 1398 to late 1399, gradually expanded in the aftermath of the inauguration of President Biden and also the rise in global oil prices. On the basis of the preliminary report of the CBI, the share of Oil and Gas in the value-added of the economy in 1402 at current prices reached 8.5 percent, 3.3 percentage points below that in 1401, but still above the 7.0 percent and 3.7 percent shares in 1400 and 1399, respectively. It is worth to mention that Oil and Gas constituted 14.5 percent of GDP in 1396, 13.5 percent in 1397, and 6.3 percent in 1398. As no official data on the domestic production of oil is published after the imposition of new sanctions in 1397, the most reliable data in that regard could be found in OPEC monthly reports from the secondary sources. According to the aforementioned sources, the domestic crude oil production in May 2024 (roughly corresponding to mid-spring 1403) rose by 19.6 percent to 3.2 million barrels per day (mbpd) from its preceding year. Hence, the domestic crude oil production registered its high in the early 1403 from mid-1397, albeit below the 3.8 mbpd of the post nuclear deal¹ era. The data on Iran exports of crude oil is also considered as confidential and no official data is published in that regard. On the basis of the Tanker Trackers website², Iran's exports of crude oil and natural gas condensates totaled 141.7 million barrels during the first three months of 2024 (corresponding to

winter 1402). In March 2024, Iran's exports of crude oil and natural gas condensates averaged to the high of 1.8 mbpd from October 2018. Note that the rise in Iran's exports of crude oil emanated in higher demand of oil by China coupled with loosening of sanctions on Iran by the USA. The Iranian exports of crude oil that had plummeted to 200 thousand bpd in 1398, dropped further and due to the COVID-19 pandemic and the fall in global demand of oil, stood below 100 thousand bpd, but this fall in exports did not last long. Iran's oil exports gradually increased mainly as a result of assignment of the new US administration, expansion of vaccination in most of the countries, elimination of COVID-19 limitations, and finally increase in global oil demand. The rise in global oil prices in the aftermath of the Russian invasion of Ukraine contributed to the rise in Iran's oil exports, aiming for preventing higher oil prices. However, China is the main oil export destination of Iran, albeit with considerable price discounts as well as a vague method of settlements. Iran's heavy crude oil price that was beyond USD60 per barrel throughout 1398, dropped significantly in the aftermath of COVID-19 pandemic and the decline in global oil demand. In the early 1399, it reached USD17 per barrel, but gradually increased in later months. On the basis of OPEC, the price of Iran's heavy crude oil that registered USD57.5 a barrel on average in 2021, climbed to USD101.8 a barrel in 2022 on average. It again dropped by

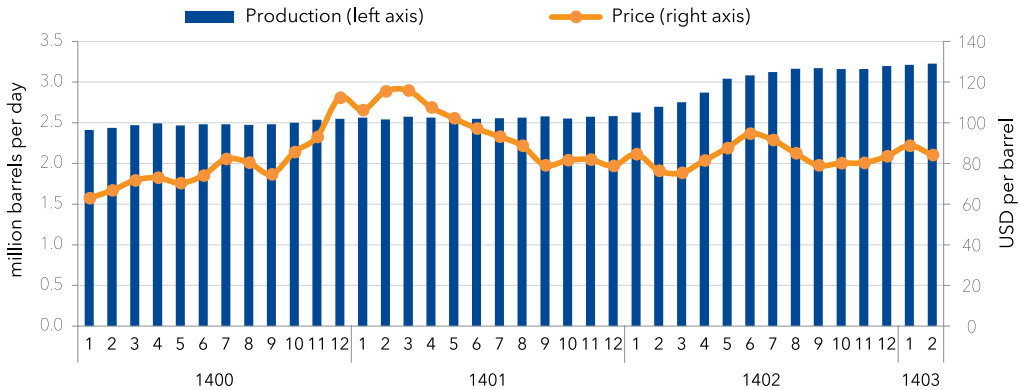
1. The nuclear deal between Iran and P5+1 which is known as the Joint Comprehensive Plan of Action (JCPOA)

2. TankerTrackers.com is an independent online service that tracks and reports shipments of crude oil in several geographical and geopolitical points of interest.

19.7 percent to average USD81.7 a barrel in 2023 but rose to USD84.1 a barrel in May 2024 (corresponding to the mid-spring 1403). However, a rise in global oil prices in 2024 and 2025 is predicted on the basis of OPEC reports. In line with

OPEC, JPMorgan Bank also forecasts an upward trend for oil prices and expects Brent oil price to lie between USD100 to USD120 a barrel in 2025. Graph 3 depicts Iran's oil price and production from 1400.

Graph 3. Average Daily Production and Average Price of Crude Oil of Iran



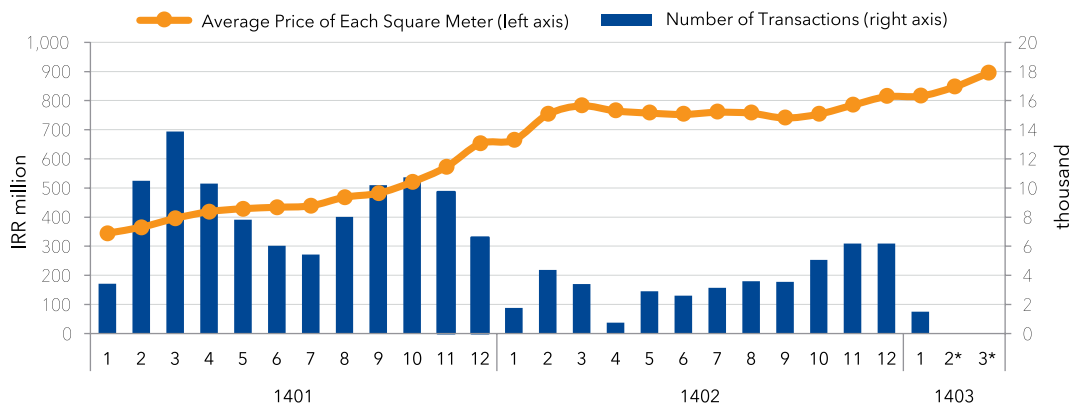
Source: OPEC monthly reports, production level based on the secondary sources
 Note: OPEC statistics are based on Gregorian calendar years and their conversion into Persian calendar years are only approximate.

1-2. Housing

According to the CBI Governor, the average price of a square meter of residential units traded in Tehran city through real estate agencies reached IRR859.0 million in the last month of 1403Q1 from IRR783.0 million in the same period of its preceding year, indicating 9.7 percent rise. However, this price rise is far below the 98.7 percent annual rise at the end of 1402Q1. In addition, the number of transactions of residential units in Tehran city in the last month of spring 1403 was 14.1 percent up from that in the same period of 1402. The latest data released by the CBI suggests that in the first month of 1403Q1, among the 22 municipal zones of Tehran city the highest average price of

a square meter of residential units belonged to zone 1 at IRR1,504.2 million, while the lowest belonged to zone 18 at IRR423.6 million. In other words, the average price of a square meter of residential units in zone 1 was about 3.6 times that of zone 18 in the first month of 1403 - below the ratio of 4.2 in the same period of 1402. In the first month of 1403Q1, the housing prices grew by 37.1 percent in zone 18 and by 16.5 percent in zone 1 compared to the same month in 1402. Developments of price and number of transactions of residential units in Tehran city from the beginning of 1400 to the end of 1403Q1 are shown in Graph 4.

Graph 4. Number of Transactions and Monthly Average Price in Housing Market of Tehran



Source: Central Bank of Iran
 * The number of transactions of the residential units in Tehran for the second and third months of spring 1403 was not issued while preparation of this Report.

An examination of the number of traded residential units in Tehran city by age reveals that in the first month of 1403Q1, out of 1,508 residential units traded, the units aged up to 5 years had the highest share of 30.1 percent, followed by the

units aged 20 years and above with 24.5 percent share in total. The number of traded residential units in Tehran city by age in the first month of 1402 and 1403 are presented in Table 3.

Table 3. Number of Traded Residential Units in Tehran by Age

Age	Number of Transactions in the First Month of Spring		Percentage Change	Share in Total in the First Month of Spring (percent)	
	1402	1403		1402	1403
Up to 5 Years	499	454	-9.0	28.4	30.1
6 to 10 Years	273	203	-25.6	15.5	13.5
11 to 15 Years	266	274	3.0	15.1	18.2
16 to 20 Years	266	207	-22.2	15.1	13.7
Above 20 Years	453	370	-18.3	25.8	24.5
Total	1,757	1,508	-14.2	100.0	100.0

Source: Central Bank of Iran

1-3. Labor Market

On the basis of the SCI, in 1402 the participation rate and the unemployment rate of the population aged 15 and above, respectively, registered 41.3 percent and 8.1 percent. Compared to 1401, the former rate experienced 0.4 percentage point rise, while the latter decreased by 0.9 percentage point. The participation rate that was continually decreasing from 1398 to 1401 and dropped from 44.1 percent to 40.9 percent in that time interval, eventually reversed course in 1402 and rose to 41.3 percent. Moreover, the underemployment rate (working less than 44 hours a week) fell by 1.3 percentage points to reach 8.2 percent in 1402. Other labor market indices including employment ratio (ratio of employed to the working age population) as well as the unemployment of the population with higher education have also improved during the period under review. The improvement of business environment, facilities aimed to job creation, and protection of small-sized businesses have been the contributors to the improvement of labor market indices in 1402, the 13th administration authorities claim. However, these results are in contradiction with the survey of the business environment of Iran held by Iran Chamber of Commerce, Industries, Mines and Agriculture. The survey suggests that from the beginning of the 13th administration office in summer 1400 till the end of winter 1402, the business environment indices of Iran have worsened.

In 1402 and compared to its preceding year, 751.9 thousand individuals were added to the working age population, out of whom 44.4 percent were males with population of 333.6 thousand and the remaining 418.2 thousand were

females with 55.6 percent share in total. In the same year, active population expanded by 573.5 thousand individuals, constituting 76.3 percent of the total population added to the working age population. Among the 573.5 individuals, 314.5 thousand were male (equivalent to 54.8 percent of the total added active population aged 15 and above) and the remaining were female. Accordingly, 41.3 percent of the working age population were active in 1402, indicating 0.4 percentage point increase from 1401. Regardless of the rise in participation rate in 1402, its low level in comparison with the rest of the countries has become an inseparable part of the Iranian economy. The low rate of participation rate is mainly driven by the female population, in a sense that out of 32.3 million females aged 15 and above, only 4.6 million were active in 1402, while 15.0 percent of them have been unemployed. For comparison purposes, the unemployment rate of males registered 6.6 percent in the same year. The female active population expanded in 1401 and 1402 after a long time, while in their preceding years, female population at working age were continually increasing but their active population were decreasing. In 1397, about 5.4 million of females were able and willing to work, however in 1400, that population fell to 4.2 million. Following an upward path, in 1401 the female active population rose to 4.3 million and in 1402 to 4.6 million. However, from the 14 percent female active population it is grasped that the labor market has not prepared a desirable ground for female population, along with the other deficiencies in that regard.

The unemployment of youth and population with higher education is also of great concern. In 1402, about 1.5 million of the population aged 18 to 35 failed to find their desirable job, translating to 15.2 percent unemployment rate in that age group in total. The unemployment rate in the same group by gender registered 26.0 percent among females. The unemployment rate in population with higher education in 1402 reached 11.8 percent in total and 20.3 percent in females. All in all, the population with higher education constituted 41.3 percent of the total unemployed population. The higher rate of unemployment of population with higher education than the total reveals that higher education has not assisted the graduates in finding job and even has served as a hindrance in that regard. In other words, the higher education that is considered as an investment by the governments and households has not been that fruitful for a large number of graduates seeking for a job.

Additionally, 25.6 percent of the population aged 15 to 24,

has neither been employed nor student in 1402, indicating 1.3 percent drop from 1401. The total population aged 15 to 24 was estimated 11.0 million, of which 2.5 million were active only. Among the active population in the same group, 540.2 thousand were unemployed, translating to 21.2 percent unemployment rate.

In 1402, close to 24.5 million of population aged 15 and above were employed, up 774 thousand from 1401. Out of this population, 14.4 percent were enrolled in Agriculture sector, 33.7 percent in Manufacturing, and 51.9 percent in the Services sector. Part of this population, however, has been underemployed, meaning that they have worked less than 44 hours a week due to some economic issues, despite their willingness to work more. The underemployment constituted about 2.0 million of the employed population with 8.2 percent share in 1402, down 1.3 percentage points from 1401. Major Labor market indices in 1401 and 1402 are presented in Table 4.

Table 4. Major Labor Market Indices by Gender for the Population Aged 15 and Above

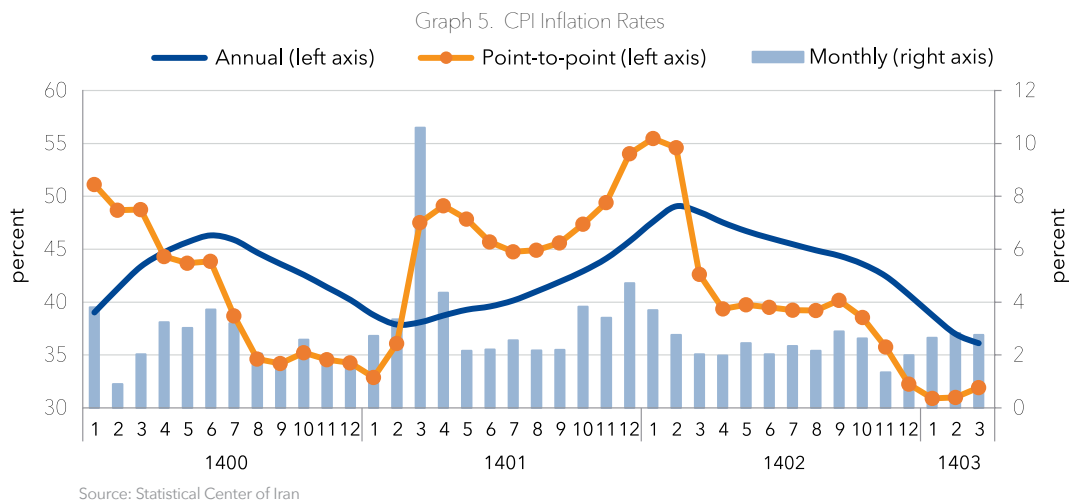
		1401			1402		
		Total	Male	Female	Total	Male	Female
Economic Participation	Rate (percent)	40.9	68.2	13.6	41.3	68.4	14.2
	Number (million)	26.1	21.7	4.3	26.6	22.0	4.6
Employment	Rate (percent)	37.2	63.0	11.4	37.9	63.9	12.1
	Number (million)	23.7	20.1	3.7	24.5	20.6	3.9
Unemployment	Rate (percent)	9.0	7.7	15.8	8.1	6.6	15.0
	Number (million)	2.3	1.7	0.7	2.1	1.5	0.7
Unemployment of Population Aged 18 to 35	Rate (percent)	16.3	13.5	27.8	15.2	12.3	26.0
	Number (million)	1.6	1.1	0.5	1.5	1.0	0.5
Unemployment of Population with Higher Education	Rate (percent)	12.9	8.9	21.9	11.8	7.9	20.3
	Number (million)	0.9	0.5	0.5	0.9	0.4	0.5
Share of Underemployment (percent)		9.5	10.4	4.5	8.2	8.9	4.7
Population Aged 15 and Over (million)		63.8	31.9	31.9	64.6	32.2	32.3

Source: Statistical Center of Iran

2. PRICES AND INFLATION

On the basis of the most recent SCI statistics, the downward trend of the annual Consumer Price Index (CPI) inflation rate that had started from the second month of 1402Q1 maintained in 1403Q1 and in the initial month of the year 1403 reached below 40 percent after one and half year. This rate registered 38.8 percent in the first month of spring 1403 and eventually closed the quarter at 36.1 percent. On the contrary, following its increasing path from the late 1402,

the monthly CPI inflation climbed to 2.8 percent at the end of spring 1403, up 0.8 percentage point from that in the last month of winter 1402. The point-to-point CPI inflation rate that touched the low of 30.9 percent in the first month of 1403Q1 from 1400, slightly grew to 31.9 percent at the end of that quarter. It is worth to mention that year 1400 is the base year of calculations. Graph 5 depicts the CPI inflation rates from the beginning of 1400 to the end of spring 1403.



Following its upward path from the early 1401, the annual CPI inflation rate peaked at 49.1 percent in the second month of spring 1402 from 1400 onwards. However, it reversed course and dropped to 48.5 percent at the end of 1402Q1 and continually diminished until 1403Q1. The annual CPI inflation rate registered 38.8 percent, 37.0 percent, and 36.1 percent, respectively, in the first three months of 1403, down 8.8, 12.1, and 12.4 percentage points from the same months in spring 1402. All in all, the CPI developments suggest that in 1403Q1 the prices have risen at slower pace than in 1402Q1.

The point-to-point CPI inflation rate that peaked at 55.5 percent in the first month of 1402, slightly dropped to 54.6 percent in its following month and eventually collapsed to 42.6 percent at the end of spring 1402. The point-to-point CPI inflation rate again started to fall from winter 1402 onwards and in the first and second months of 1403

registered 30.9 percent and 31.0 percent, respectively, 25 and 24 percentage points below those in the same points in its preceding year. This rate slightly rose to 31.9 percent at the end of spring 1403, still 11 percentage points below that in the same period of 1402. The monthly CPI inflation rate was continually decreasing throughout spring 1402 and from 3.7 percent in the first month of spring 1402 dropped to 2.0 percent at the end of that quarter. On the contrary, in spring 1403 the monthly CPI inflation rate, following its upward trend from its previous quarter registered 2.6 percent and 2.8 percent, respectively, in the first two months of the that quarter and remained unchanged in the last month of 1403Q1.

An examination of the CPI by the consumption basket of goods and services of households reveals that at the end of spring 1403, the highest annual CPI inflation rate belonged to the group of Restaurants and Hotels at 52.0 percent and

the lowest to the group of Communication at 18.7 percent. The annual CPI inflation rate in the group of Housing, Water, Electricity, and Other Fuels which constitutes the highest weight in the consumption basket, increased throughout 1403Q1 and closed that season at 39.9 percent. The annual CPI inflation rate in the group of Foods and Beverages as the second group of the consumption basket in terms of weight reached 32.2 percent at the end of spring 1403, indicating a downward trend in that quarter. Among the twelve groups of the consumption basket, at the end of spring 1403, the highest point-to-point CPI inflation rate belonged to groups of Housing, Water, Electricity, and other Fuels as well as Education at 41.2 percent, while the Communication group had the lowest rate of 18.1 percent. In terms of expenditure

deciles, the SCI statistics suggests that at the end of 1403Q1, the tenth decile experienced the highest annual CPI inflation rate at 37.2 percent and the first decile the lowest rate at 26.2 percent. The annual and point-to-point CPI inflation rates in urban areas, respectively reached 36.4 percent and 34.4 percent in the last month of spring 1403, both above the corresponding rates of 32.5 percent and 28.9 percent in the rural areas. An examination of the CPI developments by provinces of the country indicates that Yazd had the highest annual CPI inflation rate at 41.6 percent, while the lowest rate belonged to Bushehr at 32.3 percent. The CPI inflation rates in the twelve major groups of the consumption basket of goods and services at the end of spring 1403 are shown in Table 5 in a descending order by their weights.

Table 5. Inflation Rates of the Consumption Basket of Goods and Services at the End of Spring 1403 (percent)

	Base Year (1400) Weight	Inflation Rate		
		Monthly	Point-to-point	Annual
Overall	100.00	2.8	31.9	36.1
Housing, Water, Electricity and Other Fuels	36.11	2.2	41.2	39.9
Foods and Beverages	28.82	4.3	25.8	32.2
Transport	8.93	1.5	26.0	33.0
Health	6.68	2.6	30.3	37.3
Clothing and Footwear	4.52	2.2	34.1	43.0
Others	4.42	1.4	34.1	38.1
Household Equipment	4.40	1.9	25.5	33.0
Communication	2.41	1.2	18.1	18.7
Restaurants and Hotels	1.35	2.4	39.0	52.0
Education	0.88	0.5	41.2	39.0
Recreation and Culture	0.87	1.8	30.6	39.8
Tobacco	0.62	3.2	30.2	39.1

Source: Statistical Center of Iran

The latest SCI statistics on the Producer Price Index (PPI) while preparation of this Report covers the first three quarters of 1402 only, while that of the CBI covers the first month of 1403Q1. On the basis of the CBI, the annual PPI inflation rate as a leading indicator of CPI inflation rate dropped to the low of 31.2 percent in the first month of spring 1403 from 1400, following its downward trend that had started

in winter 1402. Similarly, the point-to-point PPI inflation rate registered its lowest level at 23.8 percent from 1400 in the same month, maintaining its downward trend from the mid-fall of 1402. Accordingly, the lower CPI inflation rates seem plausible in near future if the PPI inflation rate keeps its downward path.

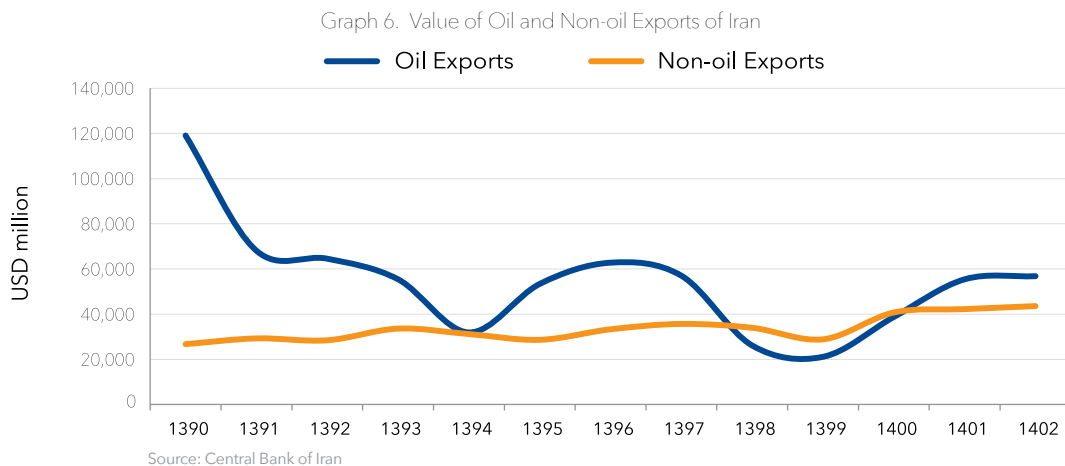
3. BALANCE OF PAYMENTS

According to the preliminary estimates of the CBI, the balance of payments that consists of the Current Account, Net Capital Account, and Errors and Omissions registered a surplus of USD1.9 billion in 1402, far below the USD4.0 billion surplus in 1401. An examination of the components of the balance of payments reveals that the surplus of the Current Account has fallen to USD10.3 billion in 1402, showing 27.5 percent drop compared to its preceding year. On the other hand, the Capital Account deficit has risen to USD23.2 billion in 1402 from the USD15.1 billion in 1401. Finally, the Errors and Omissions has surprisingly tripled to register positive USD14.9 billion in 1402 from the positive USD4.9 billion in 1401. The Current Account itself is composed of four elements of Goods Account, Services Account, Income Account, and Current Transfers Account. The Goods Account (goods trade balance) which represents the net exports of goods, slightly rose to USD22.5 billion in 1402 from the USD22.2 billion in 1401.

All in all, the value of Iran’s trade of goods as a whole (sum of the value of imports and exports) in 1402 stood 3.0 percent above that in 1401. The goods exports value of Iran in 1402 grew by 2.8 percent compared to 1401 to register USD100.4 billion. As for oil exports, its value in 1402 was 2.5 percent up from that in its preceding year. From 1390 to 1394, the imposition of economic sanctions on Iran caused the oil

exports revenues to plummet, reaching USD31.8 billion in 1394 from USD119.1 billion in 1390. However, in the aftermath of the nuclear agreement known as the Joint Comprehensive Plan of Action (JCPOA) in 1394, the downward trend of Iran’s oil exports reversed course and in three years, the value of Iranian oil exports climbed to USD57.0 billion in 1397. As a result of the unilateral withdrawal of the USA from the JCPOA in 1397 and consequently reimposition of the economic sanctions, the value of the Iranian oil exports diminished to USD21.0 billion in 1399, however the COVID-19 pandemic and the fall in global oil prices ought to be considered as other drivers of the fall in oil exports revenues in that year. From 1400 to 1402, Iran’s oil exports experienced a remarkable growth, registering USD56.8 billion in 1402. All in all, lifting the COVID-19 limitations, the effects of Russia invasion of Ukraine and the tensions in the Middle East on oil prices, and finally loosening of implementation of economic sanctions on Iran were the contributors to the rise in value of Iran’s oil exports from 1400 to 1402.

During 1390 to 1402, Iran’s non-oil exports was not that volatile and had an upward trend in general. The value of Iran’s non-oil exports rose to USD43.6 billion in 1402, up 3.2 percent from the USD42.2 billion in 1401. The value of oil and non-oil exports of Iran between 1390 and 1402 are shown in Graph 6.



The goods imports that valued USD75.4 billion in 1401, grew by 3.3 percent to USD77.9 billion in 1402. In addition, the oil and gas imports of Iran totaled USD1.2 billion in

1402, far above the USD228 million in 1401, probably due to the imports of gasoline. Consequently, the oil trade balance surplus expanded by 0.7 percent, while non-

oil trade balance deficit rose by 0.6 to register USD33.1 billion in 1402. The oil trade balance of Iran permanently has a surplus as the exports of oil and gas always stands significantly above the imports of oil products and gas (which is negligible). Besides, the share of oil exports in total exports of the country fell by 0.1 percentage point to 56.6 percent in 1402.

The Services Account deficit that registered USD6.7 billion in 1401, surged by 66.5 percent to USD11.1 billion in 1402. The Income Account deficit on the other hand fell to USD1.0 billion in 1402 from USD1.1 billion in 1401. Details of the balance of payments are shown in Table 6.

Table 6. Balance of Payments in 1401 and 1402 (USD billion)

	1401	1402*	Percentage Change
Current Account	14.2	10.3	-27.5
Goods Account	22.2	22.5	1.0
Exports (FOB)	97.7	100.4	2.8
Oil	55.4	56.8	2.5
Non-oil	42.2	43.6	3.2
Imports (FOB)	75.4	77.9	3.3
Gas and Oil Products	0.2	1.2	426.3
Others	75.2	76.7	2.0
Services Account	-6.7	-11.1	66.5
Income Account	-1.1	-1.0	-6.6
Current Transfers Account	-0.3	0.0	-86.9
Net Capital Account	-15.1	-23.2	54.2
Errors and Omissions	4.9	14.9	203.8
Overall Balance	4.0	1.9	-51.9

Source: Central Bank of Iran
*Preliminary estimates

According to the Islamic Republic of Iran Customs Administration (IRICA), in the first two months of 1403, about 23.4 million tons of non-oil goods valued at USD8.0 billion have been exported from the country, while in the same period, the imports of non-oil goods to Iran registered 5.8 million tons in weight and USD9.1 billion in value. Hence, the trade balance deficit reached USD1.1 billion in the first two months of 1403, up from the USD581 million in the same period of 1402.

The goods exports of Iran expanded by 8.5 percent in weight and 3.5 percent in value in the first two months of 1403. Hence, the average price of exported goods per ton that had registered USD358 in the first two months of 1402, fell to USD342 in the same period of 1403. The imports of goods, on the other hand rose by 13.3 percent in weight and 9.2 percent in value in the first two months of 1403, causing the average price of imported goods to reach USD1,552 per ton in period under review, below the USD1,610 per ton in the first two months of 1402. Subsequently, the imported goods were four times more expensive per ton than a ton of exported goods on average in the first two months of 1403. The cheaper average price of exported goods than that of the imported goods is originated in the exports of raw or semi-raw goods with low value-added. In addition, given

the foreign exchange rate policy of the CBI, understatement in exports and overstatement in imports are inevitable. Furthermore, the highly-concentrated exports destinations have limited the exports of Iran, and subsequently has made the exports proceeds considerably vulnerable to the economic and political developments of the major trade counterparts.

During the first two months of 1403, Cattle-feed corn valued at USD645 million, gold bullion at USD330 million, and soybean meal at USD326 million were the top three imported items, the IRICA data suggests. Among the top ten imported goods, the highest rise in value belonged to soybean meal at 652 percent, sugar at 597 percent, and finally gold bullion at 318 percent. The main driver of the rise in imports of gold bullion in the period under discussion was the circular that allowed the exporters to fulfill their foreign exchange commitments (supply of foreign exchange resources from exports in the domestic exchange market) via gold bullions from summer 1402 onwards. However, as the exporters of petrochemicals, refineries, steel, basic heavy metals, and oil products are prohibited from imports of gold bullion in exchange of their foreign exchange commitments since 03/1403, the gold bullion imports is expected to plummet in the remainder of 1403.

Recent Economic Developments in Iran

A Quarterly Report

According to the IRICA, the liquefied propane valued at USD559 million, liquified natural gas (LNG) at USD553 million, and methanol at USD395 million were the top three exported items from Iran in the first two months of 1403. Among the top ten exported items, the highest rise in value,

respectively, belonged to liquefied petroleum gases and other gaseous hydrocarbons at 110 percent, iron and steel bars at 24 percent, and urea at 14 percent. The statistics of Iranian customs trade in the first two months of 1402 and 1403 is presented in Table 7.

Table 7. Iranian Customs Trade in the First Two Months of 1402 and 1403

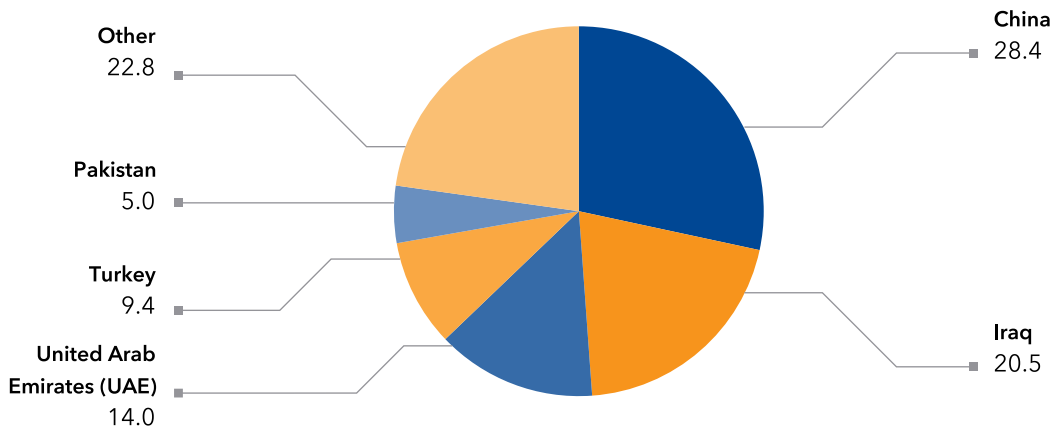
	First Two Months of 1402			First Two Months of 1403			Percentage Change	
	Weight (1000 tons)	Value (USD million)	Value to Weight Ratio (USD per ton)	Weight (1000 tons)	Value (USD million)	Value to Weight Ratio (USD per ton)	Weight	Value
Exports	21,615	7,731	358	23,460	8,022	342	8.5	3.8
Imports	5,162	8,312	1,610	5,848	9,076	1,552	13.3	9.2
Customs Trade Balance	16,453	-581	-	17,612	-1,054	-	7.0	81.4

Source: Islamic Republic of Iran Customs Administration

In the first two months of 1403, China, Iraq, UAE, Turkey, and Pakistan were, respectively, the five major exports destinations of Iran, accounting for 77.3 percent of the total value of exports. The IRICA data in detail reveals that during the period under review, the customs exports to China as the first exports destination of Iran valued USD2,193 million with share of 28.4

percent in total Iran's customs exports, followed by Iraq at USD1,584 million with 20.5 percent share, UAE at USD1,080 million with 14.0 percent share, Turkey at USD729 million with 9.4 percent share, and Pakistan at USD383 million with 5.0 percent share. The major exports destinations of Iran in the first two months of 1403 are presented in Graph 7.

Graph 7. Iran's Exports Destinations with Their Shares in Total Iran's Customs Exports in the First Two Months of 1403 (percent)

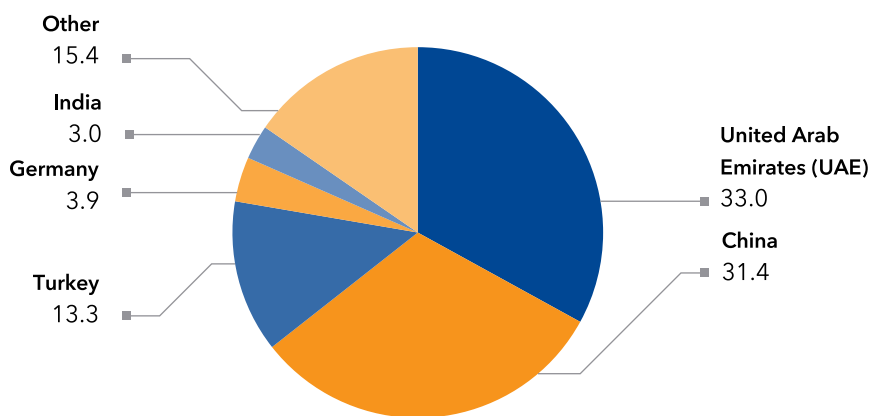


Source: Islamic Republic of Iran Customs Administration

Regarding the source of imports, during the first two months of 1403, UAE ranked as the first source of Imports to Iran with USD2,741 million, constituting 33.0 percent of the total Iran's imports, proceeded by China at USD2,607 million with 31.4 percent share, Turkey at USD1,107 million with 13.3 percent share, Germany at USD328 million with 3.9 percent share,

and India at USD249 million and 3.0 percent share. The top five major sources of imports accounted for 84.6 percent of the total value of imports to Iran during the time span under review. Graph 8 demonstrates Iran's major sources of Imports during the first two months of 1403.

Graph 8. Iran's Sources of Imports with Their Shares in Total Iran's Customs Imports in the First Two Months of 1403 (percent)



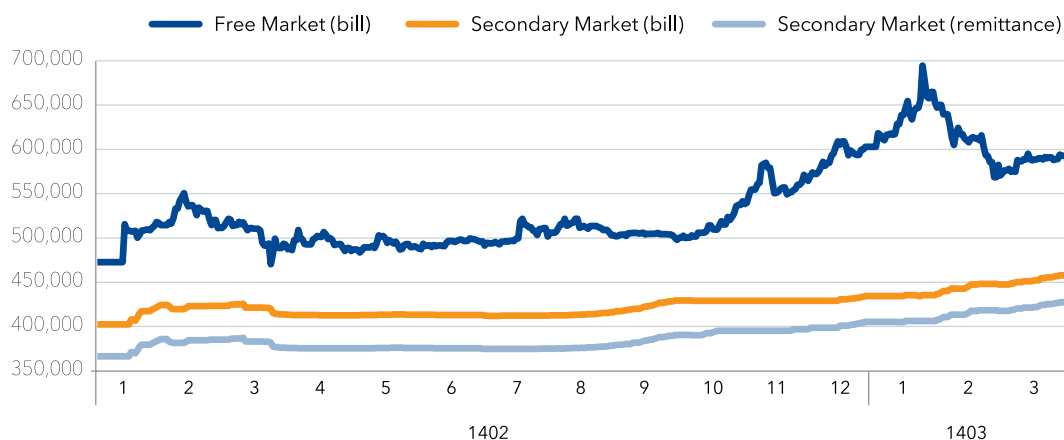
Source: Islamic Republic of Iran Customs Administration

4. FOREIGN EXCHANGE MARKET

The Iranian Rial depreciation against US Dollar that had started again in winter 1402 after a while, intensified in the early spring 1403. The USD/IRR exchange rate that had exceeded IRR600 thousand in the early 1403, escalated to IRR700 thousand in the last days of the first month of the year. The USD/IRR exchange rate in the Iranian free market

was much volatile in spring 1403 than in spring 1402, mainly emanating from various political circumstances. The USD price in the domestic foreign exchange market averaged IRR611 thousand in 1403Q1, up 21.0 percent from the IRR507 thousand in 1402Q1. Graph 9 depicts the developments of the USD/IRR exchange rates in 1402 and 1403Q1.

Graph 9. USD/IRR Exchange Rates in Various Markets



Source: Central Bank of Iran; Gold, Coin, and Currency Information Network; Unofficial sources

The Iranian Rial lost its value against the US Dollar severely during spring 1403. This depreciation could be mainly attributed to political circumstances such as the Israel attack on the Islamic Republic Consulate in Syria. In the aftermath of the attack that took place on 13/01/1403, the price of USD in the free market climbed above IRR620 thousand. The political tension between Iran and Israel and eventually Iran's retaliation exacerbated the air of pessimism, causing the IRR to continually lose value against USD and the USD price in the free market surged to IRR695 thousand in the

day after Iran's attack. As the tension between the two parties subsided, the USD/IRR exchange rate gradually diminished but remained above IRR600 thousand till the end of seventh week of spring 1403, and from that point onwards dropped below that price level after two months. Unlike the first two months of spring 1403, the USD/IRR exchange rate did not experience notable changes in the last month of that quarter. A comparison between the nominal USD/IRR bill exchange rates in 1403Q1 and 1402Q1 is shown in Table 8.

Table 8. USD/IRR Bill Exchange Rates in Free Market

	Average	Maximum	Minimum	Standard Deviation	Coefficient of Variation
1402Q1	507,098	550,510	469,830	20,272	0.04
1403Q1	611,620	695,000	568,500	27,926	0.05

Source: Central Bank of Iran; Gold, Coin, and Currency Information Network; Unofficial sources

The developments of the USD/IRR bill and remittance exchange rates in the secondary market were negligible compared to the free market in 1403Q1. The USD/IRR bill exchange rate in the secondary market opened the first trading day of the year at IRR435 thousand and slightly rose to IRR458 thousand at the end of spring 1403. The USD/IRR remittance rate registered IRR405 thousand and IRR428 thousand, respectively, in the same points of 1403Q1. The remarkable volatility of the USD/IRR exchange rate in the free market in spring 1403 in conjunction with its low-volatile rates in the secondary market resulted in a wider gap between the exchange rates in the two aforementioned markets, especially in the first month of that season. All in all, in 1403Q1 the gap between the USD/IRR free market rate and its bill rate and remittance rate in the secondary market, respectively, reached 38 percent and 48 percent on average,

far above those in 1402Q1 and translating to more sources of economic rent.

The CBI finally eliminated the official USD/IRR exchange rate of IRR42 thousand from its website in spring 1403. After the elimination of allocation of USD at rate of IRR42 thousand for imports of essential goods in the late 1401Q1, that rate was actually became ineffective and was replaced by a new USD/IRR exchange rate after two years. The new USD/IRR exchange rate that is known as weighted exchange rate solely represents a weighted average of the USD/IRR bill exchange rates in the free market and secondary market, USD/IRR remittance rate, and the USD rate of IRR285 thousand for imports of the essential goods. The weights, however are derived from the volume of transaction in the past month.

5. MONETARY & CREDIT AGGREGATES

The latest official statistics issued by the CBI on the monetary aggregates covers the first eleven months of 1402 only. However, according to some CBI authorities, the data on developments of liquidity (M2), money (M1) and monetary base (M0) has been unofficially released for the months after that point. Accordingly, the liquidity that is the sum of money and quasi-money reached IRR81,282 trillion at the end of the second month of 1403, indicating 25.6 percent expansion from the same point of its preceding year. This

growth rate is translated to the CBI success in enforcement of its macroprudential policy aimed to control the expansion of banks' balance sheets. The liquidity grew by 24.3 percent and the monetary base by 28.1 percent in 1402. Hence, the M2 money multiplier fell by 3 percent to 7.2 at the end of 1402 from its preceding year. The developments of the components of monetary base and liquidity till the end of eleventh month of 1402 are presented in Table 9.

Table 9. Liquidity and Monetary Base with the Growth Rates of Their Components (IRR trillion-percent-percentage point)

	Balance at the End of Period			Growth at the End of 11/1402 compared to		Share in Growth at the End of 11/1402 Compared to	
	11/1401	12/1401	11/1402	12/1401	11/1401	12/1401	11/1401
Monetary Base (M0)	8,086.4	8,599.9	10,482.7	21.9	29.6	21.9	29.6
CBI Foreign Assets (net)	5,707.0	6,824.3	5,103.7	-25.2	-10.6	-20.0	-7.5
CBI Claims on Public Sector (net)	-964.2	-1,985.8	-329.6	-83.4	-65.8	19.3	7.8
CBI Claims on Public Sector	2,637.7	2,725.0	3,902.6	43.2	48.0	13.7	15.6
Public Sector Deposits with CBI	3,601.9	4,710.8	4,232.2	-10.2	17.5	5.6	-7.8
CBI Claims on Banks	3,440.7	3,912.4	6,821.2	74.3	98.3	33.8	41.8
Other Assets (net)	-97.1	-151.0	-1,112.6	636.8	1,045.8	-11.2	-12.5
Balance of Implementation of Monetary Policy	1,189.9	988.4	1,610.3	62.9	35.3	7.2	5.2
Liquidity (M2)	61,034.4	63,376.8	77,795.9	22.8	27.5	Share in Liquidity at the End of	
						11/1401	11/1402
Money (M1)	15,457.5	16,296.9	19,273.8	18.3	24.7	25.3	24.8
Notes and Coins with the Public	134.3	1,226.1	1,286.0	4.9	857.6	0.2	1.7
Sight Deposits	14,382.7	15,070.8	17,987.8	19.4	25.1	23.6	23.1
Checks (net)	389.6	201.1	250.3	24.5	-35.8	0.6	0.3
Quasi-Money	45,576.9	47,079.9	58,522.1	24.3	28.4	74.7	75.2
Gharz-al-hasanah Saving Deposit	4,569.5	5,497.3	6,834.7	24.3	49.6	7.5	8.8
Short Term	15,258.0	15,931.3	16,608.4	4.3	8.9	25.0	21.3
One-year	15,501.9	14,739.5	14,727.2	-0.1	-5.0	25.4	18.9
Two-year	8,052.2	6,868.3	4,035.1	-41.3	-49.9	13.2	5.2
Three-year	531.5	2,346.8	14,247.6	507.1	2,580.6	0.9	18.3
Four-Year	3.6	3.6	3.6	0.0	0.0	0.0	0.0
Five-year	63.0	63.7	65.5	2.8	4.0	0.1	0.1
Miscellaneous Deposits	1,597.2	1,629.4	2,000.0	22.7	25.2	2.6	2.6

Source: Central Bank of Iran

From the second month of 1402 onwards, the liquidity experienced annual growth rates below 30 percent, indicating that the CBI macroprudential policy has been effective. On the basis of that policy¹ that was implemented since 1400, the banks were required to put a cap on their monthly growth rate of their assets, i.e., 2 percent for commercial banks and 2.5 percent for the specialized banks. It is worth to mention that the annual growth rate of the liquidity started to slow down from the first month of fall 1400 and from 48.2 percent

in that month dropped to 31.1 percent at the end of 1401, far close to the 30.0 percent targeted growth rate of the CBI for that year. The liquidity growth rate that climbed to 33.1 percent in the primary month of 1402, reversed course and closed the year 1402 at 24.3 percent, undershooting the 25 percent target of the CBI.

An examination of the liquidity by its components (M1 and quasi-money) reveals that at the end of the second month of

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

1403, M1 has expanded by 16.0 percent compared to the same point in 1402. The quasi-money on the other hand, experienced 29.0 percent expansion during the period under review. The issuance of certificates of deposit with 30 percent interest rate was the main contributor to the higher growth rate of quasi-money in the period under review. In the second month of 1403, M1 accounted for 24.0 percent of the liquidity, 2.0 percentage points below that in the same period of 1402.

The three-year deposits constituted 18.3 percent of the liquidity at the end of the eleventh month of 1402, up 17.4 percent from the same point in 1401. The higher interest rate of the three-year deposits, along with prematurity withdrawal penalty waiver by some banks were the main drivers of the high share of such deposits in the liquidity, albeit in expense of 50 percent collapse in the share of two-year deposits in liquidity in the period under review. However, at the end of the eleventh month of 1402, the short-term, interest-free saving (Gharz-al-hasaneh), and sight deposits accounted for 53.2 percent of the liquidity in total, 3.0 percentage points below that in the same period of 1401. In other words, the figure 53.2 percent which is notably large, conveys that people have preferred short-term investments rather than investing in long-term deposits offered by the banks. On the basis of the developments of the monetary base, during the year ending in the eleventh month of 1402, the CBI claims on banks has doubled, accounting for the highest share in the M0 growth rate in that period. The CBI net claims on the public sector has also served as a factor of increase in the monetary base in the period under discussion. The CBI net foreign assets by

10.6 percent fall in the period under review was a factor of contraction in M0 due to the sales of foreign currencies by the CBI. It is worth to mention that this component of M0 previously acted as a dominant factor of increase in M0 due to the sales of petrodollars to the CBI by the government and the rise in the USD/IRR exchange rate used for conversion of foreign assets to IRR. The "net other assets" was another factor of decrease in the monetary base despite the 35.3 percent rise in the balance of implementation of monetary policy - indicating expansionary monetary policy - as its subgroup. All in all, the annual growth rate of the monetary base that registered 45.0 percent in the first month of 1402, dropped to 29.6 percent at the end of the eleventh month of that year.

The aggregated balance sheet of the banks and non-bank credit institutions suggests that their assets (liabilities) less below the line items have escalated by 24.9 percent at the end of the eleventh month of 1402 compared to the end of 1401 and by 35.1 percent compared to the end of the eleventh month of 1401. On the assets side, during the first eleven months of 1402, claims on the public sector, other assets, and foreign assets, respectively, accounted for 12.1, 7.4, and 2.6 percentage points of the 24.9 percent growth rate of the assets of the banks and non-bank credit institutions in the period under review. On the liabilities side, deposits of non-public sector, other liabilities as well as debt to the CBI were the major drivers of the rise in liabilities in the same period, respectively, constituting 12.9, 8.0, and 2.6 percentage points of the growth rate of liabilities. Table 10 illustrates a summary of the assets and liabilities of the banks and non-bank credit institutions.

Table 10. Summary of Assets and Liabilities of Banks and Non-bank Credit Institutions (IRR trillion)

	End of Period Balance			Share of Banks and Non-bank Credit Institutions at the End of 11/1402			11/1402 Percentage Change Compared to	
	11/1401	12/1401	11/1402	Public Commercial	Public Specialized	Non-public	12/1401	11/1401
Assets (excluding below the line Items)	102,588.0	110,930.6	138,584.6	32,575.1	19,410.4	86,599.1	24.9	35.1
Foreign Assets	17,079.1	20,336.4	23,203.0	2,998.3	5,398.8	14,805.9	14.1	35.9
Notes and Coins	109.2	193.8	168.4	62.6	19.0	86.8	-13.1	54.2
Deposits with the CBI	6,902.4	7,180.0	9,028.3	2,323.6	568.5	6,136.2	25.7	30.8
Claims on Public Sector	5,778.8	7,931.8	9,193.8	4,037.4	1,542.3	3,614.1	15.9	59.1
Claims on Non-public Sector	47,899.0	50,934.4	64,414.7	13,127.4	8,995.3	42,292.0	26.5	34.5
Others	24,819.5	24,354.2	32,576.4	10,025.8	2,886.5	19,664.1	33.8	31.3
Liabilities (excluding below the line Items)	102,588.0	110,930.6	138,584.6	32,575.1	19,410.4	86,599.1	24.9	35.1
Deposits of Non-public Sector	59,959.6	62,150.7	76,509.9	19,464.2	6,891.8	50,153.9	23.1	27.6
Debt to CBI	3,440.7	3,912.4	6,821.2	2,226.1	1,368.8	3,226.3	74.3	98.3
Deposits of Public Sector	406.1	463.2	458.7	210.8	172.8	75.1	-1.0	13.0
Capital Account	26.6	2,384.3	1,210.8	-91.5	945.4	356.9	-49.2	4,451.9
Foreign Liabilities	14,089.9	17,035.5	19,668.9	3,149.2	4,598.8	11,920.9	15.5	39.6
Others	24,665.1	24,984.5	33,915.1	7,616.3	5,432.8	20,866.0	35.7	37.5

Source: Central Bank of Iran

On the basis of the banking statistics issued by the CBI, the balance of extended facilities at the end of the first month of 1403 rose to IRR76,143.5 trillion, indicating 36.4 percent rise from the same period of 1402. The balance of deposits also rose to IRR99,463.2 trillion at the end of the first month of 1403, up 35.0 percent from that in the same month of

1402. The ratio of extended facilities to the deposits less the legal reserves registered 83.9 percent at the end of the first month of 1403, just equal to that in its preceding year. Table 11 provides the balance of extended facilities at the end of the first month of 1403.

Table 11. Balance of Extended Facilities and Deposits in IRR and Foreign Currencies (end of period-IRR trillion)

	1/1402	1/1403	Percentage Change
Extended Facilities (EF)	55,832.3	76,143.5	36.4
Deposits	73,697.3	99,463.2	35.0
Deposits Less the Required Reserves (DLRR)	66,480.0	90,710.7	36.4
EF to DLRR Ratio (percent)	84.0	83.9	-

Source: Central Bank of Iran

In the first two months of 1403, the extended facilities totaled IRR7,219.6 trillion, of which IRR5,725.0 trillion, equaling 79.3 percent of total belonged to businesses (individuals and legal entities) and the remaining 20.7 percent to the final consumers (households). Regarding the purpose of the facilities extended, working capital at IRR4,392.7 trillion stood at top, i.e., in the first two months of 1403 accounted for 76.6 percent of the facilities extended to the businesses and for 60.8 percent of the total. On the other hand, going over the extended facilities by various economic sectors reveals that the Services sector accounted for the highest share of 39.2 percent in the extended facilities to businesses,

followed by Industries and Mining sector by 37.1 percent.

It is worth to mention that the decreed facilities have always been of great concern in the Iranian banking system. Given the imbalances of some banks, the CBI Governor on the other hand has admitted that extending decreed facilities by such banks exacerbates their situation and inevitably results in the monetary base expansion. He added that in order to cope with that problem, efforts would be made to require the banks with desirable capital adequacy ratio to make decreed loans, translating to encouraging the bad banks while punishing the good banks which eventually results in moral hazards and a worse banking system.

6. FISCAL POLICY

6-1. Budget Law of 1403

The first section of the Budget Bill of 1403 that was delivered to the Islamic Republic Parliament in the last month of fall 1402 was eventually passed by that authority as the first section of the Budget Law of 1403 and got the approval of the Guardian Council. The second section of the Bill including the tables of the Budget Bill was also delivered to the Parliament in the early 1403 and after being passed and getting the approval of the relevant authorities, was enunciated to the Administration by the Acting President in the late spring 1403. Note that the first section of 1403 Budget Bill - including the articles, notes, the ceiling of sources of general budget by general revenues and disposal of financial and non-financial assets, assumptions used for estimations, and budget balances - should have been delivered to the Parliament till the second month of fall 1402, however as the draft of the Seventh Economic, Social and Cultural Development Plan was under assessment of the Parliament, the 1403 Budget Bill was delivered to that approving authority with delay. Similarly, the second section of 1403 Budget Bill - including detailed tables of budget figures - that were supposed to be proposed to the Parliament 10 days after the enunciation of its first section, was eventually delivered 19 days after that, exactly on the 19th day of 1403.

The legislated sources and uses of the Total Government Budget in the Budget Law of 1403 is only 0.3 percent below the proposed figure in the Budget Bill of 1403. However, this difference roots in the "dedication of double-counted figures" which has been ignored in the Budget Bill of 1403,

but was approved at IRR1,200 trillion in the Budget Law of that year. The Total Government Budget consists of two elements of Budget of State-owned Companies and the General Government Budget. The Budget of the State-owned Companies in the Budget Law of 1403 has remained the same as that in the Budget Bill of 1403. On the contrary, the legislated General Government Budget is 3.7 percent above the corresponding figure of the Budget Bill of 1403. The sources of General Government Budget also consist of two elements of Dedicated Revenues and General Sources. The legislated figure for the Dedicated Revenues - which are obtained by any government organization and spent in the same organization - in 1403 Budget Law also remained the same as that in the 1403 Budget Bill. The legislated figure for General Sources, on the other hand, indicates 4.1 percent rise compared to the proposed figure of 1403 Budget Bill. The General Sources itself, consists of three elements of General Revenues (such as taxes and proceeds from state-owned properties), Disposal of Non-financial Assets (mainly oil exports and disposal of state-owned properties), and Disposal of Financial Assets (mainly sales of debt securities and disposal of state-owned companies). The Treasury, on the other hand spends the sources of budget to cover General Uses (such as compensation of employees and payments to the pension funds), Acquisition of Non-financial Assets (development expenditures), and Acquisition of Financial Assets (settlement of unpaid obligations from previous years). An overview of 1403 Budget Law is presented in Table 12.

Table 12. Overview of 1403 Budget Law (IRR trillion-percent)

	Sources					Uses					
	1403 Budget Law	1403 Budget Bill	1402 Budget Law	1403 Budget Law Growth to 1403 Budget Bill	1403 Law Growth to 1402 Law	1403 Budget Law	1403 Budget Bill	1402 Budget Law	1403 Budget Law Growth to 1403 Budget Bill	1403 Law Growth to 1402 Law	
General Revenues	15,983.0	14,983.0	10,540.8	6.7	51.6	Current Expenditures	18,787.4	18,037.4	15,088.4	4.2	24.5
Disposal of Non-financial Assets	6,445.6	6,445.6	7,322.5	0.0	-12.0	Acquisition of Non-financial Assets	4,000.0	3,750.0	3,750.0	6.7	6.7
Disposal of Financial Assets	3,191.8	3,191.8	2,960.0	0.0	7.8	Acquisition of Financial Assets	2,833.0	2,833.0	1,984.9	0.0	42.7
General Sources	25,620.4	24,620.4	20,823.3	4.1	23.0	General Uses	25,620.4	24,620.4	20,823.3	4.1	23.0
Dedicated Revenues	2,751.0	2,751.0	1,811.6	0.0	51.9	From Dedicated Revenues	2,751.0	2,751.0	1,811.6	0.0	51.9
Sources of General Government Budget	28,371.4	27,371.4	22,634.9	3.7	25.3	Uses of General Government Budget	28,371.4	27,371.4	22,634.9	3.7	25.3
Sources of State-owned Companies	37,415.7	37,415.7	28,839.1	0.0	29.7	Uses of State-owned Companies	37,415.7	37,415.7	28,839.1	0.0	29.7
Sources of Total Government Budget	64,587.1	64,787.4	49,947.1	-0.3	29.3	Uses of Total Government Budget	64,587.1	64,787.4	49,947.1	-0.3	29.3

Source: Budget Laws of 1402 and 1403 and Budget Bill of 1403

In the Budget Bill of 1403, the National Development Fund's (NDF) share in proceeds from oil exports was considered 40 percent, but unlike its preceding years, borrowing 20 percentage points of these fund by the government from the NDF was eliminated in the Budget Bill of 1403. The 40 percent share of the NDF in proceeds from the oil exports is 2 percentage points below its approved share by the Guardian Council in 1402 Budget Law. All in all, in the Budget Bill of 1403 the 40 percent share of NDF in proceeds from oil exports, natural gas condensate as well as net exports of natural gas equals USD15.4 billion. Nevertheless, the NDF share in the proceeds from oil exports eventually was increased to 45 percent in the Budget Law of 1403, equaling USD17.3 billion, up USD1.9 billion from that in the Budget Bill of 1403. Surprisingly, the share of government in oil revenues that was expected to contract following the rise in NDF's share, has remained unchanged in the Budget Law of 1403. Given such a mistake, the estimated oil revenues in 1403 Budget Law would have a deficit of IRR761 trillion and in order to cover that, either the value of exports of oil and natural gas condensates ought to be revised in USD, or a higher USD/IRR exchange rate is supposed to be used for conversion of government revenues to IRR. It seems that the allocation of foreign currencies for the imports of essential goods in 1403 Budget Bill was estimated to be USD15 billion, so the exchange rate used for conversion of the proceeds in foreign currencies up to USD15 billion was based on the official USD/IRR exchange rate of 285 thousand. For the remaining amounts in excess of that USD15 billion, the exchange rate conversion would

increase to IRR395 thousand per USD. Hence, out of the total USD18.9 billion of government revenues in foreign currencies, USD3.9 billion would be converted to IRR by the latter USD/IRR exchange rate. However, in order to cover the deficit in the government oil revenues following the increase in the share of the NDF in 1403 Budget Law (previously mentioned), the USD/IRR exchange rate of 770 thousand ought to be used for conversion of USD3.9 billion revenues to IRR. On the basis of the assumptions in Budget Law and Budget Bill of 1403, to estimate the Oil Revenues, the exports of oil and natural gas condensates are assumed 1.350 million barrels a day at USD71 a barrel.

Additionally, to estimate the proceeds from exports of the natural gas, its price is assumed EUR0.31 per cube meter and its exports volume is assumed 11 billion cube meters during 1403. Moreover, the report of the Parliament Research Center suggests 67 thousand barrels a day for sales of feedstock to domestic petrochemical producers as source of Oil Revenues. In the note mentioned in 1403 Budget Law and Budget Bill regarding the Targeted Subsidies Plan, the proceeds from sales of feedstock to domestic petrochemical producers is a source of finance of that Plan and is excluded from the sources of General Government Budget, but surprisingly this appears as a subgroup of General Government Budget sources (oil revenues) in the corresponding table of the Budget Law of 1403. Therefore, in 1403, either the oil revenues, or the sources of Targeted Subsidies Plan would face deficit. Table 13 provides the assumptions and method of estimation of the Oil Revenues in the Budget Law and the Budget Bill of 1403.

Table 13. Estimated Oil Revenues in 1403 Budget Law and Bill

Assumptions	1403 Law	1403 Bill	1402 Law	1401 Law	1403 Law Growth to 1403 Bill (percent)	1403 Law Growth to 1402 Law (percent)
Oil and Gas Condensates Exports (1000 barrels a day)	1,350.0	1,350.0	1,282.0	1,400.0	0.0	5.3
Sales of Feedstock to Domestic Petrochemical Companies (1000 barrels a day)	67.0	67.0	145.0	145.0	0.0	-53.8
Oil Price per Barrel (USD)	71.0	71.0	75.0	70.0	0.0	-5.3
Price of Gas Condensates per Barrel to Be Sold to Domestic Petrochemical Companies (USD)	67.5	67.5	71.3	66.5	0.0	-5.3
Share of National Iranian Oil Company (NIOC) in Exports of Oil and Gas Condensates (percent)	14.5	14.5	14.5	14.5	-	-
Share of National Iranian Gas Company (NIGC) in Net Exports of Natural Gas (percent)	14.5	14.5	14.5	14.5	-	-
Share of NDF in Exports of Oil and Gas Condensates and Net Gas Exports (percent)	45.0	40.0	42.0	40.0	-	-
Government Share in Exports of Oil and Gas Condensates (percent)	40.5	45.5	43.5	45.5	-	-
Government Share in Sales of Feedstock to Domestic Petrochemical Companies (percent)	85.5	85.5	85.5	85.5	-	-
Government Share in Net Exports of Natural Gas (percent)	40.5	45.5	43.5	45.5	-	-
Share of NIOC in Sales of Gas Condensates to Domestic Petrochemical Companies (percent)	14.5	14.5	14.5	14.5	-	-
Average USD/IRR Exchange Rate in the Budget (IRR1000 per USD)	298.1	308.0	285.0	230.0	0.0	0.0
Net Exports of Natural Gas (IRR trillion)	3.5	3.5	6.2	3.6	0.0	-43.5
Total Revenues from Exports of Crude Oil and Gas Condensates (IRR trillion)	35.0	35.0	35.1	35.8	0.0	-0.3
Total Revenues from Sales of Feedstock to Domestic Petrochemical Companies (IRR trillion)	1.6	1.6	3.8	3.5	0.0	-56.3
Share of NDF in Total Revenues in Foreign Currencies (USD billion)	17.3	15.4	17.3	15.7	12.5	-0.1
Share of NIOC in Oil Exports and Domestic Sales of Feedstock (USD billion)	5.3	5.3	5.6	5.7	0.0	-5.7
Share of NIGC in Natural Gas Net Exports (USD billion)	0.5	0.5	0.9	0.5	0.0	-43.5
Government Share in Total Proceeds of Oil and Gas Condensates Exports (USD billion)	14.2	15.9	15.3	16.3	-11.0	-7.2
Government Share in Total Proceeds of Net Exports of Natural Gas (USD billion)	1.4	1.6	2.7	1.6	-11.0	-47.4
Government Share in Sales of Feedstock to Domestic Petrochemical Companies (USD billion)	1.4	1.4	3.2	3.0	0.0	-56.3
Proceeds of Sales of Vacuum Bottom (Bitumen-IRR trillion)	0.0	0.0	200.0	0.0	-	-
Total Government Oil Revenues (IRR trillion)	5,066.3	5,827.4	6,238.1	4,810.1	-13.1	-18.8

Source: 1403 Budget Bill and Budget Laws of 1401, 1402, and 1403; Parliament Research Center

The share of government in Oil Revenues (exports of oil and gas condensates, net exports of natural gas, and sales of feedstock to domestic petrochemical producers) ought to be IRR5,066.3 trillion, given the assumptions of 1403 Budget Law and the 5 percentage points rise in the NDF share in proceeds from the oil exports, while the figure for the share of government from that source of revenues has not been adjusted and has remained the same in the 1403 Budget Law at proposed IRR5,827.4 trillion of 1403 Budget Bill. The legislated figure for the Oil Revenues in the Budget Law of 1403 constitutes 22.7 percent of the General Sources, 7.3 percentage points above that in 1402 Budget Law.

In the Budget Bill and Budget Law of 1403, IRR618.2 trillion is considered for the Disposal of Government Properties as a subdivision of the Disposal of Non-financial Assets, 43.0 percent below that of the Budget Law of 1402, but realization of this figure still seems unachievable. The Disposal of Non-financial Assets totaled IRR6,445.6 trillion in Budget Law and Budget Bill of 1403, down 12.0 percent from that of 1402 Budget Law.

The Acquisition of Non-financial Assets on the other hand

in the Budget Law of 1403 was slightly risen by 6.7 percent compared to the Budget Bill of that year. These sorts of expenditures accounted for 15.6 percent of the General Uses in 1403 Budget Law, 0.4 percentage point up from that in the Budget Bill of 1403, while 2.4 percentage points below that in the Budget Law of 1402. Accordingly, the Net Disposal of Non-financial Assets in the Budget Law of 1403 has narrowed down by 9.3 percent to IRR2,445.6 trillion from the IRR2,695.6 trillion in the Budget Bill of 1403. The surplus in the Net Disposal of Non-financial Assets is mainly a source of financing the Operating Balance Deficit to cover some government current expenditures.

The Tax Revenues share in the General Sources (including imports tax) registered 53.3 percent in the Budget Law of 1403, indicating 1.9 percentage points rise compared to the 51.4 percent of the Budget Bill. The Tax Revenues are estimated IRR13,645.0 trillion in the Budget Law of 1403, of which 48.8 percent belongs to Indirect Taxes (on goods and services and on imports) and the remaining 51.2 percent to the Directs Taxes (on legal entities, on income and on wealth). The Tax on Non-public corporations in Budget Law of 1403 was legislated IRR3,730.4 trillion, respectively, 4.8

percent and 59.6 percent above those in the Budget Bill of 1403 and Budget Law of 1402. Among the components of the Corporate Tax (on legal entities) in Budget Law and Budget Bill of 1403, a source of IRR500.0 trillion is estimated which is attributed to the Article 159 of the Fifth Development Plan and probably is the Tax on the Firms in the Free Zones that their 20-year tax exemption has been over. In addition, in the Budget Law of 1403, the Income Tax constituted 13.9 percent of the Tax Revenues, up 24.8 percent and 66.4 percent from 1403 Budget Bill and 1402 Budget Law, respectively. Among the components of the Income Tax, Tax on Professions and on Salary of Private Sector Employees, respectively, show 30.0 percent and 42.2 percent rise in the Budget Law of 1403 compared to the Budget Bill of that year. In 1403 Budget law, the Wealth Tax which is 19.0 percent below that in the Budget Bill of 1403 and 7.5 percent above that in the Budget Law of 1402, constitutes 2.9 percent of Tax Revenues. The Tax on Goods and Services that accounts for 38.4 percent of Tax Revenues in 1403 Budget Law, has experienced 11.4 percent and 72.2 percent rise compared to 1403 Budget Bill and 1402 Budget Law, respectively. Finally, the legislated figure for Tax on Imports in 1403 Budget Law has remained the same as the proposed figure in the Budget Bill of 1403 but 2.1 percent below that in the Budget Law of 1402, forming 10.4 percent of the Tax Revenues.

In the Budget Law of 1403, the current expenditures are legislated 4.2 percent above that in the Budget Bill of 1403 at IRR18,787.4 trillion and constituting 73.3 percent of the General Uses. Accordingly, the Operating Balance Deficit of IRR3,054.4 trillion in the Budget Bill of 1403 dropped by 8.2

percent to IRR2,805.4 trillion in the Budget Law of 1403.

In line with the budgeting system, the imbalance of the Budget is supposed to be financed through the Disposal of Financial Assets in the Budget Law and Budget Bill of 1403. In this regard, issuance of government debt securities in both Budget Law and Budget Bill of 1403 is considered IRR2,546.0 trillion, 36.1 percent above that in the Budget Law of 1402. In the Budget Law of 1403, the share of issuance of government debt securities in total Disposal of Financial Assets registered 79.8 percent and in General Sources was 9.9 percent, indicating 16.6 and 1.0 percentage points rise compared to the Budget Law of 1402, respectively. In addition, the proceeds from the Disposal of State-owned Companies are considered IRR600.0 trillion in the Budget Law and Budget Bill of 1403, showing 43.4 percent drop from the Budget Law of 1402. All in all, the Disposal of Financial Assets in 1403 Budget Law is approved 7.8 percent above that in 1402 Budget Law at IRR3,191.8 trillion, accounting for 12.5 percent of the General Sources, 0.5 and 1.8 percentage points below those in 1403 Budget Bill and 1402 Budget Law, respectively. The Acquisition of Financial Assets on the other hand, approved at IRR2,833.0 trillion in the Budget Law of 1403, showing 42.7 percent difference with the IRR1,985.0 trillion in the Budget Law of 1402. Due to the increasing issuance of the government debt securities from 1399 onwards, the principal repayment of financial securities in the Budget Law of 1403 is 28.5 percent above the corresponding figure in the Budget Law of 1402. Hence, the Net Disposal of Financial Assets in the Budget Law of 1403 is estimated IRR358.8 trillion. Table 14 exhibits the major figures in the Budget Law of 1403.

Table 14. General Sources and Uses in Budget Law of 1403 (IRR trillion-percent)

	1403 Budget Law	1403 Budget Bill	Share in Total General Sources in 1403 Budget Law	1403 Law to 1403 Bill Percentage Change		1403 Budget Law	1403 Budget Bill	Share in Total General Uses in 1403 Budget Law	1403 Law to 1403 Bill Percentage Change
Revenues (general)	15,983.0	14,983.0	62.4	6.7	Expenditures (current)	18,787.4	18,037.4	73.3	4.2
Tax revenues	13,645.0	12,645.0	53.3	7.9					
Proceeds of State-owned Properties	1,349.3	1,350.0	5.3	-0.1					
Proceeds of Sales of Goods and Services	461.5	465.0	1.8	-0.8					
Proceeds of Crimes and Damage Fines and Miscellaneous	527.2	523.0	2.1	0.8					
Operating Balance						-2,804.4	-3,054.4	-	-8.2
Disposal of Non-financial Assets	6,445.6	6,445.6	25.2	0.0	Acquisition of Non-financial Assets	4,000.0	3,750.0	15.6	6.7
Proceeds of Crude Oil and Oil Products	5,827.4	5,827.4	22.7	0.0					
Proceeds of Disposal of Government Properties and Others	618.2	618.2	2.4	0.0					
Net Disposal of Non-financial Assets						2,445.6	2,695.6	-	-9.3
Disposal of Financial Assets	3,191.8	3,191.8	12.5	0.0	Acquisition of Financial Assets	2,833.0	2,833.0	11.1	0.0
Sales of Islamic Debt Securities	2,546.0	2,546.0	9.9	0.0	Principal Repayment of Islamic debt Securities	2,200.0	2,200.0	8.6	0.0
Disposal of State-owned Companies	600.0	600.0	2.3	0.0					
Other	45.8	45.8	0.2	0.0					
Net Disposal of Financial Assets						358.8	358.8	-	0.0

Source: Budget Law and Budget Bill of 1403

6-2. Government Fiscal Performance in Spring 1403

In the Budget Law of 1403, Tax Revenues (excluding imports tax) is estimated IRR12,220.0 trillion, of which 42.8 percent belongs to Indirect Taxes (on goods and services) and the remaining 57.2 percent to the Direct Taxes (on corporations, on income, and on wealth). Hence, for the first two months of 1403, IRR2,036.7 trillion is legislated for Tax Revenues (less the imports tax). On the basis of the Iranian National Tax Administration, during the first two months of 1403, 61.5 percent of the legislated figure for Tax Revenues is realized. The realization of Direct Taxes has registered 58.7 percent in the period under review. Among the components of the Direct Taxes, the Tax on Income had the highest realization of the legislated figure at 65.3 percent during the first two months of 1403, followed by the Corporate Tax with 56.4 percent realization of the legislated figure at IRR440.8 trillion, of which 70.9 percent (equivalent to IRR312.3 trillion) belonged to Non-public Corporations. In addition, the Tax

on Wealth has realized 53.3 percent of the approved figure in the Budget Law of 1403 for the first two months of 1403 at IRR35.6 trillion, 26.7 percent below its realization in the same period of 1402. During the same period, the Tax on Shares Transfers has realized 35.5 percent of legislated figure for the first two months of 1403 at IRR8.5 trillion. Moreover, the Tax on Goods and Services in the first two months of 1403 realized 65.3 percent of the approved figure in 1403 Budget Law and registered IRR569.9 trillion, indicating 35.4 percent rise from the same period of 1402. The Value-added Tax realized 66.4 percent of the legislated figure for the first two months of 1403 at IRR414.8 trillion, constituting 72.8 percent of the realization of Tax on Goods and Services during the two-month period under discussion. Table 15 demonstrates the realization of Tax Revenues in the first two months of 1403.

Recent Economic Developments in Iran

A Quarterly Report

Table 15. Government Tax Revenues in the First Two Months of 1403 (IRR trillion- percent)

	1403 Budget Law	Legislated for the First Two Months of 1403	Performance in the First Two Months of 1402	Performance in the First Two Months of 1403	Growth Rate of Performance in the First Two Months of 1403 to That of 1402	Performance in the First Two Months of 1403 as a Percentage of Legislated	Share in Total Tax Revenues in the First Two Months of 1403 (Performance)
Tax Revenues	12,220.0	2,036.7	886.6	1,252.8	41.3	61.5	100.0
Direct Tax	6,985.4	1,164.2	465.7	682.9	46.6	58.7	54.5
Corporate Tax	4,687.5	781.3	270.3	440.8	63.1	56.4	35.2
Income Tax	1,897.1	316.2	146.9	206.5	40.6	65.3	16.5
Wealth Tax	400.8	66.8	48.6	35.6	-26.7	53.3	2.8
Indirect Tax	5,234.6	872.4	420.9	569.9	35.4	65.3	45.5
On Goods and Services	5,234.6	872.4	420.9	569.9	35.4	65.3	45.5

Source: Budget Law of 1403; Iranian National Tax Administration

The approved figure for the issuance of government debt securities in the Budget Law of 1403 stood 61.3 percent above that of Budget Law of 1402 at IRR2,546.0 trillion for the whole year. However, the actual issuance of the government debt securities in 1402 exceeded the legislated figure and registered IRR3,513 trillion in that year. Hence, the approved figure in this regard in the Budget Law of 1403 is 27.5 percent below the actual performance of 1402. Hence, the CBI in collaboration with the Ministry of Economic Affairs and Finance initiated the weekly auctions of government debt securities in the money market and capital market from mid-spring 1403.

Till the end of spring 1403, the CBI held eight rounds of auction and IRR660.0 trillion government debt securities were issued and the accumulated supply of them registered IRR2,713.8 trillion in those auctions. Out of this amount of supply, IRR360.0 trillion was demanded by the banks and non-bank credit institutions and finally the Ministry of Economic Affairs

and Finance approved IRR359.0 trillion of that. Furthermore, IRR85.4 trillion government debt securities was sold in the capital market through auctions. Consequently, during spring 1403 the total government debt securities sold through auctions amounted to IRR444.4 trillion, while in spring 1402 no auction was held by the CBI.

On the other hand, on the basis of the Treasury, IRR429.7 trillion government debt securities has been purchased by the banks and non-bank credit institutions in spring 1403, totally different from the reported figure of the CBI. This difference indicates that IRR70.7 trillion government debt securities has been purchased by banks indirectly through the capital market rather than directly from the CBI. Therefore, about 97 percent of the government debt securities has been purchased by banks and non-bank credit institutions in 1403Q1. Table 16 demonstrates a summary of the government debt securities auctions in 1403Q1.

Table 16. Government Debt Securities Auctions in Capital Market and Money Market in Spring 1403 (IRR trillion-percent)

Date	Supply	Banks Demand	Traded in Money Market	Traded in Capital Market	Total Traded
02/1403	1,048.6	11.9	10.9	10.0	20.9
03/1403	1,665.2	348.1	348.1	75.4	423.5
Total	2,713.8	360.0	359.0	85.4	444.4

Source: Central Bank of Iran

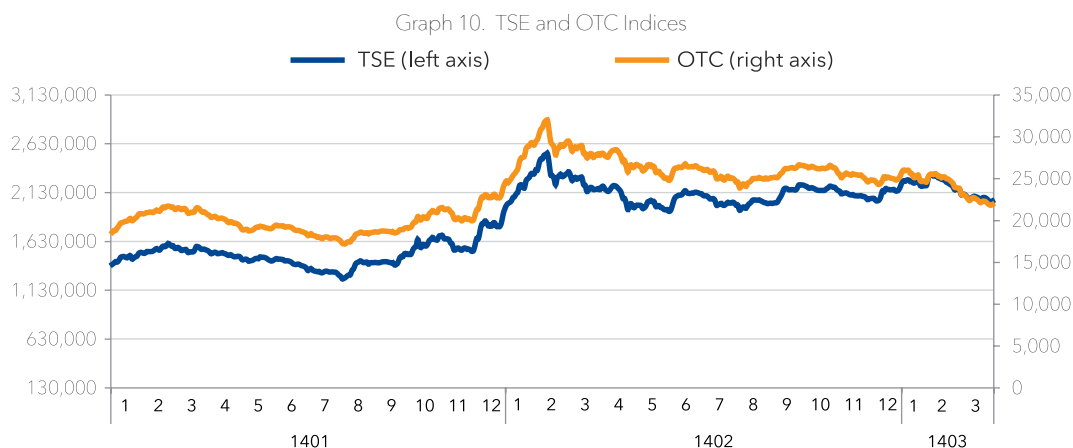
In addition to the auctions, the government also issues debt securities through two other distinct methods. First, selling Murabaha Debt Securities in the capital market via an underwriter, and second, providing government creditors with Islamic Treasury Bonds in exchange of its debts. However, in spring 1403 no securities were disposed through the two aforementioned methods. From mid-summer 1400 onwards, Over the Counter (OTC) is in charge of issuing the data on government debt market transactions by the market players including government, CBI, banks, Investment Funds, etc. From mid-summer 1400 to the end of spring 1403, the net accumulated purchase of government debt securities by the CBI and by the Investment Funds registered IRR2,265.3 trillion and IRR2,349.5 trillion, respectively. Note that the CBI is prohibited from purchasing those sorts of securities through the

primary market (IPO) and the figure of net purchase attributed to that organization is regarding the secondary market. The banks that were mainly suppliers of the government debt securities from mid-summer 1400 to the end of that year (negative net accumulated purchase of IRR556.3 trillion in the primary and secondary markets), shifted to the demand side in 1401 and 1402 to register net purchase of IRR1,452.8 trillion of government debt securities from the primary and secondary markets during this two-year period. This trend maintained in spring 1403 and the net purchase of government debt securities by banks reached IRR77.0 trillion through primary and secondary markets during 1403Q1. Accordingly, the net accumulated purchase of government debt securities by the banks from mid-summer 1400 to the end of spring 1403 is estimated about IRR974 trillion.

7. CAPITAL MARKET

Winter 1402 was a challenging quarter for the Iranian capital market, in general. At the end of the second month of 1402Q4, the overall indices of the Tehran Stock Exchange (TSE) and the OTC dropped by 6.3 percent and 6.6 percent, respectively, compared to the end of 1402Q3. These falls are attributable to the issuance of certificates of deposits with 30 percent interest rate by the banks based on the CBI circular, limited access to gas feedstock and fuel for petrochemical and steel industries, tensions in the Middle East region, and boom in other markets including crypto currencies and gold. However, at the end of winter 1402, part of the falls in TSE and OTC indices was offset and the rates of return of those markets registered negative 0.7 percent and negative 4.6 percent in 1402Q4, respectively. In spring 1403, various

risks were exerted to the Iranian capital market due to the economic and political circumstances. The intensified tensions in the Middle East region, passing away of the IRI President and his companions, and the narrower daily price fluctuation limit of the capital market were the major drivers of the exacerbation of the capital market indices. Consequently, the TSE and OTC overall indices at the end of 1403Q1, respectively, fell by 6.9 percent and 13.7 percent compared to the end of 1402. The daily developments of the TSE and OTC indices from the beginning of 1401 to the end of spring 1403 are depicted in Graph 10. Even though both of the markets followed similar trends, the TSE return has been slightly higher than that of the OTC during the period under review.



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

The total value of the TSE transactions in 1403Q1 shows 51.5 percent fall from 1402Q1. In spring 1403, the highest rise in value of transactions of TSE was attributed to the debt securities with 26.5 percent, while the highest fall belonged to stock market with 74.4 percent. In addition, the Professional Investment market was launched in the

second half of 1402 for the first time as a subsidiary of the TSE, through which shares of project companies, venture capitals, and Private funds are supplied. A comparison of the transaction values in various market of the TSE between springs of 1402 and 1403 is presented in Table 17.

Table 17. Value of Transactions in Various TSE Markets in Springs of 1402 and 1403 (IRR trillion)

Market	1402Q1	1403Q1	Percentage Change
Shares	5,523	1,416	-74.4
Debt Securities	272	344	26.5
Derivatives	72	70	-2.8
Exchange-traded Funds	2,000	1,984	-0.8
Professional Investment	-	6	-
Total	7,867	3,819	-51.5

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

Recent Economic Developments in Iran

A Quarterly Report

The volume of the transactions in the first quarter of 1403 plummeted to 490.4 billion, down 51.4 percent from the same period of 1402. Furthermore, the number of transactions in 1403Q1 has also collapsed by 66.0 percent compared to the same quarter of 1402. The average value of each transaction in TSE that registered IRR138 million in

spring 1402, rose to IRR197 million in spring 1403. This rise in value could be the result of the outflow of retail capitals from the market, in addition to the inflation rate. Table 18 exhibits the volume and number of transactions, as well as average value of each transaction in TSE by market type in springs of 1402 and 1403.

Table 18. Volume and Number of Transactions and Average Value of Each Transaction in TSE by Market Type in 1402Q1 and 1403Q1

Market	Volume of Transactions			Number of Transactions			Average Value of Each Transaction		
	Million		Percentage Change	1000 times		Percentage Change	IRR million		Percentage Change
	1402Q1	1403Q1		1402Q1	1403Q1		1402Q1	1403Q1	
Shares	905,161	378,294	-58.2	50,697	12,814	-74.7	109	110	1.4
Debt Securities	284	351	23.6	3	3	-21.4	82,968	133,470	60.9
Derivatives	411	4,246	933.1	1,155	2,216	91.9	62	32	-49.3
Professional Investment	0	3,593	-	0	56	-	-	103	-
Exchange-traded Funds	103,219	103,942	0.7	5,024	4,253	-15.3	398	466	17.2
Total	1,009,075	490,426	-51.4	56,879	19,342	-66.0	138	197	42.8

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

The TSE market capitalization dropped to IRR73,477 trillion at the end of 1403Q1, 7.5 percent below that at the end of 1402. As for the OTC, the market capitalization fell by 10.3 percent to IRR22,176.9 trillion at the end of 1403Q1 compared to the end of 1402. The TSE overall and equally-weighted indices, respectively, contracted by 6.9 percent and 10.3 percent at the same period. The higher contraction

of equally-weighted index than overall index of the TSE reveals that in spring 1403, the price of smaller companies' shares has fallen more than that of the large companies. The free float¹ index of the TSE fell to 2,644.0 at the end 1403Q1, down 7.2 percent from the end of 1402. The fall in the free float index has been very close to that of the TSE overall index. Major TSE indices are presented in Table 19.

Table 19. TSE Indices at the End of Period

	Market Capitalization (IRR trillion)	Equally-weighted Index (Thousand)	Overall Index (Thousand)	Financial Index (Thousand)	Industrial Index (Thousand)	Free-float Index (Thousand)
1403Q1	73,477	666	2,044	1,796	1,944	2,644
1402Q4	79,408	743	2,195	1,918	2,090	2,851
Percentage Change	-7.5	-10.3	-6.9	-6.4	-7.0	-7.2

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

Throughout spring 1403, IRR1,076.6 trillion has been financed by the TSE listed companies, of which 90.1 percent was via raising capital, 8.1 percent via issuance of

debts securities, and 1.8 percent via put options. Table 20 demonstrates various methods of finance by the TSE listed companies in 1402Q1 and 1403Q1.

Table 20. Various Methods of Finance by TSE Listed Companies (IRR trillion)

	1402Q1		1403Q1		Percentage Change of 1403Q1 to 1402Q1
	Value	Share in Total (percent)	Value	Share in Total (percent)	
Total	381.8	100.0	1,076.5	100.0	182.0
Raising Capital (except for asset revaluation)	349.7	91.6	970.2	90.1	177.4
Initial Public Offering	9.7	2.5	0.0	0.0	-
Issuance of Debt Securities	21.4	5.6	86.8	8.1	305.4
Issuance of Put Options	1.0	0.3	19.6	1.8	1,855.4

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

1. Free-float, also known as public float, refers to the shares of a company that can be publicly traded and are not restricted. In other words, the term is used to describe the number of shares that is available to the public for trading in the secondary market. The more free-float shares, the lower liquidity risk, lower bubbles, and less likely price manipulation.

8. OTHER DEVELOPMENTS

The 14th Presidential Election of Iran was held in the early summer of 1403 (late June 2024) and just like every election, it was abundant in various campaign promises from free energy, free travel, free housing, and free land to adjustments of the salaries by the inflation rate. However, the increasing government budget deficit that has resulted in issuance of debt securities above the legislated figure of the Budget Law has ended up in the crowding out of private sector funds, rise in the interest rates, and the escalation of the monetary base as well the inflation rate. Subsequently, under such circumstances, such campaign promises are in contradiction with the exercises aiming for reining in the inflation rate and preventing recession.

Due to the lack of organized political parties in Iran, the election candidates are not the true representatives of various economic approaches, hence their different proposed monetary and

fiscal policies are very difficult to be distinguished. If the proposed policies were consistent, by examining to see which policy is the key to rein in the inflation and obtain higher GDP growth, it was easy to judge in whose administration the salaries would be adjusted by or would increase even above the inflation rate. In other words, higher per capita income and more equitable distribution of income are achievable in presence of high GDP growth rates and low inflation rates.

In any economy, the wages move in line with the macroeconomic conditions, hence the welfare level of the society could not be promoted by directives and circulars. Hence, it would be better that the campaign promises comply with a transparent and consistent economic doctrine of organized political parties, rather than proposing contradictory and vague policies and promises.

9. KEY POINTS

- The CBI reported 4.5 percent GDP growth rate for 1402, of which more than a quarter is owed to the oil sector growth rate of 14.7 percent in that year. In winter 1402, the oil sector growth has slowed down in comparison with its preceding quarters. Private consumption and gross fixed capital formation experienced, respectively, 4.1 percent and 7.2 percent growth rates at 1395 constant prices.
- The crude oil production of Iran rose to 3.2 mbpd in May 2024, up 19.6 percent from May 2023. Some unofficial sources suggest a rise in Iran's oil exports in spring 1403.
- The unemployment rate of the population aged 15 and above decreased by 0.9 percentage point from 1401 to reach 8.1 percent in 1402. In the same year, the population with higher education constituted 41.3 percent of the total unemployed population, up 0.3 percentage point from 1401.
- The value of customs exports rose by 3.8 percent in the first two months of 1403 compared to the same period of preceding year, while the customs imports increased more significant by 9.2 percent.
- The USD price in the domestic free market that had registered IRR600 thousand in the early 1403, shortly surged to IRR700 thousand in the aftermath of Israel attack on the IRI Consulates in Syria. The Iranian foreign exchange market in spring 1403 was much volatile than in spring 1402. The free market USD/IRR exchange rate averaged IRR611 thousand in spring 1403, up 21.0 percent from the average IRR507 thousand in spring 1402.
- The downward trend of the annual CPI inflation rate that had started from mid-spring 1402, maintained in spring 1403 and after one and half a year dropped to below 40 percent in the first month of 1403. The rate eventually closed spring 1403 at 36.1 percent.
- On the basis of the Iranian National Tax Administration, 61.5 percent of the legislated figure for tax revenues (less imports tax) for the first two months of 1402 was realized. In addition, out of the IRR660.0 trillion of the supplied government debt securities in the weekly auctions held by the CBI, IRR444 trillion was traded in 1403Q1. The government debt securities auctions in 1403 were held earlier than the previous years, translating to intensified budget deficit in 1403. The open market operations were also held by the CBI in order to control the liquidity of the banks and the interbank interest rates.
- From the mid-summer 1400 to the end of spring 1403, the net purchase of government debt securities by the CBI as well as Investment Funds, respectively, accumulated to IRR2,265.3 trillion and IRR2,349.5 trillion. During the same period, the net accumulated purchase of government debt securities by banks was estimated IRR974 trillion.
- In the one-year period ending in the eleventh month of 1402, CBI net foreign assets contracted by 10.6 percent, acting as a factor of decrease in the monetary base. This component of the monetary base was most often a factor of its expansion due to the purchase of petrodollars from the government, government borrowing from the NDF, and the rise in the USD/IRR exchange rate used for conversion of values to IRR. The fall in the CBI net foreign reserves in the period under review is mainly due to the sales of foreign currencies with the CBI, which in conjunction with the macroprudential policy of the CBI, resulted in the 24.3 percent and 28.1 percent annual growth rates of liquidity and monetary base at the end of 1402, respectively.
- Lack of timely issuance of data on main sectors of the economy in spring 1403 is referred to as a significant weakness in economic policymaking, resulting in inaccurate analyses and outlooks. Hence, spread of uncertainty and exertion of various risks to the business environment is inevitable.



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