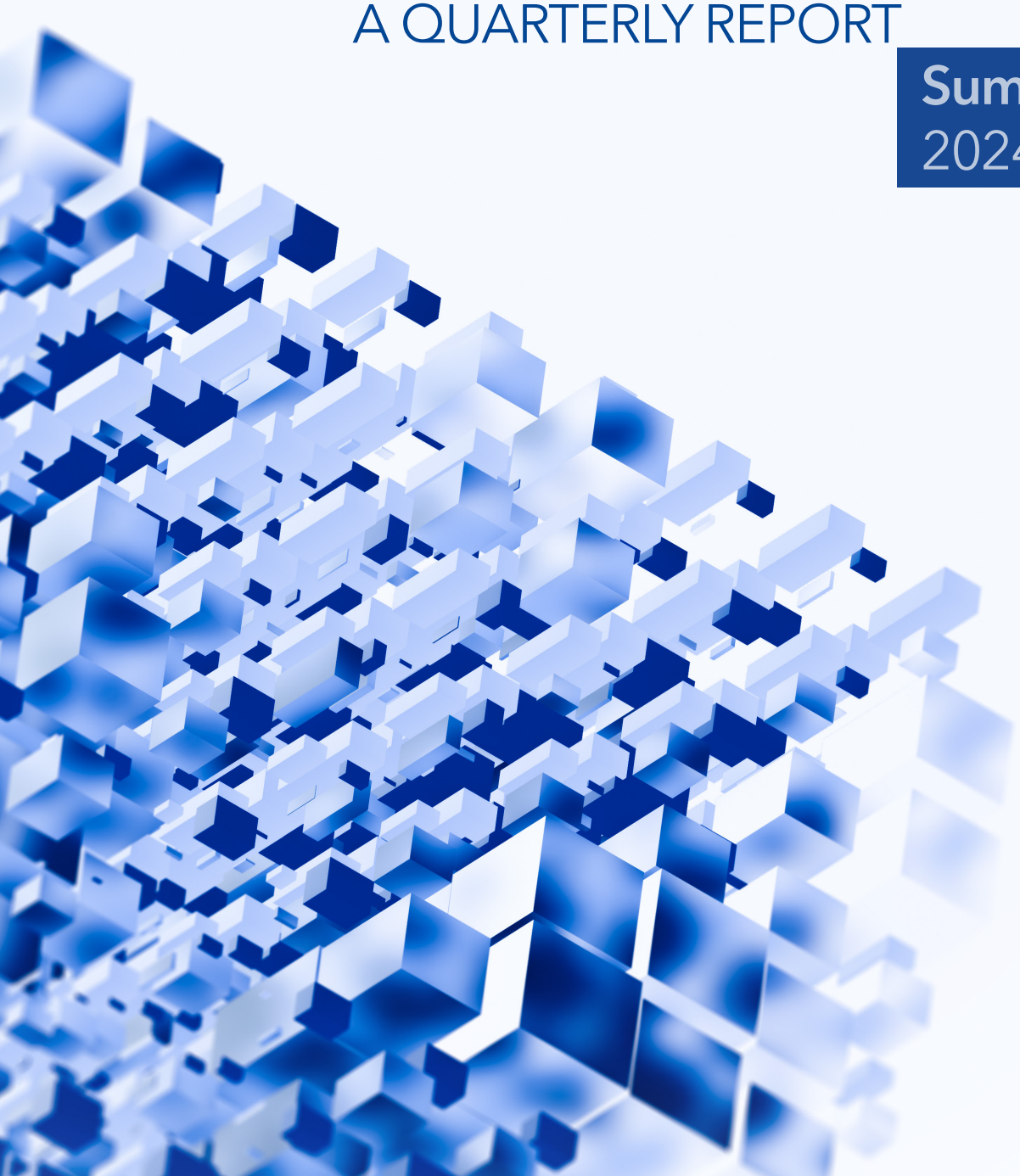
بانک خاورمیانه
Middle East Bank

RECENT

ECONOMIC DEVELOPMENTS IN IRAN

A QUARTERLY REPORT

Summer 1403
2024Q3



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The data, information and analyses presented in this Report are for information purposes only. All data and information used are the latest available at the time of publication (Oct 3, 2024) and have been taken from the referenced sources. While every effort has been made to keep them up-to-date and correct, no representations or warranties of any kind, express or implied, are made about their completeness, accuracy, reliability or suitability for any purpose. Your use of this Report does not entail any responsibility or obligation by Middle East Bank or any entity or person associated with it.

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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 second quarter of 1403" indicates the percentage change in oil revenues between the second quarter of 1402 and the second 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 first two quarters of the year 1403 that starts on March 20, 2024 and ends on September 21, 2024. The second quarter of 1403 (referred to as 1403Q2), summer of 1403, roughly corresponds to the third quarter of 2024 in the Gregorian Calendar (2024Q3).

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

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

1403Q2 = 06/21/2024 - 09/21/2024, roughly 2024Q3

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 13
2. Prices and Inflation 15
3. Balance of Payments 17
4. Foreign Exchange Market 19
5. Monetary & Credit Aggregates 21
6. Fiscal Policy 24
7. Capital Market 28
8. Other Developments 31
9. Key Points 32

IRAN'S ECONOMY AT A GLANCE

	1401	1402Q1	1402Q2	1402Q3	1402Q4	1402	1403Q1	1403Q2
Labor Force Participation & Unemployment Rates (percent)								
Participation (15 Years and Over)	40.9	41.2	41.6	41.5	40.8	41.3	41.2	-
Unemployment (15 Years and Over)	9.0	8.2	7.9	7.6	8.6	8.1	7.7	-
Unemployment (Youth Aged 15-24)	22.6	21.6	20.1	20.6	22.5	21.2	20.0	-
Real Growth Rates of GDP and Its Subsectors at Constant 1395 Prices (percent)								
Gross Domestic Product (GDP)	4.0	5.7	3.8	4.2	4.5	4.5	3.2	-
Industries and Mining	6.5	3.8	3.7	3.8	6.6	4.5	3.6	-
Oil	10.0	16.5	17.8	14.3	10.2	14.7	9.5	-
Agriculture	1.1	0.6	0.1	0.2	0.1	0.2	3.1	-
Services	2.7	5.6	3.1	3.7	2.8	3.8	1.9	-
Non-oil GDP	3.5	4.6	2.7	3.3	3.9	3.6	2.5	-
Gross Fixed Capital Formation (at market prices)	*6.7*	*1.4*	*6.2*	*4.4*	*14.2*	*7.2*	*4.6*	-
Oil (daily average - thousand barrels)								
Production*	2,565	2,692	2,999	3,153	3,173	3,004	3,237	-
Point-to-Point Inflation Rates (percent)								
Growth Rate of Consumer Price Index (1400=100)	45.8	50.6	39.5	39.6	35.4	40.7	31.3	31.7
Growth Rate of Producer Price Index (1395=100)	44.7	42.4	45.3	43.6	36.6	38.4	30.8	-
Balance of Payments (USD million)								
Oil Exports	55,410	13,626	14,496	14,193	14,469	56,784	-	-
Non-oil Exports	42,247	9,926	10,293	11,559	11,804	43,582	-	-
Imports of Goods	75,409	17,338	19,639	22,027	18,855	77,904	-	-
Goods Account (net)	22,247	6,213	5,151	3,679	7,418	22,462	-	-
Non-oil Goods Account (net)	-33,163	-7,319	-9,251	-9,526	-7,025	-33,122	-	-
Current Account	14,205	4,393	2,622	-688	3,975	10,301	-	-
Capital Account	-15,069	-9,354	-6,024	-4,814	-3.042	-23,235	-	-
Change in Foreign Reserves	4,033	-81	1,124	182	714	1,939	-	-
Foreign Exchange Rates (USD/IRR daily average)								
Free Market (bill)	343,536	507,098	495,618	506,254	554,401	514,999	611,620	593,642
Secondary Market (remittance)	273,571	379,171	376,865	378,503	396,295	382,158	414,654	444,904
Monetary and Credit Aggregates (end of period - IRR trillion)								
Monetary Base (M0) **	8,548.0	9,028.9	9,811.3	10,231.9	10,906.3	10,906.3	11,130.3	-
CBI Claims on Banks	3,912.4	3,933.3	5,211.0	6,205.0	7,713.5	7,713.5	6,684.8	-
CBI Claims on Public Sector (net)	-1.848.9	-628.3	77.1	-227.2	-1,786.8	-1,786.8	-635.4	-
CBI Net Foreign Assets	3,024.9	3,015.2	4,927.3	4,486.1	18,537.1	18,537.1	19,084.1	-
Liquidity (M2)	63,376.8	65,859.7	70,991.2	74,980.0	78,774.5	78,774.5	83,839.9	-
Money (M1)	16,296.9	16,947.2	17,913.2	18,013.7	19,146.4	19,146.4	20,536.6	-
Sight Deposits	15,070.8	15,747.6	16,677.7	16,745.7	17,677.6	17,677.6	19,100.7	-
Non-sight Deposits (quasi-money)	47,079.9	48,912.5	53,078.0	56,966.3	59,628.1	59,628.1	63,003.3	-
M2 Money Multiplier	7.41	7.29	7.24	7.33	7.22	7.22	7.53	-
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	2,173,893	2,121,213	2,210,217	2,195,092	2,195,092	2,043,980	2,097,005
Financial Index	1,706,287	2,007,970	1,903,131	1,949,564	1,917,728	1,917,728	1,795,664	2,664,767
Industrial Index	1,867,406	2,052,976	2,012,057	2,101,115	2,089,989	2,089,989	1,944,126	1,996,195
Market Capitalization (IRR trillion)	75,213	82,508	77,261	80,094	79,408	79,408	73,477	71,954

Source: Various reports of Central Bank of the Islamic Republic of Iran (CBI), Statistical Centre of Iran (SCI) and Tehran Stock Exchange (TSE)
* According to OPEC reports from secondary sources
**The figures of spring and winter 1402, the year 1402 as a whole, and spring 1403 are revised based on the new categorization of Monetary Base. The USD/IRR exchange rate for conversion of the Net CBI Foreign Assets has risen from the end of winter 1402.

INTRODUCTION

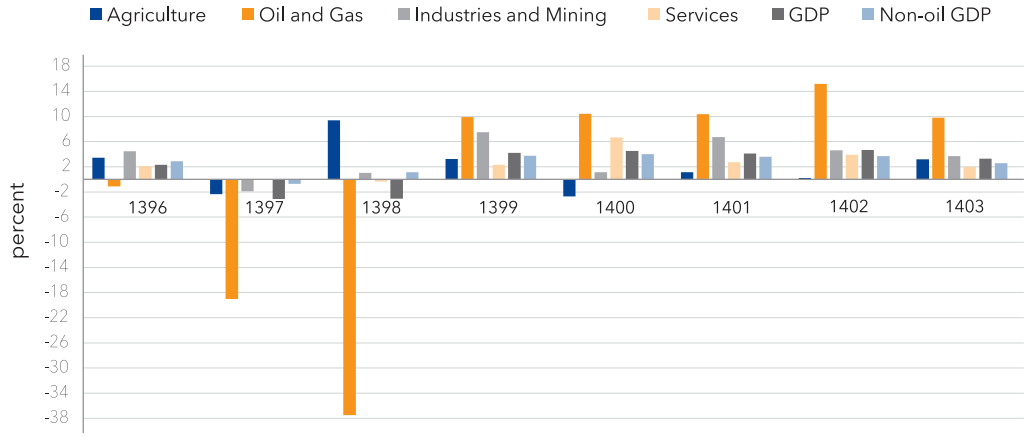
In this quarterly Report, the Iranian economy is investigated by its various sectors. The Report starts with going over the real sector of the economy including GDP developments with its growth rate in spring 1403 (hereafter referred to as 1403Q1) based on the Central Bank of Iran (CBI) statistics. The chapter proceeds with the developments of production and price developments of Iran's crude oil till the fifth month of 1403, developments of the labor market in 1403Q1, and finally the developments of the housing prices and transactions in the first five months of 1403. 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 summer 1403 and that of the Producer Price Index (PPI) to the end of the first month of the same quarter. In the third chapter, the changes in the customs imports and exports in the first half of 1403 (hereafter referred to as 1403H1) are investigated. The daily developments of the US Dollar price in the domestic free market and the secondary market are explored in summer 1403 in chapter 4. In the succeeding chapter, the monetary and credit aggregates are analyzed by monetary base, money, quasi-money, and liquidity till the end of 1403Q1. Moreover, a summary of assets and liabilities of the banking system is presented in the same quarter. The data on deposits and extended facilities till the end of the fifth month of 1403 are also provided.

Chapter six of the Report continues with the assessment of Government fiscal performance in the first five months of 1403 according to the Supreme Audit Court report. In addition, the realization rate of Tax Revenues and Issuance of Government Debt Securities in 1403H1 have been covered 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 1403H1 are discussed. The Report concludes with an examination of income distribution in Iran on the basis of the recent report of the Statistical Center of Iran (SCI) in that regard.

1. REAL SECTOR

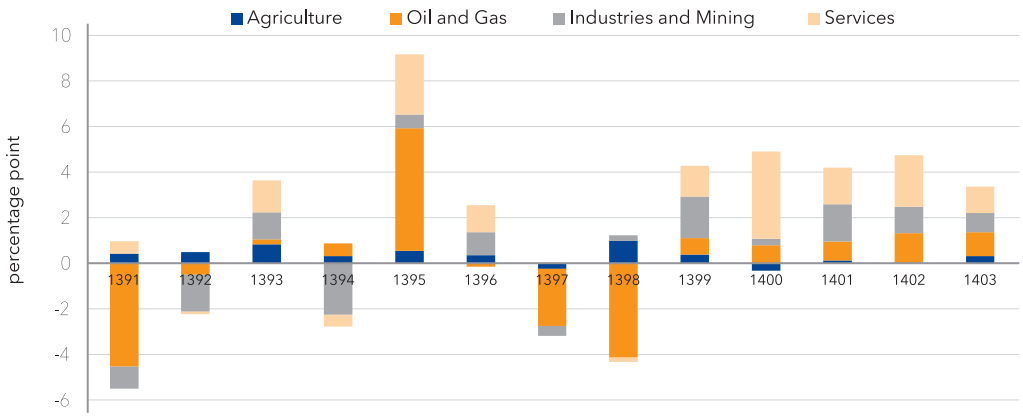
The Iranian economy grew by 3.2 percent in spring 1403, on the basis of the latest CBI report. During 1403Q1, all the main sectors of the economy expanded and much of the 3.2 percent GDP growth rate in the period under review was owed to 1.1 and 1.0 percentage points contributions of the Services sector and Oil sector, respectively. Note that the share of Oil sector in GDP growth rate of 1402Q1 registered 1.5 percentage points and in that of the year 1402 registered 1.2 percentage points. The Oil sector expanded by 9.5 percent in 1403Q1 in line with its remarkable growth rates of 16.5 percent in 1402Q1 and 14.7 percent in the year 1402. The positive growth rates of the Oil sector in recent years could be partly attributed to loosening of economic sanctions and the rise in the oil exports of Iran to China aiming for controlling the global oil prices. Moreover, the Non-oil GDP growth rate in 1403Q1 is estimated 2.5 percent, i.e., out of the 3.2 percent of GDP growth rate, 0.7 percentage point belonged to the Oil sector. The GDP growth rate by various sectors of the economy is depicted in Graph 1 and shares of each sector in GDP growth rate of recent years are shown in Graph 2.

Graph 1. Economic Growth Rate by Various Sectors*



Source: Central Bank of Iran
* The data of 1403 covers the first three months of the year only.

Graph 2. Share of Various Sectors in Economic Growth Rates*



Source: Central Bank of Iran
* The data of 1403 covers the first three months of the year only.

Given that Agriculture sector in the national accounts of Iran encompasses activities including Farming, Forestry, Hunting, Animal Husbandry, Aviculture, and Fishery, the sector has not been investigated in detail in CBI report of 1403Q1. All in all, Agriculture sector has expanded by 3.1 percent in spring 1403 compared to the same quarter of 1402 due to the 6.3 percent and 3.5 percent expansions in Farming products and Livestock products, respectively, and the 0.1 percent contraction in Horticultural products in the same period. The 3.1 percent expansion of Agriculture sector in comparison with its 0.6 percent and 0.2 percent growth rates of 1402Q1 and the year 1402 signals that the sector has come out of the recession in 1403Q1. Agriculture sector has accounted for about 12.0 percent of GDP in 1403Q1.

In accordance with the CBI data, the Industries and Mining sector constituted 25.7 percent of GDP in 1403Q1, standing 1.9 percentage points below that in 1402Q1. The sector contains five subsectors of "Manufacturing", "Mining", "Electricity, Gas, Steam and Air Conditioning Supply", "Water supply; Sewerage, Waste management and Remediation Activities" and "Construction" that, respectively, expanded by 3.1 percent, 5.1 percent, 1.3 percent, 1.4 percent, and 7.4 percent in spring 1403. The Construction subsector grew by 7.4 percent in 1403Q1 compared to the 1.6 percent in 1402Q1, accounting for 0.3 percentage point of the 3.2 percent total GDP growth rate of the same quarter. Note that the growth rate of Construction subsector in private sector registered positive 7.7 percent while in the public sector registered negative 0.3 percent, indicating expansion in the supply side of the private construction. All in all, the Industries and Mining grew by 3.6 percent in 1403Q1, indicating 0.2 percentage point drop from 1402Q1 and 0.9 percentage point drop compared to the year 1402.

The Services sector as the largest sector of the economy accounted for 51.5 percent of GDP in spring 1403. The value added of the Services sector grew by 1.9 percent in 1403Q1 at constant prices from 1402Q1 based on the CBI. Among the subsectors of the Services, Public Administration and Defence, Compulsory Social Security, Administrative and Support Service Activities, Accommodation and Food Services Activities, Human Health and Social Work Activities, and Financial and Insurance Activities, respectively, contracted by 7.8 percent, 1.9 percent, 1.8 percent, 1.0 percent, and 0.5 percent. The rest of the subsectors have experienced positive growth rates with Art, Entertainment, and Recreation with the highest growth rate of 16.4 percent. The Information and Communication subsector itself with its 10.7 percent expansion in 1403Q1, formed 0.6 percentage point of the 3.2 percent GDP growth rate of the same quarter. The details of GDP growth rate in 1403Q1 and the years 1401 and 1402 are presented in Table 1.

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

	1401					1402					1403	Share in Growth Rate of 1403Q1
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	
Agriculture	1.9	0.8	1.1	1.5	1.1	0.6	0.1	0.2	0.1	0.2	3.1	0.3
Oil and Gas	3.5	10.5	15.4	12.0	10.0	16.5	17.8	14.3	10.2	14.7	9.5	1.0
Industries and Mining	0.0	8.5	8.2	9.0	6.5	3.8	3.7	3.8	6.6	4.5	3.6	0.8
Services	2.3	2.4	3.0	2.9	2.7	5.6	3.1	3.7	2.8	3.8	1.9	1.1
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**	**2.5**	-
GDP (at basic prices)	**1.9**	**3.9**	**4.9**	**5.3**	**4.0**	**5.7**	**3.8**	**4.2**	**4.5**	**4.5**	**3.2**	**3.2**

Source: Central Bank of Iran

On the demand side of the economy, the Private Consumption Expenditures (at constant prices) rose by 0.7 percent in 1403Q1. Note that the downward path of the Private Consumption Expenditures reversed course in the early 1400 and this variable grew by 3.9 percent in 1400, 8.7 percent in 1401, and 4.1 percent in 1402, far above its growth rate in 1403Q1. Accordingly, the upward trend of the Private Consumption Expenditures seems to be about to end and without rise in Government Consumption Expenditures and Fixed Capital Formation, maintaining positive GDP growth rate might be disrupted. The Government Consumption Expenditures that experienced a remarkable 8.3 percent growth rate in 1400, continually contracted by 3.6 percent in 1401, by 1.7 percent in 1402, and by further 7.3 percent in 1403Q1.

Moreover, on the basis of the CBI report, the Gross Fixed Capital Formation in 1403Q1 grew by 4.6 percent. The categorization of Fixed Capital Formation in the CBI books was revised from 1400Q1 onwards and a third group titled Other Fixed Capital Formation joined to the two initial groups of Construction and Machinery. The newly added

group contains R&D expenditures, mine exploration, precious items, and other items. The Fixed Capital Formation in Construction rose by 7.5 percent in 1403Q1, but in Machinery expanded by 0.7 percent only compared to 1402Q1. The subgroup of Other Fixed Capital Formation showed 3.8 percent contraction in the same period.

As for the international trade, the Exports and Imports of Goods and Services expanded by 8.1 percent and 6.0 percent, respectively, in spring 1403. The GDP growth rate from the expenditure side is presented in Table 2.

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

	1401					1402					1403
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1
Private Consumption Expenditures	**6.4**	**5.4**	**10.9**	**12.1**	**8.7**	**8.3**	**3.6**	**1.1**	**3.7**	**4.1**	**0.7**
Public Consumption Expenditures	**-6.5**	**-9.1**	**16.2**	**-10.6**	**-3.6**	**4.1**	**-3.5**	**-8.7**	**1.8**	**-1.7**	**-7.3**
Gross Fixed Capital Formation	**-1.4**	**6.6**	**15.1**	**6.0**	**6.7**	**1.4**	**6.2**	**4.4**	**14.2**	**7.2**	**4.6**
Machinery	15.1	11.8	24.9	10.6	15.4	0.5	11.3	6.2	11.3	7.9	0.7
Construction	-9.4	3.9	6.9	3.2	1.2	1.7	3.4	3.3	17.1	7.1	7.5
Other	-8.7	0.7	19.5	-8.1	-0.4	6.8	-4.1	-8.2	3.9	-0.5	-3.8
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	8.1
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	6.0
GDP at Market Prices	**2.2**	**3.2**	**4.1**	**5.7**	**3.8**	**6.3**	**4.1**	**4.7**	**5.3**	**5.0**	**4.2**

Source: Central Bank of Iran

The reported GDP growth rate by the SCI is different from that of CBI. Note that SCI uses the year 1400 as the base year for the calculations but the CBI still uses the year 1395 in that regard. In accordance with the SCI report, the GDP growth rate in 1403Q1 at basic prices registered 4.6 percent and excluding the Oil sector, registered 2.6 percent. The Extraction of Oil and Natural Gas as a subgroup of Industries and Mining in the SCI reports that was continually experiencing one-digit positive growth rates from 1399 to 1401, expanded by 14.3 percent in 1402 and by 10.2 percent in 1403Q1, accounting for 2.5 percentage points of the 4.6 percent GDP growth rate in spring 1403. Out of the 5.8 percent growth rate of the Industries and Mining sector in 1403Q1, 4.4 percentage points is attributed to the Extraction of Oil and Natural Gas. In the absences of this subsector from Industries and Mining sector, the growth rate of the sector plummets to 2.4 percent. Additionally, the subsector of Natural Gas Distribution that contracted by 8.4 percent during 1402, experienced positive 6.0 percent growth rate in 1403Q1.

The SCI report suggests that the Services sector has grown by 3.1 percent in spring 1403. Among the subsector of Services, Financial Intermediation expanded by 4.7 percent, while its corresponding subsector in the CBI report titled Financial and Insurance Activities has contracted by 0.5 percent.

The 2.3 percent growth rate of Private Consumption Expenditures and 3.7 percent growth rate of the Public Consumption Expenditures in the SCI report are far different from those of the CBI report. As for the Gross Fixed Capital Formation, the SCI report suggests 4.4 percent expansion in Machinery and 2.2 expansion in Construction that are considerably distinct from the corresponding figures in the CBI report.

1-1. Oil Sector

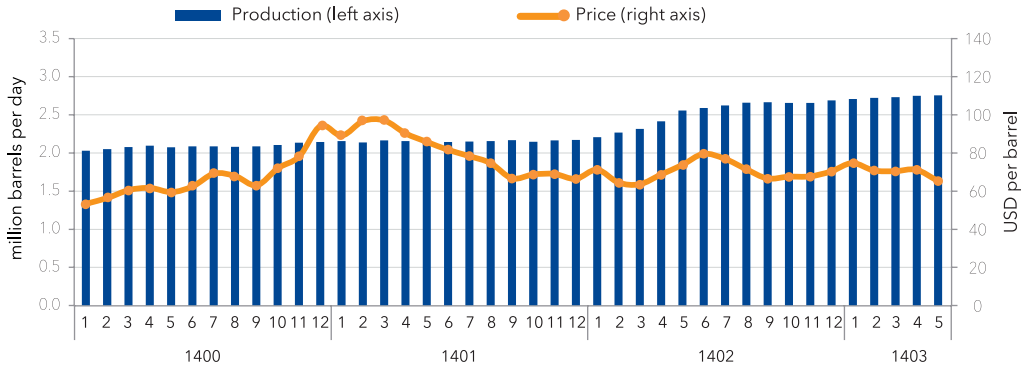
The Oil sector that had considerably lost its share in Iran's GDP during 1398 and 1399 due to the imposition of the economic sanctions, regained its share gradually after the new US Democrat Government took office and the global oil prices rose. In 1403Q1, Oil and Gas formed 10.8 percent of the value-added of the Iranian economy at current prices, indicating 0.5 and 2.0 percentage points rises, respectively, compared to 1402Q1 and the year 1402 as a whole, the preliminary CBI report suggests. The share of Oil sector in GDP at current prices that had fallen from 14.5 percent in 1397 to 3.7 percent in 1399, reversed course and registered 7.0 percent in 1400 and 11.8 percent in 1401. Unlike its two

preceding years, in 1402 the Oil sector accounted for 8.5 percent of GDP only. On the basis of the OPEC data from the secondary sources, in August 2024 (corresponding to mid-summer 1403) the domestic oil production reached the high of 3.3 million barrels per day (mbpd) from 1397 onwards and up 7.7 percent from the same month of 2023. However, this production level was still below the 3.8 mbpd in post JCPOA[1] era.

On the basis of the Tanker Trackers website[2], Iran's exports of crude oil and natural gas condensates averaged 1.63 mbpd in August 2024, down 8.3 percent from that in July 2024 and also below the levels in its preceding months. Out of Iran's exports of crude oil and natural gas condensates in August 2024, about 94.2 percent - equaling 1.53 mbpd - has been exported to China. In fact, the sizeable demand of China in conjunction with the loosening of economic sanctions have been the major contributors to the rise in oil exports of Iran. The Iranian exports of crude oil that had plummeted to 200 thousand bpd in 1398, dropped further and as a result of the COVID-19 pandemic and the fall in global demand of oil stood below 100 thousand bpd. However, this fall in exports did not last long and 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 also contributed to the rise in Iran's oil exports. However, China was the main oil export destination of Iran, albeit with considerable price discounts as well as a vague method of settlements.

Iran's crude oil price that was above 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 report, the price of Iran's heavy crude oil that had registered USD57.5 a barrel on average in 2021, climbed to USD101.8 a barrel in 2022 on average. It again dropped by 19.7 percent to average USD81.7 a barrel in 2023 and finally USD77.6 a barrel in August 2024, indicating 11.4 percent and 8.2 percent falls from August 2023 and July 2024, respectively. Graph 3 illustrates the price and production of Iran's heavy crude oil from 1400 onwards.

Graph 3. Average 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.

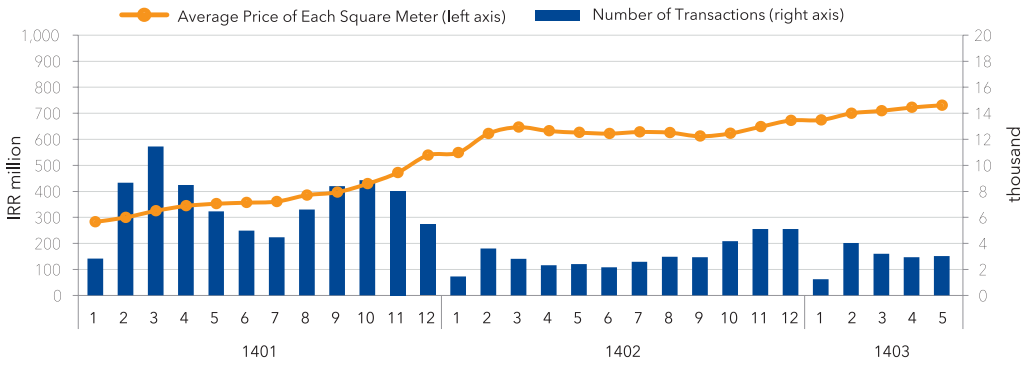
1-2. Housing

The average price of a square meter of residential units[3] traded in Tehran city through the real estate agencies rose to IRR885.0 million in the second month of 1403Q2, indicating 16.8 percent rise from the IRR757.9 million in the same period of 1402. However, the average price of housing in Tehran city rose at lower pace compared to the general price

1. The Nuclear Deal between Iran and P5+1, known as the Joint Comprehensive Plan of Action (JCPOA)
2. As data on Iran's exports of crude oil is considered confidential and is not officially published, the data from TankerTrackers.com has been used in this Report. The website is an independent online service that tracks and reports shipments of crude oil in several geographical and geopolitical points of interest.
3. This average price generally depicts an overview of the housing price developments in Tehran city. Given that the traded units are not homogenous, various aspects including quality of the neighborhood, floor, facilities, quality of constructions, etc. ought to be considered while comparing the prices in various months.

levels, i.e., 14.8 percentage points below the point-to-point CPI inflation rate in the period under review, hence the real price of housing has decreased in that period.[4] In the second month of summer 1403, among the 22 municipal zones of Tehran city, the highest price of a square meter of residential units was registered for zone 1 at IRR1,790.1 million, while the lowest price was registered for zone 18 at IRR421.2 million. The price difference between zones 1 and 18 in the second month of summer 1403 reached 325.0 percent, showing 76.4 percentage points rise from the end of 1402. In other words, the housing price in relatively expensive zones of Tehran city has risen at higher pace than in cheaper zones in 1403, unlike its preceding period. Accordingly, it conveys that in addition to increased inequality, the lower-income people have further lost their purchasing power and also part of the population of cheaper zones of Tehran city have been left with no choice but to move to satellite towns. In the second month of 1403Q2, in the housing market of Tehran city 3,665 transactions took place, showing 26.2 percent rise from the same period of 1402 and 3.0 percent rise from the first month of 1403Q2. During the first five months of 1403, the monthly number of transactions in Tehran city housing market averaged 3,496, up 14.9 percent from the 3,043 in the same period of 1402. Graph 4 depicts the developments of price and number of transactions in the housing market of Tehran city from 1401 onwards.

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



Source: Central Bank of Iran

Furthermore, in the second month of 1403Q2, the index of housing rental prices in Tehran city grew by 45.5 percent compared to the same period of 1402, above the housing price growth rate in the period under review. Note that the point-to-point growth rate of the index of housing rental prices in Tehran city followed a continuous downward path and from 58.9 percent at the end of summer 1402 reached 44.5 percent at the end of winter of that year, however, during the first five months of 1403, its developments were not that volatile.

In addition, 55.7 percent of the transactions in the housing market of Tehran city in the second month of summer 1403 belonged to the small apartments[5], showing 2.1 percentage points rise compared to the first month of summer and generally above their share in total transactions in its preceding months. The price of a square meter of 57.0 percent of the traded residential units in Tehran city stood below the average price of the city. Besides, close to half of the traded units were sold at prices below IRR60 billion.

An examination of the traded residential units in Tehran city by age of the buildings reveals that during the first five months of 1403, out of the 15,214 traded units, 27.1 percent aged up to five years, registering the highest share in total number of transactions, but 1.2 percentage points below that in the same period of 1402. On the contrary, in the same period, the traded residential units aged 20 years and above accounted for 24.3 percent of the total transactions in Tehran city, indicating 1.4 percentage points rise compared to the 22.9 percent share during the first five months of 1402. Table 3 compares the number of traded residential units in Tehran city by age in the first five months of 1402 and 1403.

4. The point-to-point inflation rate of a square meter of residential units in the second month of summer 1402 recached 77.4 percent to stand 37.6 percentage points above the CPI Inflation rate, translating to considerable rise in real housing prices in that period.

5. Apartments with area of less than 80 square meters.

Table 3. Number of Traded Residential Units in Tehran City by Age in the First Five Months of 1402 and 1403

Age of the Building (year)	Number of Transactions		Percentage Change	Share in Total (percent)	
	1402	1403		1402	1403
Up to 5	4,311	4,743	10.0	28.3	27.1
6 to 10	2,552	2,817	10.4	16.8	16.1
11 to 15	2,646	3,385	27.9	17.4	19.4
16 to 20	2,225	2,281	2.5	14.6	13.0
Above 20	3,480	4,253	22.2	22.9	24.3
Total	**15,214**	**17,479**	**14.9**	**100.0**	**100.0**

Source: Central Bank of Iran

1-3. Labor Market

On the basis of the SCI report, in spring 1403 the unemployment rate of the population aged 15 years and above dropped by 0.5 and 0.9 percentage points compared to spring 1402 and winter 1402 to register 7.7 percent. Moreover, the share of underemployment (working less than 44 hours a week) reached 7.9 percent in 1403Q1, 0.4 percentage point below that of 1402Q1. Other labor market indices including the employment ratio (number of employed to the total population at working age) and the unemployment rate of the population with higher education improved in the same quarter compared to the same period of its preceding year. The economic participation rate in 1403Q1 remained the same as 1402Q1, but rose by 0.4 percentage point from 1402Q4.

In spring 1403 and compared to the same quarter of 1402, the unemployment rate among males fell by 0.6 percentage point to 6.2 percent, while among females rose by 0.2 percentage point to 15.0 percent. During the period under discussion 439.8 thousand individuals have been added to the employed population, of which 349.4 thousand were male and the remaining 90.5 thousand were female. Accordingly, the employment ratio of males and females at working age grew by 0.3 and 0.1 percentage points compared to 1402Q1, respectively, to register 64.0 percent and 12.1 percent in 1403Q1, causing the total employment ratio to rise by 0.2 percentage point to 38.0 percent in the same time span. Furthermore, out of the 2.1 million unemployed population in spring 1403, 1.4 million aged 18 to 35 years with the unemployment rate of 15.0 percent - 0.5 percentage point below that in 1402Q1. In spring 1403, 892.3 thousand individuals with higher education were unemployed, indicating 11.6 percent unemployment rate in that group, 7.8 percent in males and 20.0 percent in females. The unemployment rate in males with higher education fell by 0.3 percentage point and in females fell by 1.0 percentage point compared to spring 1402. All in all, in 1403Q1 the unemployed population with higher education constituted 43.0 percent of the total unemployed population of the country, showing 2.2 percentage points rise from 1402Q1. Out of the 892.3 thousand unemployed population with higher education in spring 1403, 46.5 percent were male and the remaining 53.5 percent were female. From the higher unemployment rate among university graduates than the total unemployment rate, it is grasped that higher education has not facilitated finding job and has even served as an obstacle in that regard. However, due to the rise in the population of people with higher education, in spring 1403 their share in total employed people rose by 1.1 percentage points to 27.6 percent.

Furthermore, in spring 1403 compared to spring of its preceding year, 781.5 thousand individuals were added to the working age population with 48.5 percent of males (379.2 thousand) and 51.5 percent of females (402.3 thousand). During the same quarter, 350.4 thousand individuals were added to the active population, accounting for 44.8 percent of the figure added to the working age population. Out of the total individuals added to the active population, 235.4 thousand equivalent to 67.2 percent were males and the remaining were females. Subsequently, in 1403Q1 as in the same quarter of its preceding year, 41.2 percent of total working age population were active. As for the females at working age, 14.3 percent equal to 4.7 million were active but only 4 million of them were successful in finding a job. In the years 1401 and 1402, the active female population grew after a long time, while in their preceding years, the number of females at working age were continually growing, while the female active population was decreasing. In spring 1397, about 5.6 million females were able and willing to work, but in winter 1400, that number diminished to 4.1 million. The population of active females in the labor market started to

increase in 1401 and 1402 to reach 4.3 million and 4.5 million, respectively, and finally closed spring 1403 at 4.7 million.

In spring 1403, out of 24.7 million of employed population, 52.4 percent were enrolled in Services sector, 33.0 percent in Industry sector, and the remaining 14.5 percent in Agriculture sector. Part of the employed population were underemployed, i.e., due to some economic conditions like fall in production or as such, they have worked less than 44 hours a week, notwithstanding their willingness to work more. In 1403Q1, about 2.0 million of the employed population, equivalent to 7.9 percent were underemployed, 0.4 percentage point below that of 1402Q1. Table 4 compares the major labor market indices in springs of 1402 and 1403.

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

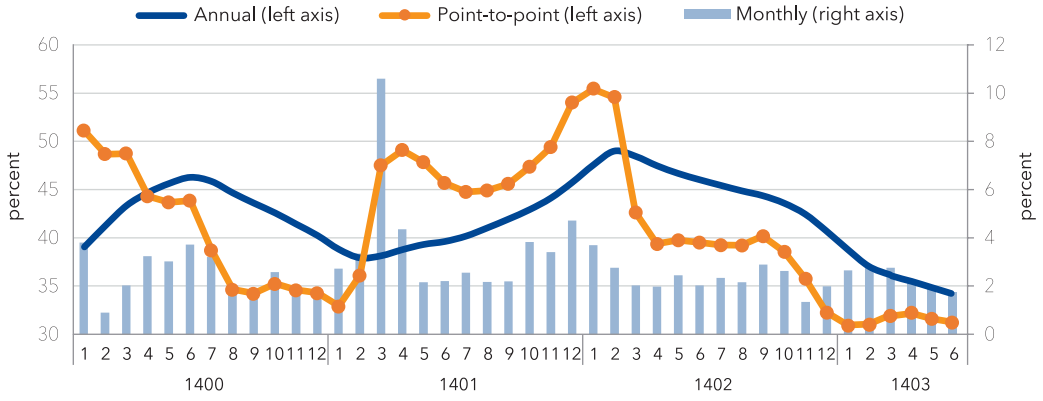
		1402Q1			1403Q1		
		Total	Male	Female	Total	Male	Female
Economic Participation	Rate (percent)	41.2	68.3	14.1	41.2	68.3	14.3
	Number (million)	26.5	21.9	4.5	26.8	22.2	4.7
Employment	Rate (percent)	37.8	63.7	12.0	38.0	64.0	12.1
	Number (million)	24.3	20.4	3.9	24.7	20.8	4.0
Unemployment	Rate (percent)	8.2	6.8	14.8	7.7	6.2	15.0
	Number (million)	2.2	1.5	0.7	2.1	1.4	0.7
Unemployment of Population Aged 18 to 35	Rate (percent)	15.5	12.8	26.2	15.0	12.2	25.4
	Number (million)	1.5	1.0	0.5	1.4	0.9	0.5
Unemployment of Population with Higher Education	Rate (percent)	12.1	8.1	21.0	11.6	7.8	20.0
	Number (million)	0.9	0.4	0.5	0.9	0.4	0.5
Share of Underemployment (percent)		8.3	9.0	4.4	7.9	8.5	4.6
Population Aged 15 and Over (million)		64.3	32.1	32.2	65.0	32.5	32.6

Source: Statistical Center of Iran

2. PRICES AND INFLATION

On the basis of the latest SCI report, the CPI inflation rate that had dropped to below 40 percent in the first month of 1403, maintained its downward path and closed summer 1403 at the low of 34.2 percent from 1400 onwards. Moreover, the point-to-point CPI inflation rate that was increasing from mid-spring 1403, reversed course in the first month of summer and reached 31.2 percent at the end of that quarter. In the same vein, the monthly CPI inflation rate started to fall from the early summer of 1403 to close that quarter at 1.7 percent. Graph 5 illustrates the CPI inflation rates from the beginning of 1401 till the end of 1403Q2..

Graph 5. CPI Inflation Rates



Source: Statistical Center of Iran

Following its upward trend from the late 1401Q1, the annual CPI inflation rate exceeded 40 percent from 1401Q3 and in the second month of 1402 even approached 50 percent, but again reversed course and after one and half year fell below 40 percent in the first month of 1403. Maintaining its downward path, the annual CPI inflation rate registered 35.3 percent, 34.8 percent, and 34.2 percent, respectively, in the three consecutive months of summer 1403 with all the rates about 12 percentage points below those in the corresponding months of summer 1402. In addition to the adjustments of inflationary expectations, this could be mainly attributed to the CBI macroprudential policy that has been implemented since 1400. On the basis of the latest CBI statistics, the average monthly growth rate of liquidity (M2) in 1402 and 1403Q1 stood below the decreed cap for monthly growth rate of banks' balance sheets, conveying that the CBI policy in reining in the inflation rate has succeeded.[1] The point-to-point CPI inflation rate that had touched the low of 30.9 percent in the first month of 1403 in the past three years, increased in its three following months to reach 32.2 percent in the first month of 1403Q2, but dropped again and registered 31.6 percent and 31.2 percent in the second and third month of the same quarter, respectively. All in all, the point-to-point CPI inflation rates throughout the three months of summer 1403, respectively, fell by 7.1, 8.2, and 8.3 percentage points compared to the same months of summer 1402. Moreover, the monthly CPI inflation rate that was increasing from the last month of 1402, turned into a downward path and reached 2.2 percent, 2.0 percent, and 1.7 percent in the first, second, and third month of 1403Q2.

An examination of the CPI by the twelve groups of the consumption basket of goods and services of the Iranian households reveals that at the end of 1403Q2, Restaurants and Hotels had the highest annual inflation rate of 45.3 percent, whilst Foods and Beverages had the lowest of 29.0 percent. As for the monthly CPI inflation rates, Education experienced the highest rate of 3.3 percent while Communication had the lowest rate of 0.5 percent in the same month. The highest point-to-point CPI inflation rate in the period under review belonged to Housing, Water, Electricity, and Other Fuels at 41.5 percent, while Communication had the lowest rate of 21.0 percent among the groups of the basket. In terms of the weights in the consumption basket, during summer 1403, in Housing, Water, Electricity, and Other Fuels with the highest weight

1. For more information in this regard take look at chapter 5 of the Report, Monetary and Credit Aggregates.

in the basket, the annual inflation rate opened 1403Q2 at 40.3 percent and with a slight but continuous rise closed that quarter at 40.9 percent. As for Foods and Beverages as the second group in terms of weight, the annual inflation rate fell slightly and from 31.3 percent in the first month of 1403Q2 reached 29.0 percent at the end of that quarter. Note that the two aforementioned groups constitute much of expenditures of the first three cost deciles - above 70 percent of their costs. Moreover, the data on monthly CPI inflation rates by cost deciles indicate that except the first month of 1403Q2, in the second and third months of that quarter the monthly inflation rate of Foods and Beverages in the first three cost deciles has stood above that in the last cost decile, translating to higher cost pressure on the first three deciles in those two months. On the basis of the latest SCI report, throughout 1403Q2, among the provinces of Iran the highest annual CPI inflation rate belonged to Isfahan province and the Lowest to Sistan and Bluchestan province. The CPI inflation rates in the twelve major groups of the consumption basket of goods and services at the end of summer 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 Summer 1403 (percent)

	Base Year (1400) Weight	Inflation Rate		
		Monthly	Point-to-point	Annual
Overall	**100.00**	**1.7**	**31.2**	**34.2**
Housing, Water, Electricity and Other Fuels	36.11	2.9	41.5	40.9
Foods and Beverages	28.82	0.9	23.8	29.0
Transport	8.93	0.6	28.9	29.4
Health	6.68	1.2	27.8	32.6
Clothing and Footwear	4.52	1.6	30.3	38.5
Others	4.42	1.8	34.7	36.4
Household Equipment	4.40	1.8	24.6	29.6
Communication	2.41	0.5	21.0	19.1
Restaurants and Hotels	1.35	1.7	32.8	45.3
Education	0.88	3.3	40.0	40.7
Recreation and Culture	0.87	2.6	28.2	35.8
Tobacco	0.62	0.8	25.9	35.3

Source: Statistical Center of Iran

The latest SCI data on the PPI covered spring 1403 while preparation of this Report but the CBI data covered PPI till the end of the first month of summer. According to the CBI, the annual PPI inflation rate as a leading indicator of the CPI inflation rate that had started to decrease from winter 1402, dropped to below 30 percent and registered 29.7 percent at the end of 1403Q1 and decreased further to open 1403Q2 at 29.0 percent. The decrease in the annual PPI inflation rate to below 30 percent at the end of spring 1403 compared to the rates above 80 percent in the year 1400 is remarkable and could be attributed to the implementation of the macroprudential policy of the CBI, foreign exchange market stability, and enhanced international trade. Even though the PPI inflation rates in the SCI report are above those of the CBI, they follow similar trends. Hence, if the downward path of the PPI inflation rate continues, further decrease in CPI inflation rate seems plausible.

3. BALANCE OF PAYMENTS

The CBI has yet to publish the data on the Balance of Payments for the year 1403 while preparation of this Report. Hence, in order to avoid unnecessary repetition of the data of the previous issue, the latest data on Customs Tarde for the first half of 1403 has been investigated in this chapter only.

According to the Islamic Republic of Iran Customs Administration (IRICA), in 1403H1 the customs non-oil goods exports of Iran registered about 70.3 million tons valued at USD25.8 billion and its imports reached 18.3 million tons valued at USD32.6 billion. Accordingly, the Customs Trade Balance Deficit of the country rose to USD6.8 billion in 1403H1 from the USD6.4 billion in 1402H1.

The Customs Goods Exports of the country expanded by 3.5 percent in weight and 6.5 percent in value during 1403H1, hence the average price of exported goods rose to USD366 per ton in the period under review from USD356 per ton in 1402H1. As for the Customs Goods Imports, in 1403H1 it expanded by 2.8 percent in weight and 6.6 percent in value. Accordingly, the average price of imported goods that had registered USD1,721 in 1402H1 per ton, rose to USD1,783 per ton in 1403H1. Subsequently, the average price of each ton of imported goods was about four times that of each ton of exported goods. The cheaper average price of the exported goods compared to that of the imported goods is emanated from the exports of raw or semi-raw materials with low value-added. In addition, the CBI exchange rate policy has resulted in under-invoicing of exports and over-invoicing of imports. As no sophisticated technology has been used in production of most exported goods, they lack competitive advantage in the international markets. 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 of the country.

During 1403H1, the top 100 Iranian Exporters have exported 37.7 million tons of goods valued at USD16.1 billion, constituting 53.6 percent and 62.3 percent of the total goods exports of the country in weight and in value, respectively. The exports of the top 100 exporters in 1403H1 show 17.5 percent expansion in value and 19.4 expansion in weight compared to 1402H1. The exports of the rest of the Iranian exporters registered USD9.7 billion in the same period, indicating 9.7 percent drop from 1402H1. Consequently, not only in the demand side, but also in the supply side of the Iranian exports, high concentration and lack of diversity exist and also have intensified in 1403. In 1403H1, the exports of steel and steel products totaled 5.7 million tons valued at USD2.9 billion, 13.1 percent and 13.6 percent below those of 1402H1 in weight and in value, respectively. Moreover, 28.1 million tons of petrochemicals valued at USD11.3 billion have been exported in the same period, showing 7.3 percent and 8.6 percent rise, respectively, in weight and in value. During the period under discussion, 22,264 vehicles with the total value of USD438.7 million have been imported, while in the same period of its preceding year 1,736 vehicles valued at USD36.6 have been imported. The statistics of Iranian customs trade in 1402H1 and 1403H1 are presented in Table 6.

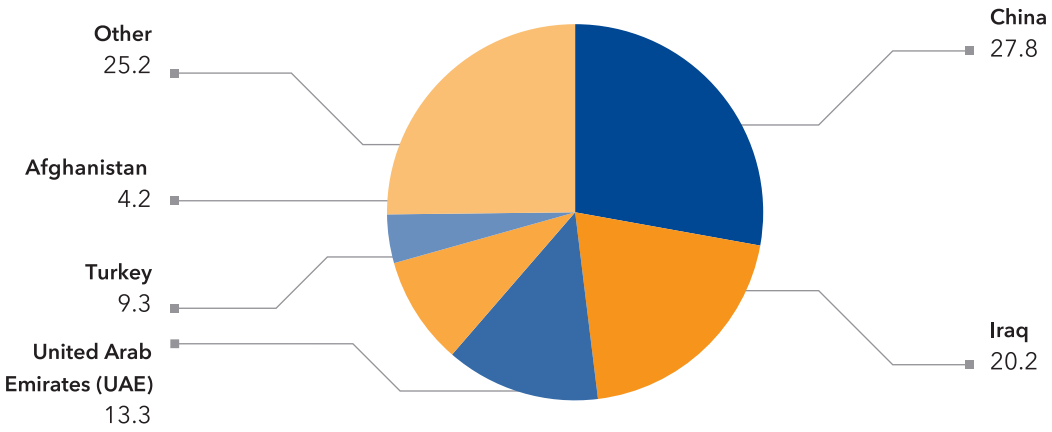
Table 6. Iranian Customs Trade in 1402H1 and 1403H1

	1402H1			1403H1			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	67,994	24,191	356	70,342	25,758	366	3.5	6.5
Imports	17,763	30,570	1,721	18,269	32,573	1,783	2.8	6.6
Customs Trade Balance	**50,230**	**-6,379**	-	**52,073**	**-6,815**	-	**3.7**	**6.8**

Source: Islamic Republic of Iran Customs Administration

During 1403H1, 74.8 percent of Iran's exports were to the top five exports destinations including China, Iraq, UAE, Turkey and Afghanistan. The exports to China during the period under discussion valued USD7.2 billion with 27.8 share in total Iran's exports, followed by Iraq at USD5.2 billion with 20.2 percent share, UAE at USD3.4 billion with 13.3 percent share, Turkey at USD2.4 billion with 9.3 percent share, and Afghanistan at USD1.1 billion with 4.2 percent share. Graph 6 depicts the major exports destinations of Iran in 1403H1.

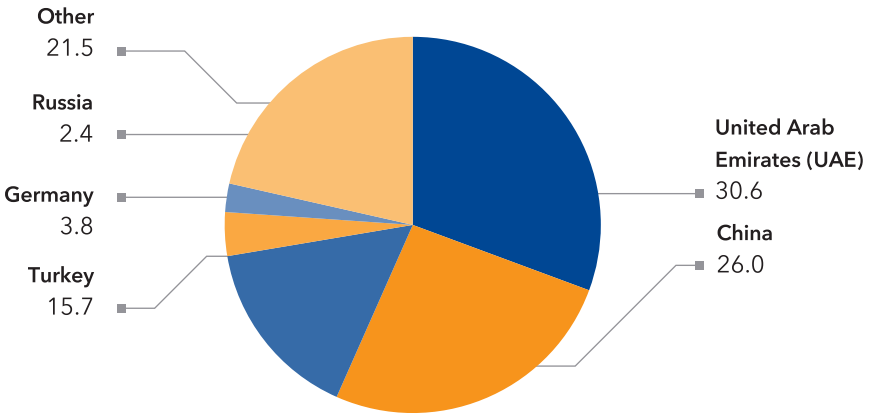
Graph 6. Iran's Exports Destinations with Their Shares in Total Iran's Customs Exports in the First Half of 1403 (percent)



Source: Islamic Republic of Iran Customs Administration

During the period under discussion, imports from the UAE registered USD10.0 billion, accounting for 30.6 percent of the total Iran's imports. Accordingly, the UAE ranked as the top source of imports of Iran, followed by China at USD8.5 billion with 26.0 percent share, Turkey at USD5.1 billion with 15.7 percent share, Germany at USD1.2 billion with 3.8 percent share, and Russia at USD797 million with 2.4 percent share in total value of Iran's imports. Iran's imports from the top five sources accounted for 78.5 percent of the total imports of the country. Graph 7 depicts the major sources of imports of Iran in 1403H1.

Graph 7. Iran's Sources of Imports with Their Shares in Total Iran's Customs Imports in the First Half of 1403 (percent)

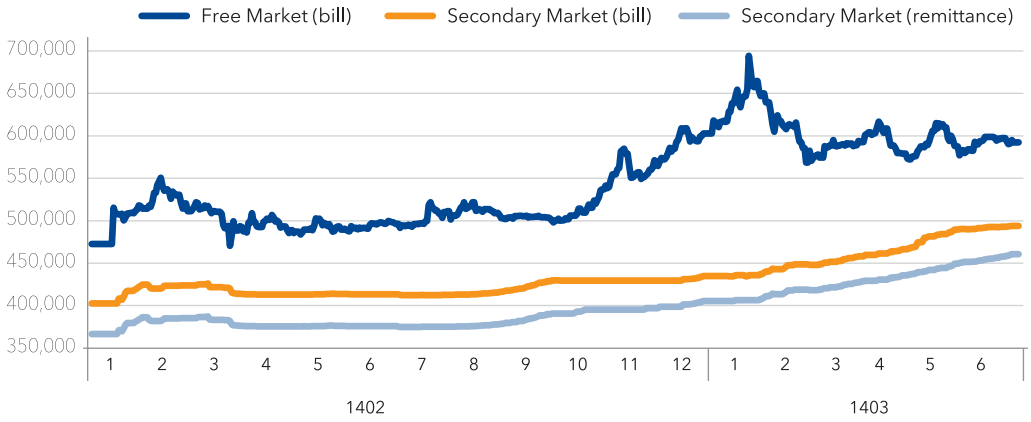


Source: Islamic Republic of Iran Customs Administration

4. FOREIGN EXCHANGE MARKET

In summer 1403, the Iranian foreign exchange market was less volatile than in spring 1403, despite various political circumstances, both domestic and international. The USD/IRR exchange rate that had opened 1403Q2 at 592.8 thousand, closed the same quarter at 592.3 thousand. The price of US Dollar in the Iranian free market averaged IRR593 thousand in summer 1403, indicating 3 percent fall from the average of IRR611 thousand in spring, while 20 percent rise compared to the average of IRR493 thousand in summer 1402. Graph 8 depicts the developments of USD price in the various markets during 1402 and 1403H1.

Graph 8. USD/IRR Exchange Rate in Various Markets



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

The early Presidential Election of Iran coincided with summer 1403 and the campaign promises of the candidates caused various markets to react. In response to the promises such as enhanced international interactions, elimination of economic sanctions, and joining the Financial Action Task Force (FATF), the expectations of the market players were adjusted. Once the result of the second round of the Presidential Election came out on the 16th day of the first month of summer 1403, the USD price that was hovering around IRR600 thousand from the beginning of summer started to fall from that point to reach IRR572 thousand in two weeks, but again reversed course. In the aftermath of the assassination of Chairman of the Hamas [1] Political Bureau, Ismail Haniyeh in Tehran after the inauguration of the new IRI President in the mid-summer 1403 (July 31, 2024), the tension between Iran and Israel ignited and the air of pessimism caused the USD price to climb to IRR610 thousand in the free market. As no direct military confrontation took place between the two countries, the Iranian Rials slightly appreciated against the USD and during the last five weeks of summer, the USD/IRR exchange rate remained below 600 thousand. Note that in response to the political circumstances in spring 1403, the USD/IRR exchange rate approached 700 thousand. However, due to the interventions of the market maker, the free market for foreign exchanges was relatively stable during 1403H1. On the basis of the latest CBI statistics, the Net Foreign Assets of this monetary authority in USD at the end of spring 1403 has fallen by 30 percent from the same point in its preceding year, translating to the CBI effort to rein in the USD/IRR exchange rate through expansion of the supply in the market. This exercise has probably maintained during summer 1403 as well. Table 7 presents the USD/IRR bill exchange rates in recent five quarters.

1. Islamic Resistance Movement

Table 7. Nominal USD/IRR Bill Exchange Rate in the Free Market

	Average	Maximum	Minimum	Standard Deviation	Coefficient of Variation
1403Q2	593,642	616,910	572,200	10,961	0.02
1403Q1	611,620	695,000	568,500	27,926	0.05
1402Q4	554,401	609,200	499,490	34,305	0.06
1402Q3	506,254	521,500	492,410	6,954	0.01
1402Q2	493,654	508,610	483,100	5,045	0.01

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

The USD/IRR bill exchange rate in the secondary market that had opened summer 1403 at 458 thousand, closed the same quarter at 494 thousand. The slight rise in this rate during 1403Q2 in conjunction with the CBI exercises in the free market caused the gap between the USD/IRR bill exchange rate in the free market and the secondary market to narrow down in three consecutive months of summer, registering 28 percent, 23 percent, and 20 percent, respectively, on average. Note that this gap had exceeded 45 percent in the first month of 1403, but narrowed down again, once the tensions in the Middle East region subsided. After the formation of new IRI Government cabinet, the elimination of the gap between the various USD/IRR bill exchange rates was considered as a matter of concern, hence the continuous narrowing down in that gap could be referred to as an effort to move towards the exchange rate unification. However, it is worth to mention that imports of some essential goods still benefit from the official exchange rates (IRR285 thousand per USD). Similarly, the USD/IRR remittance exchange rate in the secondary market followed a slight upward path and from 429 thousand in the beginning of summer rose to 462 thousand at the end of that quarter. Given the relatively stable free market, the gap between the USD/IRR bill exchange rate in the free market and its remittance rate in the secondary market registered 37 percent, 33 percent and 30 percent in the first, second and third month of summer on average, respectively.

5. MONETARY & CREDIT AGGREGATES

The latest CBI data on monetary aggregates covered the last month of spring 1403, while preparation of this Report. Accordingly, the liquidity (M2) closed 1403Q1 at IRR83,539.9 trillion, up 26.8 percent from that of the end of spring 1402 and up 6.0 percent from the end of the year 1402. The monthly M2 growth rate during the first three months of 1403 averaged about 2 percent, close to the decreed cap for the monthly growth rate of banks' assets. Hence, the CBI macroprudential policy that has been implemented since 1400 seems to have succeeded in 1403Q1. Moreover, in the early summer 1403, the monetary authority announced that has revised the categorization of the monetary base components in line with the IMF manual of 2016[1], aiming for enhancement of the quality and accuracy of the monetary statistics. Besides, the USD/IRR exchange rate[2] of 42 thousand used for conversion of foreign assets and liabilities seems to be replaced by the weighted USD/IRR exchange rate at the end of 1402. Note that the Monetary Base (M0) have not changed much due to the amendment, but their components have been rearranged. The latest monetary statistics suggests that at the end of spring 1403, the M0 has registered IRR11,130.3 trillion, indicating 23.3 percent and 2.1 percent rise, respectively, from the end of spring 1402 and end of the year 1402. The developments of Liquidity and Monetary Base at the end of 1403Q1 are shown in Table 8.

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

	End of Period Balance			Growth Rate at the End of 03/1403 Compared to		Share in M0 Growth Rate at the End of 03/1403 Compared to	
	03/1402	12/1402	03/1403	03/1402	12/1402	03/1402	12/1402
Monetary Base (M0)	**9,028.9**	**10,906.3**	**11,130.3**	**23.3**	**2.1**	**23.3**	**2.1**
CBI Foreign Assets (net)	3,015.2	18,537.1	19,084.1	532.9	3.0	178.0	5.0
CBI Claims on Public Sector (net)	-628.3	-1,786.8	-635.4	-1.1	64.4	-0.1	10.6
CBI Claims on Public Sector	3,332.1	4,742.8	4,802.2	44.1	1.3	16.3	0.6
Public Sector Deposits with CBI	3,960.4	6,529.6	5,437.6	37.3	-16.7	-16.4	10.0
CBI Claims on Banks	3,933.3	7,713.5	6,684.8	70.0	-13.3	30.5	-9.4
Other Assets (net)	2,708.7	-13,557.5	-14,003.2	-	-3.3	-185.1	-4.1
Balance of Implementation of Monetary Policy	1,475.5	2,040.0	2,328.8	57.8	14.2	9.5	2.6
Liquidity (M2)	**65,859.7**	**78,774.5**	**83,539.9**	**26.8**	**6.0**	Share in Liquidity at the End of	
						12/1402	03/1403
Money (M1)	**16,947.2**	**19,146.4**	**20,536.6**	**21.2**	**7.3**	**24.3**	**24.6**
Notes and Coins with the Public	1,199.6	1,468.8	1,435.9	19.7	-2.2	1.9	1.7
Sight Deposits	15,747.6	17,677.6	19,100.7	21.3	8.1	22.4	22.9
Checks (net)	254.1	522.6	546.0	114.8	4.5	0.7	0.6
Quasi-Money	**48,912.5**	**59,628.1**	**63,003.3**	**28.8**	**5.7**	**75.7**	**75.4**
Interest-free Saving Deposits*	5,333.3	7,603.5	8,099.3	51.9	6.5	9.7	9.7
Short Term Deposits	16,080.8	16,865.4	17,632.2	9.6	4.5	21.4	21.1
One-year Deposits	14,532.2	14,508.7	14,283.3	-1.7	-1.6	18.4	17.1
Two-year Deposits	5,643.7	4,183.5	4,478.3	-20.6	7.0	5.3	5.4
Three-year Deposits	5,640.3	14,382.9	16,342.7	189.7	13.6	18.3	19.6
Four-Year Deposits	3.6	3.6	8.6	138.9	138.9	0.0	0.0
Five-year Deposits	63.9	65.2	67.3	5.3	3.2	0.1	0.1
Miscellaneous Deposits	1,614.7	2,015.3	2,091.6	29.5	3.8	2.6	2.5

Source: Central Bank of Iran
* Known as Gharz-al-hasaneh Saving Deposit in the CBI books

The annual M2 growth rate that had exceeded 42.8 percent at the end of summer 1400, reversed course from fall 1400 and reached its low of 24.1 percent in the first month of 1403, but from that month started to rise and registered 25.6 percent and 26.8 percent in the second and third months of the year. An examination of M2 by its components - Money (M1) and

1. Monetary and financial statistics manual and compilation guide, International Monetary Fund, 2016.

2. The weighted exchange rate solely represents a weighted average of the USD/IRR bill and remittance exchange rates in the secondary market 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 month under review.

Quasi-money - reveals that at the end of 1403Q1 compared to the end of 1402Q1, M1 has expanded by 21.2 percent and Quasi-money by 28.8 percent. The higher growth rate of Quasi-money could be attributed to arbitrary offering of interest rates higher than the official rates of the CBI by some banks in the late months of 1402 and also limited issuance of Special Certificate of Deposits with 30 percent interest rate in mid-winter 1402 upon the CBI circular. Due to the CBI limitation on interest rates, at the end of spring, M1 grew at higher pace than Quasi-money compared to the end of 1402, causing the share of M1 in Liquidity at the end of 1403Q1 to rise to 24.6 percent. Among the components of Quasi-money, the two-year deposits fell by 21 percent at the end of 1403Q1 from the end of 1402Q1, while the three-year deposits surged by 190 percent in the same period. The remarkable rise in the three-year deposits in the period under review rooted in the arbitrary waiver of prematurity penalty withdrawal of deposits by some banks on the one hand and conversion of matured two-year deposits to three-year deposits.

M1, interest-free saving deposits, and short-term deposits in total constituted 55 percent of M2 at the end of spring 1403, translating to depositors' reluctance to invest their funds in long-term deposits. Notwithstanding the aforementioned features of the three-year deposits, at the end of 1403Q1 the three-year deposits constituted 19.6 percent of M2, below the 21.1 share of short-term deposits in M2, signaling that the investors decisions were on a short-term basis and investments with higher returns in other markets were welcomed.

On the basis of the CBI decision for conversion rate of its foreign assets and liabilities to Iranian Rials, it seems that the 1402 end-of-year weighted USD/IRR exchange rate has been used for that purpose from the last month of 1402 onwards. Moreover, in order to report higher quality data, the categorization of M0 components have been revised and the reports from 1400 onwards have been amended. The latest monetary data of the CBI suggests that M0 has risen by 23.3 percent to IRR11,130.3 trillion at the end of 1403Q1 compared to the end of 1402Q1. Among the components of M0, CBI Net Foreign Assets has grown by more than 6 times at the end of 1403Q1 compared to the end of 1402Q1, mainly due to the higher USD/IRR exchange rate used for conversions to IRR. Besides, since in the new categorization of M0, the frozen foreign assets and Government foreign debts to CBI were excluded from the CBI Net Foreign Assets, this component of M0 has plummeted compared to the old categorization. In the 23.3 percent annual growth rate of M0 at the end of spring 1403, the share of CBI Net Foreign Assets was reported 178.0 percentage points, but should this component of M0 be converted to USD using the weighted USD/IRR exchange rate, in fact this Monetary base component indicates about 30 percent contraction in the time span under review. In other words, during the period under review, part of foreign assets has been supplied by the market maker in order to control the foreign exchange free market rates. Furthermore, in order to offset the effect of rise in USD/IRR exchange rate for conversion on the M0, equivalent to the figure added to the CBI Net Foreign Assets has been deducted from the CBI Net Other Assets. Therefore, the CBI Net Other Assets with negative 185.1 percentage points share in the annual growth of M0 has served as a factor of decrease in that monetary aggregate. Note that the balance of open market operations was the positive component of the CBI Net Other Assets that expanded by 57.8 percent in the same period with 9.5 percentage points share in the annual growth rate of the Monetary Base. Taking into consideration the change in currency translation for the CBI Net Foreign Assets, in fact the CBI Claims on Banks with 70.0 percent expansion and 30.5 percentage points share in M0 annual growth rate has served as the major driver of the annual M0 growth rate. Moreover, the CBI Net Claims on the Public Sector has served as a factor of decrease in the Monetary Base with negative 0.1 percentage point in the year ended 1403Q1.

An examination of the aggregate balance sheet of banks and non-bank credit institutions reveals that at the end of spring 1403, their Assets (liabilities) less below the line items have expanded by 43.3 percent and 11.8 percent, respectively, compared to the end of spring 1402 and to the end of the year 1402. On the Assets side, during the one-year period under review, Foreign Assets, Claims on Public Sector, and Other Assets were the main contributors to the 43.3 percent growth rate of Assets, with 15.1, 14.8, and 9.2 percentage points shares. Given the revised categorization of the components of M0, from 1400 onwards, the Sight Deposits of the Banks with the CBI include deposits in IRR only and the deposits in foreign exchanges are found in Other Assets of banks. On the liabilities side, Deposits of Public Sector, Foreign Liabilities, and Other Liabilities, respectively, with 15.7, 13.3, and 9.5 percentage points shares were the main contributors to the annual 43.3 percent growth rate of liabilities at the end of 1403Q1. A summary of the Assets and Liabilities of the banks and non-bank credit institutions at the end of spring 1403 is presented in Table 9.

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

	End of Period Balance			Share of Banks and Non-bank Credit Institutions at the End of 03/1403			03/1403 Percentage Change Compared to	
	03/1402	12/1402	03/1403	Public Commercial	Public Specialized	Non-public	12/1402	03/1402
Assets (excluding below the line Items)	**110,829.0**	**142,022.3**	**158,822.9**	**35,697.7**	**23,684.7**	**99,440.5**	**11.8**	**43.3**
Foreign Assets	21,045.4	23,854.1	37,807.9	4,929.0	9,070.8	23,808.1	58.5	79.6
Notes and Coins	214.5	191.9	219.4	81.2	20.6	117.6	14.3	2.3
Deposits with the CBI	7,614.8	9,245.6	9,475.0	2,475.7	621.0	6,378.3	2.5	24.4
CBI Claims on Public Sector	8,076.3	9,749.4	10,806.2	5,090.7	1,860.1	3,855.4	10.8	33.8
CBI Claims on Non-public Sector	52,936.7	66,509.0	69,322.7	14,384.9	9,683.7	45,290.1	4.2	31.0
Others	20,941.3	32,472.3	31,191.7	8,772.2	2,428.5	19,991.0	-3.9	48.9
Liabilities (excluding below the line Items)	**110,829.0**	**142,022.3**	**158,822.9**	**35,697.7**	**23,684.7**	**99,440.5**	**11.8**	**43.3**
Deposits of Non-public Sector	64,660.1	77,305.7	82,104.0	21,049.9	7,514.3	53,539.8	6.2	27.0
Debt to CBI	3,933.3	7,713.5	6,684.8	2,335.7	1,419.8	2,929.3	-13.3	70.0
Deposits of Public Sector	484.1	392.0	1,987.6	289.4	141.2	1,557.0	407.0	310.6
Capital Account	1,951.2	2,599.6	3,009.9	-778.2	1,032.9	2,755.2	15.8	54.3
Foreign Liabilities	17,715.9	20,479.7	32,411.7	5,329.4	7,851	19,231.3	58.3	83.0
Others	20,084.4	33,531.8	32,624.9	7,471.5	5,725.5	19,427.9	-2.7	47.7

Source: Central Bank of Iran

At the end of 1403Q1, the balance of extended facilities by the banking system reached IRR80,329.3 trillion, up 39.0 percent from the IRR57,767.4 trillion at the end of 1402Q1, according to the CBI. In addition, the balance of deposits rose by 37.7 percent from the end of 1402Q1 to register IRR104,798.5 trillion at the end of 1403Q1. Once the Legal Reserves are deducted, the ratio of the extended facilities to deposits at the end of 1403Q1 registers 84.0 percent, the same as that of the end of 1402Q1. Table 10 presents the balance of extended facilities and deposits of the banking system at the end of spring 1403.

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

	03/1402	03/1403	Percentage Change
Extended Facilities	57,767.4	80,329.3	39.0
Deposits	76,079.3	104,798.5	37.7
Deposits Less the Required Reserves	68,746.5	95,562.2	39.0
Ratio of Extended Facilities to Deposits Less the Required Reserves (percent)	84.0	84.0	-

Source: Central Bank of Iran

During the first five months of 1403, the banking system extended IRR22,956.7 trillion of facilities to various sectors of the economy, 23.9 percent up from the first five months of 1402. During the time period under discussion, 75.6 percent of the extended facilities equivalent to IRR17,363.1 trillion was allocated to the businesses (individuals and legal entities) and the remaining 24.4 percent equivalent to IRR5,593.6 trillion to the final consumers (households). The Industries and Mining sector had the highest share of 39.0 percent in the total extended facilities to the businesses, followed by the Services sector with 37.9 percent share. Among the various types of facilities, the working capital constituted much of the extended facilities during the first five months of 1403 as in preceding periods with 75.4 percent share in the extended facilities to business and 57.1 percent share in the total extended facilities.

6. FISCAL POLICY

As no official data on the realization of the General Sources and Uses of the Government Budget in 1403 was published while preparation of this Report, the analyses in this chapter are based on some data from the Supreme Audit Court and other unofficial sources. During the first five months of 1403, the General Sources and Uses of the Government, respectively, have registered IRR9,715.0 trillion and IRR10,470.0 trillion. Accordingly, 91.0 percent of the legislated figure for the General Sources for the first five months of 1403 has been realized. As for the General Uses, the realization rate registered 98.1 percent for the same period. Accordingly, the 7.1 percentage points gap between the realization rates of the Government General Sources and Uses resulted in IRR755.0 trillion Overall Balance Deficit that has been financed via the Treasury using legal mechanisms.

During the first five months of 1403, the General Revenues (tax revenues, imports tax, and other) totaled IRR5,428.0 trillion, equivalent to 81.5 percent of the legislated figure in the Budget Law of 1403 for the same period. Taking into consideration the IRR9,066.7 trillion General Expenditures, the Operating Balance Deficit reached IRR3,638.7 trillion in the period under discussion. Note that in the five-month period under review, 115.8 percent of the legislated General Expenditures has been materialized.

The Disposal of Non-financial Assets (given the rise in Iran's oil exports) reached IRR2,780.0 trillion in the first five months of 1403, standing 3.5 percent above the corresponding figure in the Budget Law of 1403. As for the Disposal of the Government Properties, only 7.8 percent of the legislated figure, equivalent to IRR20 trillion was realized in the first five month of 1403, translating to the Government failure in that regard. Moreover, the actual Oil Revenues in the same period equaled 113.7 percent of the legislated figure. The actual Acquisition of Non-financial Assets in the first five months of 1403 reached IRR455 trillion, equaling 27.3 percent of the corresponding legislated figure. Therefore, the Net Disposal of Non-financial Assets had a surplus of IRR2,325.0 trillion that was spent for Government Current Expenditures and financing the Operating Balance Deficit.

In addition, part of the Operating Balance Deficit and the Budget imbalance in the first five months of 1403 have been financed via Disposal of Financial Assets. The Net Disposal of Financial Assets registered IRR558.7 trillion surplus in that period. According to the CBI, the Budget Deficit Finance through the Issuance of Government Debt Securities in the first five months of 1403 registered IRR1,169 trillion, equaling 110.2 percent of the legislated figure in the Budget Law for that period. The Disposal of State-owned Companies registered IRR120.0 trillion in the same time span. The Acquisition of Financial Assets in the first five months of 1403 realized 80.3 percent of the legislated at IRR948 trillion. Given that among the subgroups of the Acquisition of Financial Assets the data on the Principal Repayment of the matured securities are only available, in reporting the aggregated Acquisition of Financial Assets, for the actual value of the rest of the subgroups, their legislated figures have been used. The Fiscal Performance of Government in the first five months of 1403 is presented in Table 11.

Table 11. Government Fiscal Performance in the First Five Months of 1403 (IRR trillion-percent)

	Budget Law of 1403	Legislated Figure for the First Five Months of 1403	Realization in the First Five Months of 1403	Realization Ratio in the First Five Months of 1403	Share in the Realization of General Sources and Uses in the First Five Months of 1403
Sources	**25,620.4**	**10,675.2**	**9,715.0**	**91.0**	**100.0**
General Revenues	**15,983.0**	**6,659.6**	**5,428.0**	**81.5**	**55.9**
Tax	**12,220.0**	**5,091.7**	**4,068.0**	**79.9**	**41.9**
Corporate Tax	4,687.5	1,953.1	1,976.3	101.2	20.3
Income Tax	1,897.1	790.5	775.9	98.2	8.0
Wealth Tax	400.8	167.0	98.8	59.2	1.0
Tax on Goods and Services	5,234.6	2,181.1	1,217.0	55.8	12.5
Imports Tax*	**1,425.0**	**593.7**	**539.8**	**90.9**	**5.6**
Other	**2,338.0**	**974.2**	**820.2**	**84.2**	**8.4**
Disposal of Non-financial Assets	**6,445.6**	**2,685.7**	**2,780.0**	**103.5**	**28.6**
Oil and Oil Products	5,827.4	2,428.1	2,760.0	113.7	28.4
Disposal of Properties	618.2	257.6	20.0	7.8	0.2
Disposal of Financial Assets	**3,191.8**	**1,329.9**	**1,507.0**	**113.3**	**15.5**
Sales of Islamic Debt Securities	2,546.0	1,060.8	1,168.9	110.2	12.0
Disposal of State-owned Companies	600.0	250.0	120.0	48.0	1.2
Other**	45.8	19.1	218.1	1,142.8	2.2
Uses	**25,620.4**	**10,675.2**	**10,470.0**	**98.1**	**100.0**
Current Expenditures	**18,787.4**	**7,828.1**	**9,066.7**	**115.8**	**86.6**
Acquisition of Non-financial Assets	**4,000.0**	**1,666.7**	**455.0**	**27.3**	**4.3**
Acquisition of Financial Assets***	**2,833.0**	**1,180.4**	**948.3**	**80.3**	**9.1**
Operating Balance	**-2,804.4**	**-1,168.5**	**-3,638.7**	**311.4**	**-**
Net-disposal of Non-financial Assts	**2,445.6**	**1,019.0**	**2,325.0**	**228.2**	**-**
Net Disposal of Financial Assets	**358.8**	**149.5**	**558.7**	**373.7**	**-**

Source: Budget Law of 1403; Tasnim News Agency; Fars News Agency; Donya-e-Eqtesad Economic Daily; Iranian National Tax Administration; and Ministry of Economic Affairs and Finance

* As the figure of the realization in the first five months of 1403 was not available, it is estimated based on the data of 1403H1.

** The legislated figures for these sources have been used here, as their actual figures are not available.

*** Among the subgroups of this source, only the actual figure of the principal repayments of matured securities was available and for rest of the subgroups their corresponding legislated figures for the first five month of 1403 have been used.

Even though any withdrawal from the share of National Development Fund (NDF) in Oil Revenues is banned in the Budget Law of 1403, IRR200 trillion of the NDF funds were spent for Government Expenditures. However, on the basis of some unofficial sources, the withdrawal from NDF funds is reported IRR150 trillion and it is claimed that the figure is attributed to the previously withdrawn funds that were eventually delivered in the first five month of 1403. All in all, on the basis of the Supreme Audit Court, the withdrawal from the NDF funds has been categorized as a component of Disposal of Financial Assets at IRR200 trillion. In addition, on the basis of the assumptions of the Budget Law of 1403, it is estimated that the proceeds from the 20 percentage points cut in NDF share in the Oil Revenues - that was proposed by the new President and was consented by the Supreme Leader - creates USD7.7 billion revenues for the Government during the last seven months of 1403. Given the USD/IRR remittance exchange rate in the secondary market, the aforementioned USD7.7 billion revenue equals IRR3,308.1 trillion.

Out of the IRR13,645.0 trillion legislated for Tax Revenues in 1403 Budget Law, 48.8 percent belonged to the Indirect Taxes (tax on goods and services) and 51.2 percent to the Direct Taxes (corporate tax, income tax, and wealth tax). Hence, for 1403H1, the legislated Tax Revenues Totaled IRR6,822.5 trillion in the Budget Law of 1403. On the Basis of the Iranian National Tax Administration (INTA) and some unofficial sources, 84.7 percent of the legislated Tax Revenues has been realized in 1403H1 with the 103.2 percent Realization Rate for Direct Taxes. Among the components of Direct Taxes, the Income Tax had the highest Realization Rate of 106.1 percent in 1403H1 and the actual Tax on Private Sector Employees Salary itself, as a subgroup of Income Tax had the highest Realization rate of 134.8 percent. The Tax on Compensation of Public Sector Employees that accounted for 20.2 percent of the Income Tax in total in 1403H1, grew by 48.5 percent to IRR203.1 trillion compared to 1402H1 and overshot the legislated figure by 7.4 percent. The actual Tax on Professions in 1403H1 stood 29.8 percent above that of 1402H1 and constituted 34.0 percent of the Income Tax, covering about 86.0 percent of the legislated figure for 1403H1.

The Corporate Tax in 1403H1 registered IRR2,479.0 trillion, 5.8 percent above the legislated figure. Out of this figure, 86.6 percent equivalent to IRR2,152.8 trillion belonged

to Non-public Corporate Tax. Among the components of Corporate Tax, Public Corporate Tax overshot the legislated figure by 100.7 percent, registering the best performance in 1403H1.

In 1403H1, the actual Tax on Wealth fell by 16.0 percent to IRR118.9 trillion compared to 1402H1, accounting for 59.3 percent of the legislated figure of 1403 Budget Law. The Unspecified Tax sources that constituted only 0.4 percent of the Tax on Wealth in 1403H1, had the highest Realization Ratio of 104.8 percent among other components of the Tax on Wealth in that period, followed by Tax on Property Transfers with 34.2 percent share in Tax on Wealth and 85.5 percent Realization Rate. The Tax on property Transfers grew by 27.5 percent in 1403H1 compared to 1402H1. In the same time span, the Tax on Shares Transfers registered IRR24.7 trillion, down 59.3 percent from the same period of its preceding year and accounting for 34.2 percent of the legislated figure in 1403 Budget Law.

During 1403H1, as for the legislated Indirect Taxes, 65.2 percent of the figure in the Budget Law of 1403 was realized. Among the components of Indirect Taxes, the actual Tax on Goods and Services in 1403H1 rose by 28.0 percent to IRR1,521.9 trillion, accounting for 58.2 percent of the Legislated figure for 1403H1. The Value-added Tax that formed 63.8 percent of the Tax on Goods and Services, registered IRR971.5 trillion, equivalent to 51.8 percent of the legislated figure for 1403H1. In the same period, 91.0 percent of the legislated Tax on Imports was realized, forming 11.2 percent of the Total Tax Revenues. This source of Tax Revenues expanded by 129.0 percent compared to 1402H1, mainly due to the revised USD/IRR exchange rate for Imports Tax calculations and probably as a result of the rise in automotive imports. The materialized Government Tax Revenues in 1403H1 are shown in Table 12.

Table 12. Government Tax Revenues in the First Half of 1403 (IRR trillion-percent)

	1403 Budget Law	Legislated for 1403H1	Realization in 1402H1	Realization in 1403H1	1403H1 to 1402H1 Growth Rate	Realization Ratio in 1403H1	Share in Total Tax Revenues in 1403H1
Tax Revenues	**13,645.0**	**6,822.5**	**3,725.2**	**5,775.3**	**55.0**	**84.7**	**100.0**
Direct Taxes	**6,985.4**	**3,492.7**	**2,252.4**	**3,604.6**	**60.0**	**103.2**	**62.4**
Corporate Tax	4,687.5	2,343.8	1,448.1	2,479.0	71.2	105.8	42.9
Income Tax	1,897.1	948.6	662.9	1,006.8	51.9	106.1	17.4
Wealth Tax	400.8	200.4	141.5	118.9	-16.0	59.3	2.1
Indirect Taxes	**6,659.6**	**3,329.8**	**1,472.8**	**2,170.7**	**47.4**	**65.2**	**37.6**
Goods and Services	5,234.6	2,617.3	1,189.4	1,521.9	28.0	58.2	26.4
Imports	1,425.0	712.5	*283.3	648.7	129.0	91.0	11.2

Source: Budget Law of 1403; Iranian National Tax Administration; IRI Parliament Research Center
* As the data on the actual figure of 1402H1 was not available, the difference between the actual figures of the first seven months and the first four months has been multiplied by two third and the result was added to the actual figure of the first four month to estimate the actual figure of 1402H1.

The issuance of Government Debt Securities in the Budget Law of 1403 stood 61.3 percent above the corresponding figure of 1402 Budget Law at IRR2,546.0 trillion for the whole year. However, in 1402 itself, IRR3,513 trillion of Government Debt Securities was issued in practice, about 37 percent above the legislated figure in the Budget Law of 1403, so the Issuance of Government Debt Securities in 1403 is expected to stand far above the target of 1403 Budget Law. In collaboration with the Ministry of Economic Affairs and Finance, the CBI started to hold Government Debt Securities weekly auctions from mid-spring 1403 in money market and the capital market and till the end of 1403Q2, 21 rounds of auctions were held and IRR1,690.0 trillion Government Murabaha Bonds were issued, with accumulated supply of IRR5,331.4 trillion in total auctions. Out of the supplied bonds, IRR746.6 trillion was demanded by the banks and non-bank credit institutions and Ministry of Economic Affairs and Finance accepted IRR763.7 trillion of that demand. Additionally, IRR707.7 trillion auctioned Government Debt Securities were sold in the capital market via IPO. Accordingly, the traded Government Debts Securities through auctions (in money and capital markets) quadrupled compared to 1402H1 (IRR371.2 trillion) and totaled IRR1,471.4 trillion in 1403H1. It is worth to mention that 8 percent of the IRR1,690.0 trillion Government Debt Securities issued in 1403H1, equaling IRR133.3 trillion has not been traded and as the remaining IRR1,556.7 have been traded IRR85.3 trillion below their face value, therefore the Government has financed IRR1,471.4 trillion via this method in practice.

Furthermore, on the Basis of the Government Treasury report, IRR1,140.2 trillion Government Debt Securities

has been purchased by the banks and non-bank credit institutions that is far different from the CBI reported figure. A comparison between the reports of the two issuing authorities indicate that the banks have indirectly purchased IRR376.6 trillion Government Debt Securities through the capital market. Accordingly, 77.5 percent of the issued Government Debt Securities in 1403H1 has been purchased by banks. A summary of Government Debt Securities Auctions in 1403H1 is presented in Table 13.

Table 13. Government Debt Securities Auctions in Capital Market and Money Market in Spring 1403 (IRR trillion-percent)

Month	1402					1403					Point-to-point Growth in Money Market Trades	Point-to-point Growth in Capital Market Trades	Point-to-point Growth in Total Trades
	Supply	Banks Demand	Traded in Money Market	Traded in Capital Market	Total Traded	Supply	Banks Demand	Traded in Money Market	Traded in Capital Market	Total Traded			
02	0.0	0.0	0.0	0.0	0.0	1,048.6	11.9	10.9	10.0	20.9	-	-	-
03	0.0	0.0	0.0	0.0	0.0	1,665.2	348.1	348.1	75.4	423.5	-	-	-
04	0.0	0.0	0.0	0.0	0.0	792.9	9.8	9.8	261.9	271.7	-	-	-
05	874.2	256.5	148.4	58.5	206.9	1,017.3	324.0	324.0	128.8	452.8	118.3	120.2	118.8
06	628.9	0.0	0.0	164.3	164.3	807.4	70.9	70.9	231.6	302.5	-	41.0	84.1
Total in the H1	**1,503.1**	**256.5**	**148.4**	**222.8**	**371.2**	**5,331.4**	**764.6**	**763.7**	**707.7**	**1,471.4**	**414.5**	**217.6**	**296.4**

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 1403H1, no disposal of such securities has been carried out via these two methos.

From mid-summer of 1400 onwards, the data on the debt market transactions (sum of the primary and the secondary markets) by its market players (Government, CBI, banks, Funds, etc.) is issued by the Over the Counter (OTC). Accordingly, from mid-summer 1400 to the end of 1403H1, the net accumulated purchase of Government Debt Securities by the CBI and the Funds registered IRR2,748.9 trillion and IRR2,788.6 trillion, respectively. Note that as the CBI is prohibited from purchase of such securities in the primary market (IPO), the net purchase of this authority is attributed to the secondary market only. 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 1403H1 and the net purchase of government debt securities by banks reached IRR400.7 trillion through primary and secondary markets during 1403H1. Accordingly, the net accumulated purchase of government debt securities by the banks from mid-summer 1400 to the end of 1403H1 is estimated about IRR1,297.3 trillion.

7. CAPITAL MARKET

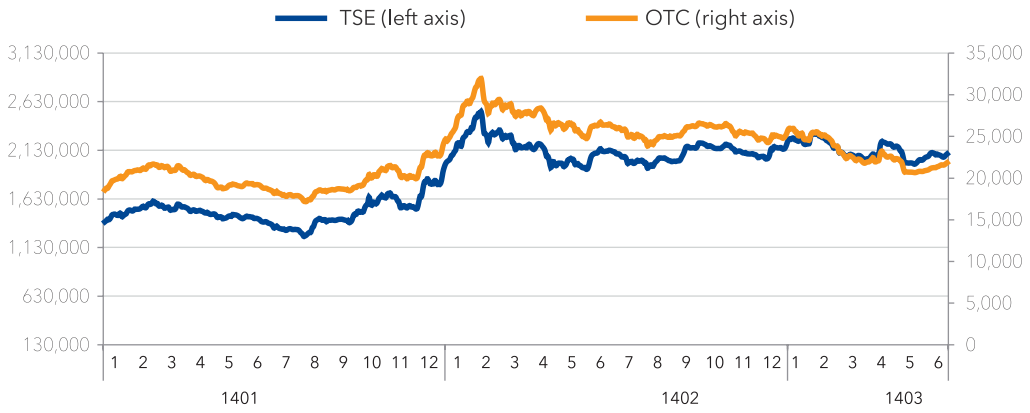
In spring 1403, various risks were exerted to the Iranian capital market due to economic and political circumstances. Tensions in the Middle East region, passing away of the IRI President with his companions, the narrower daily price fluctuation limit of the capital market, and finally increase in the interest rates were the major drivers of the bearish capital market in 1403Q1. The Overall Indices of Tehran Stock Exchange (TSE) and Over the Counter (OTC), respectively, dropped by 6.9 percent and by 13.7 percent during 1403Q1 in response to the aforementioned circumstances. The market did not prosper in summer 1403 as well, so the trend of the capital market indices was downward in 1403H1 as a whole.

The promises of the new IRI Government in summer 1403 regarding elimination of decreed pricing in industries, joining the FATF, and lifting the sanctions resulted in the air of optimism in the Iranian capital market. Furthermore, the narrower gap between the USD/IRR bill exchange rate in the free market and its remittance exchange rate in the secondary market and consequently the expansion of exports proceeds of various industries and rise in basic prices of petrochemicals and steel products in Iran Mercantile Exchange, might end up with expansion of operating revenues of such industries.

On the other hand, the frequent power outage in 1403Q2 was the dominant factor that adversely affected the Iranian capital market. On the basis of the TES report, the electricity consumption in industries including Cement, Plaster and Lime, Basic Metals, Extraction of Metallic Minerals and Chemicals, respectively, fell by 29 percent, 28 percent, 14 percent, and 7 percent in the second month of summer 1403 compared to the first month of the same quarter due to the power outage, translating to the fall in production of those industries. For instance, the production of Basic Metal Industry as the largest electricity consumer fell by 39.1 percent and 44.0 percent in the second and the third month of summer 1403 compared to the first month of the same quarter.

All in all, the air of optimism in the aftermath of the 14th Presidential Election was evaporated by negative circumstances in summer 1403. Accordingly, the TSE Overall Index rose by 2.6 percent only (below the inflation rate of that quarter), while the OTC Overall Index dropped by 0.1 percent in 1403Q2. The daily developments of the Overall Indices of the TSE and OTC from 1401 to the end of summer 1403 are shown in Graph 9.

Graph 9. TSE and OTC Indices



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

The value of TSE transactions during 1403Q2 totaled IRR4,016.3 trillion, up 15.1 percent from that of 1402Q2. The highest rise in the value of transactions was attributed to the Exchange-traded Funds at 37.3 percent, while the highest drop in the value of transactions belonged to stock market at 50.6 percent. Taking into consideration 1403H1 as a whole other than 1403Q2, the total value of transactions shows 37.8 percent rise from that of 1402H1. During 1403H1, the highest rise in the value of TSE transactions belonged to the Exchange-traded Funds at 16.6 percent, while the most intense fall belonged to stock market at 66.6 percent. The considerable outflow of retail capitals from TSE as well as the decrease in daily price fluctuation limit of the capital market were the major drivers of the 66.6 percent fall in the value of transactions in the stock market in 1403H1. The rise in value of Exchange-traded Funds transactions in 1403 mainly rooted in the initial public offerings held by new Leveraged Funds and Sector Funds in the TSE as well as the higher rate of return of the fixed income mutual funds than the interest rates on bank deposits. Table 14 compares the value of transactions in various markets of TSE in summers and the first halves of 1402 and 1403.

Table 14. Value of Transactions in Various TSE Markets (IRR trillion)

Market	1402Q2	1403Q2	1403Q2 to 1402Q2 Percentage Change	1402H1	1403H1	1403H1 to 1402H1 Percentage Change
Shares	2,671.3	1,318.3	-50.6	8,194.5	2,734.2	-66.6
Debt Securities	313.7	315.4	0.5	585.4	659.0	12.6
Derivatives	61.5	66.0	7.4	133.5	136.0	1.9
Exchange- traded Funds	1,683.0	2,311.5	37.3	3,683.0	4,295.1	16.6
Professional Investments*	-	5.1	-	-	10.9	-
Total	**4,729.4**	**4,016.3**	**-15.1**	**12,596.4**	**7,835.1**	**-37.8**

Source: http://new.tse.ir

* 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.

The volume of TSE transactions in 1403H1 registered 987.0 billion shares, showing 39.5 percent fall from the same period of its preceding year. Similarly, the number of TSE transactions in 1403H1 fall by 60.0 percent compared to 1402H1. Moreover, the average value of each TSE transaction in 1403H1 registered IRR223.1 million compared to the IRR143.5 million in 1402H1, with its growth rate above the rate of inflation. The volume, number, and average value of each transaction in the TSE by market type in 1402H1 and 1403H1 are presented in Table 15.

Table 15. Volume and Number of Transactions and Average Value of Each Transaction in TSE by Market Type in 1402H1 and 1403H1

Market	Volume of Transactions			Number of Transactions			Average Value of Each Transaction		
	billion		Percentage Change	1000 times		Percentage Change	IRR million		Percentage Change
	1402H1	1403H1		1402H1	1403H1		1402H1	1403H1	
Shares	1,413.7	736.2	-47.9	75,485.5	22,756.1	-69.9	108.6	120.2	10.7
Debt Securities	0.6	0.7	12.0	6.2	6.4	3.5	94,716.8	103,060.0	8.8
Derivatives	19.0	15.1	-20.4	2,504.6	4,363.0	74.2	53.3	31.2	-41.5
Exchange- traded Funds	198.4	228.5	15.2	9,757.1	7,902.6	-19.0	377.5	543.5	44.0
Professional Investments	-	6.6	-	-	98.0	-	-	110.9	-
Total	**1,631.6**	**987.0**	**-39.5**	**87,753.5**	**35,126.1**	**-60.0**	**143.5**	**223.1**	**55.4**

Source: http://new.tse.ir

The market capitalization of TSE at the end of 1403H1 contracted by 9.4 percent compared to end of 1402 to reach IRR71,954 trillion. The market capitalization of OTC, on the other hand, fell by 3.7 percent from the end of 1402 to register IRR23,802 trillion at the end of 1403H1. The Overall Index and Equally Weighted Index of TSE dropped by 4.5 percent and 7.4 percent in 1403H1. From the higher contraction in Equally-weighted Index than that of the Overall index, it is grasped that in the period under review the shares of smaller companies have lost more value than shares of the large companies. The Free Float[1] Index of TSE at the end of summer 1403 dropped by 6.5 percent from the end of 1402 to 2,665. The higher decrease in Free Float Index than that in the Overall Index reveals that the share price of companies with more free float shares has decreased more in 1403H1. Various TSE indices are presented in Table 16.

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.

Table 16. TSE Indices in 1403H1

	Market Capitalization (IRR trillion)	Equally-weighted Index (Thousand)	Overall Index (Thousand)	Financial Index (Thousand)	Industrial Index (Thousand)	Free-float Index (Thousand)
End of 1403H1	71,954	688	2,097	1,831	1,996	2,665
End of 1402	76,169	743	2,195	1,918	2,090	2,851
Percentage Change	-9.4	-7,4	-4,5	-4,5	-4,5	-6,5

Source: http://new.tse.ir

From the beginning of 1403 to the end of summer, IRR1,677.0 trillion has been financed via the TSE listed companies. Out of this figure, 87.9 percent was via Raising Capital (matured claims and cash contributions, or accumulated reserves and profits), 9.2 via issuance of Debt Securities, and 2.8 via Put Options. During the six-month period under review no IPO and underwriting took place. Table 17 presents details of various methods of finance by the TSE listed companies in 1402H1 and 1403H1.

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

	1402H1		1403H1		Percentage Change of 1403H1 to 1402H1
	Value	Share in Total (percent)	Value	Share in Total (percent)	
Total	**734.0**	**100.0**	**1,677.0**	**100.0**	**128.5**
Raising Capital (except for asset revaluation)	542.9	74.0	1.474.5	87.9	171.6
Initial Public Offering	14.1	1.9	0.0	0.0	-100.0
Issuance of Debt Securities	87.1	11.9	154.8	9.2	77.6
Issuance of Put Options	89.9	12.2	47.6	2.8	-47.0

Source: http://new.tse.ir

8. OTHER DEVELOPMENTS

In the last days of summer of 1403, the SCI issued the 1402 Household Budget Survey. Taking into consideration the GINI Coefficient, in the years 1400 and 1401 the income inequality in Iran had improved, however, in 1402 it has exacerbated and the GINI coefficient that had registered 0.3877 in 1401 has risen to 0.3979 in 1402. On the basis of the SCI report, the expenditures of the richest decile of the urban households were about 12.5 times the expenditures of the poorest, while this ratio registered 11.1 in 1401. It seems that the considerable rise in price of housing as well as rent - that has exerted economic pressures on the low-income deciles more than the high-income deciles - have served as the major drivers of such intensification of inequality. In this regard, housing expenditures of the urban households that accounted for 38 percent of the total in 1401, rose to above 42 percent in 1402. Note that the share of housing expenditures in total has been rising in recent years, for instance in 1388 it constituted 31.8 percent of the total expenditures of the urban households. All in all, in the year 1402, on average 67.3 percent of the expenditures of the Iranian urban households has been spent on Food and Housing, far above the 49.8 percent in European Union in 2020 and 45.8 percent in the USA in 2023.

On the basis of the Research Center of the IRI Parliament report titled "Appraisal of the Social Protection Policies in the Sixth Development Plan", the Relative Poverty Rate has followed an upward path in Iran, i.e., from 20 percent in 1396 has risen to 30.4 percent in 1400. Note that although sound monetary policy is a necessary condition for reining in the inflation rate to improve the welfare of the low-income households, it is not sufficient. Precisely speaking, in order to improve the public welfare, the economy pie that represents the size of the economy is supposed to grow and the economic rents ought to be eliminated. For instance, even though implementation of macroprudential policies like putting a cap on monthly growth rate of banks' assets could end up in slowing down the Liquidity growth rate and the inflation rate, in presence of the negative real interest rates of facilities (negative borrowing rate), the allocation of resources would not be efficient. In other words, the rent seekers would benefit from resources of the banking system which translates to more inequality. Subsequently, implementing monetary policy through competitive interest rates is highly recommended and is much effective than mandatory practices such as that of the CBI. Similarly, distribution of other economic rents in any form such as granting cheap land and housing from the general sources, allocation of foreign exchange subsidies, granting permits to certain groups, disposal of government assets in uncompetitive environments, and as such would be factors of intensified poverty and inequality in the society.

9. KEY POINTS

• In spring 1403, the GDP growth rate registered 3.2 percent, out of which, one third was obtained thanks to the remarkable 9.5 percent expansion of the Oil sector in the same quarter. It is worth to mention that the growth rate of the Oil sector in 1403Q1 stood below those in all quarters of 1402, hence, slower upcoming GDP growth rates due to the Oil sector's growth slowing down seems plausible. The domestic Oil Production rose by 7.7 percent to 3.3 mbpd in August 2024 from its preceding month. The Private Consumption as well as the Gross Fixed Capital Formation at constant 1395 prices, respectively, grew by 0.7 percent and 4.6 percent in spring 1403. On the contrary, the Government Consumption contracted by 7.3 percent in the same quarter.

• In spring 1403, the unemployment of the population aged 15 years and above fell by 0.5 percentage point to 7.7 percent compared to spring 1402. During the period under review, the unemployment of the population with higher education accounted for 43.0 percent of total unemployment of the country, up 2.2 percentage points from that of spring 1402.

• CPI inflation rate that had dropped to below 40 percent in the first month of 1403, maintained its downward path and closed summer 1403 at the low of 34.2 percent from 1400 onwards. The annual PPI inflation rate as a leading indicator of the CPI inflation rate dropped to below 30 percent at the end of 1403Q1 and decreased further to open 1403Q2 at 29.0 percent. The decrease in the annual PPI inflation rate to below 30 percent at the end of spring 1403 compared to the rates above 80 percent in the year 1400 is remarkable.

• In 1403H1, the Customs Goods Exports of the country expanded by 3.5 percent in weight and 6.5 percent in value and the Customs Goods Imports expanded by 2.8 percent in weight and 6.6 percent in value, causing the Customs Trade Balance Deficit to increase.

• In summer 1403, the Iranian foreign exchange market was less volatile than in spring 1403, despite various political circumstances, both domestic and international. The price of US Dollar in the Iranian free market averaged IRR593 thousand in 1403Q2, indicating 3 percent fall from the average of IRR611 thousand in spring, while 20 percent rise compared to the average of IRR493 thousand in 1402Q2.

• The liquidity closed 1403Q1 at IRR83,539.9 trillion, up 26.8 percent from that of the end of spring 1402 and up 6.0 percent from the end of the year 1402. The monthly M2 growth rate during the first three months of 1403 averaged about 2 percent, in proportion to the decreed cap for the monthly growth rate of banks' assets. M1, interest-free saving deposits, and short-term deposits in total constituted 55 percent of M2 at the end of spring 1403, translating to depositors' reluctance to invest their funds in long term deposits.

• The Monetary Base reached IRR11,130.3 trillion at the end of 1403Q1 compared to the end of 1402Q1. Among the components of M0, CBI Net Foreign Assets has grown by more than 6 times at the end of 1403Q1 compared to the end of 1402Q1, mainly due to the higher USD/IRR exchange rate used for conversions to IRR. In the 23.3 percent annual growth rate of M0 at the end of spring 1403, the share of CBI Net Foreign Assets was reported 178.0 percentage points, but should this component of M0 be converted to USD using the weighted USD/IRR exchange rate in secondary market, in fact this Monetary Base component indicates about 30 percent contraction in the time span under review. In fact, the CBI Claims on Banks with 70.0 percent expansion and 30.5 percentage points share in M0 annual growth rate has served as the major driver of the annual M0 growth rate.

• During the first five months of 1403, the realization rate of the General Uses of Budget (Current and Development Expenditures and Acquisition of Financial Assets) stood 7.1 percent point above that of the General Sources of Budget (General Revenues and Disposal of Financial and Non-financial Assets), causing the Overall Balance Deficit to register IRR755.0 trillion. The actual Current Expenditures accounted for 115.8 percent of the legislated figure in the Budget Law for the first five months of 1403, while General Revenues realized 81.5 percent of the legislated figure in the first five months of 1403, resulting in IRR3,638.7 trillion Operating Balance Deficit. Thanks to the considerable expansion of the oil exports in the period under review, about IRR2,780.0 trillion of the Operating Balance Deficit has been financed through Net Disposal of Non-financial Assets, and the remaining via issuance of Government Debt Securities. Out of the IRR1,690.0 trillion Government Debt Securities issued in the first half of 1403, IRR1,556.7 trillion was sold in the CBI auctions and below their face value. Hence, IRR1,474.4 trillion of Government Budget Deficit has been financed in practice via this method.

• At the end of summer 1403, the Overall Indices of TSE and OTC fell by 4.5 percent and 13.5 percent, respectively, compared to the end of the year 1402. Moreover, due to the outflow of retail capitals as well as the narrower daily price fluctuation limit during 1403H1, the value of TSE transactions fell by 37.8 percent compared to 1402H1.

• Taking into consideration the GINI Coefficient, in the years 1400 and 1401 the income inequality in Iran had improved, however, in 1402 it exacerbated and the GINI coefficient that had registered 0.3877 in 1401 has risen to 0.3979 in 1402. The expenditures of the richest income decile of the urban household were about 12.5 times those of the poorest, while this ratio registered 11.1 in 1401. The average housing expenditures of the urban households that had registered 31 percent in 1388, exceeded 42 percent in 1402.

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