بانک خاورمیانه
Middle East Bank

RECENT

ECONOMIC DEVELOPMENTS IN IRAN

A QUARTERLY REPORT

Fall 1403
2024Q4

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Disclaimer

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 (Jan 4, 2025) 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 in the period or at the point under discussion, compared to the similar period or point in the preceding year, unless otherwise specified. As such, "the growth rate of oil revenues in the third quarter of 1403" indicates the percentage change in oil revenues between the third quarter of 1402 and the third 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 three quarters of the year 1403 that starts on March 20, 2024 and ends on December 20, 2024. The third quarter of 1403 (referred to as 1403Q3), fall of 1403, roughly corresponds to the fourth quarter of 2024 in the Gregorian Calendar (2024Q4).

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

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

1403Q3 = 09/22/2024 - 12/20/2024, roughly 2024Q4

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IRAN'S ECONOMY AT A GLANCE

	1402Q1	1402Q2	1402Q3	1402Q4	1402	1403Q1	1403Q2	1403Q3
Labor Force Participation & Unemployment Rates (percent)								
Participation (15 Years and Over)	41.2	41.6	41.5	40.8	41.3	41.2	41.7	-
Unemployment (15 Years and Over)	8.2	7.9	7.6	8.6	8.1	7.7	7.5	-
Unemployment (Youth Aged 15-24)	21.6	20.1	20.6	22.5	21.2	20.0	19.4	-
Real Growth Rates of GDP and Its Subsectors at Constant 1400 Prices (percent)								
Gross Domestic Product (GDP)	6.2	4.4	-	-	5.0	3.1	2.7	-
Industries and Mining	5.0	4.0	-	-	5.1	3.2	1.7	-
Oil	19.6	22.3	-	-	18.8	9.8	8.8	-
Agriculture	1.7	0.6	-	-	0.8	2.7	2.8	-
Services	6.0	3.9	-	-	4.0	2.0	2.5	-
Non-oil GDP	5.2	3.2	-	-	4.0	2.5	2.3	-
Gross Fixed Capital Formation (at market prices)	*1.2*	*4.3*	-	-	*6.3*	*3.3*	*4.6*	-
Oil (daily average - thousand barrels)								
Production*	2,692	2,999	3,153	3,173	3,004	3,237	3,296	-
Point-to-point Inflation Rates (percent)								
Growth Rate of Consumer Price Index (1400=100)	50.6	39.5	39.6	35.4	40.7	31.3	31.7	31.8
Growth Rate of Producer Price Index (1395=100)	42.4	45.3	43.6	36.6	38.4	30.8	27.9	-
Balance of Payments (USD million)								
Oil Exports	13,626	14,496	14,193	14,482	56,796	-	-	-
Non-oil Exports	9,926	10,293	11,559	11,945	43,723	-	-	-
Imports of Goods	16,861	20,563	21,625	20,393	79,442	-	-	-
Goods Account (net)	6,691	4,227	4,126	6,034	21,077	-	-	-
Non-oil Goods Account (net)	-6,842	-9,728	-9,526	-7,118	-32,215	-	-	-
Current Account	4,398	1,477	401	2,687	8,964	-	-	-
Capital Account	-9,204	-5,446	-4,288	-1,520	-20,457	-	-	-
Change in Foreign Reserves	-81	1,124	182	-1,337	-112	-	-	-
Foreign Exchange Rates (USD/IRR daily average)								
Free Market (bill)	507,098	495,618	506,254	554,401	514,999	611,620	593,642	675,159
Secondary Market (remittance)	379,171	376,865	378,503	396,295	382,158	414,654	444,904	504,877
Monetary and Credit Aggregates (end of period - IRR trillion)								
Monetary Base (M0) **	9,029	9,722	10,232	10,921	10,921	11,130	11,542	-
CBI Claims on Banks	3,933	5,211	6,205	7,714	7,714	6,685	5,859	-
CBI Claims on Public Sector (net)	-628	143	-227	-1,787	-1,787	-635	-879	-
CBI Net Foreign Assets	3,015	3,306	4,486	18,537	18,537	19,084	21,704	-
Liquidity (M2)	65,860	70,991	74,980	78,775	78,775	83,540	90,705	-
Money (M1)	16,947	17,913	18,014	19,146	19,146	20,537	22,351	-
Sight Deposits	15,748	16,678	16,746	17,678	17,678	19,101	20,908	-
Non-sight Deposits (quasi-money)	48,913	53,078	56,966	59,628	59,628	63,003	68,355	-
M2 Money Multiplier	7.29	7.30	7.33	7.21	7.21	7.51	7.86	-
Government Budget and Fiscal Position (IRR trillion)								
The data in this section is not available								
Tehran Stock Exchange (end of period)								
Overall Index (TEDPIX)	2,173,893	2,121,213	2,210,217	2,195,092	2,195,092	2,043,980	2,097,005	2,210,217
Financial Index	2,007,970	1,903,131	1,949,564	1,917,728	1,917,728	1,795,664	2,664,767	1,949,564
Industrial Index	2,052,976	2,012,057	2,101,115	2,089,989	2,089,989	1,944,126	1,996,195	2,101,115
Market Capitalization (IRR trillion)	86,707	76,408	79,248	76,401	76,401	72,147	70,779	88,683

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
** All the details of Monetary Base have been revised, except those of 1402Q3. The USD/IRR exchange rate for conversion of the Net CBI Foreign Assets has risen from the end of 1402Q4.

INTRODUCTION

This quarterly Report investigates the Iranian economy by its various sectors and opens with analyzing the effects of the cut in the United States Fed Funds Interest Rate on the global oil market as well as the forecasted surplus of oil supply in 2025 and their effects on the Iranian economy. The Report proceeds with going over the real sector of the economy including GDP developments with its growth rate in the first half of 1403 (hereafter referred to as 1403H1), the developments of production and price of Iran's crude oil in the first 8 months of 1403, and finally the developments of the housing market in Tehran City. Chapter 3 covers the developments of the labor market in summer 1403 (hereafter referred to as 1403Q2). The fourth chapter covers the developments of the Consumer Price Index (CPI) inflation rate in monthly, annual, and point-to-point terms and that of the Producer Price Index (PPI) till the end of 1403Q3. In the fifth chapter, the changes in the customs imports and exports in the first 8 months of 1403 are investigated. The daily developments of the US Dollar price in the domestic free market and the secondary market are explored in 1403Q3 in chapter 6. In the succeeding chapter, the monetary and credit aggregates are analyzed by monetary base, money, quasi-money, and liquidity in the first 8 months of 1403. Also, a summary of assets and liabilities of the banking system and the data on deposits and extended facilities till the end of the 8th month of 1403 are provided.

Chapter 8 of the Report presents the 1st section of the 1404 Budget Bill and continues with the assessment of Government fiscal performance in 1403H1 and estimating the Budget performance for the year 1403 as a whole. 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 the first 9 months of 1403 are discussed. The Report concludes with an examination of the energy crisis in Iran and the key points.

1. GLOBAL ECONOMIC DEVELOPMENTS

The developments of the Federal Funds Rate in the United States is referred to as a dominant driver of the world economy and subsequently the Iranian economy. Any change in the Rate translates to the change in the global prices of commodities and also change in the composition of the investment portfolios of individuals and legal entities in USD. Generally, it is expected that any cut in Federal Funds Rate results in USD depreciation, hence the USD denominated securities, especially the US Treasury Bonds yield less. On the other hand, given the inverse relationship between the USD price and price of commodities in the global markets, cheaper USD causes other commodities including oil, gold, and basic metals to gain more value against the USD. During the year 2024, the Federal Reserve cut the interest rate 3 times with the last one on Dec 18, 2024. Prior to the last meeting of the Fed officials, 4 rounds of interest rate cuts in 2025 were supposed to take place, however as the US inflation rate overshot the target rate of 2 percent, the Fed officials came to conclusion to cut the Rate only twice in 2025 in order to keep the pace of GDP growth as well as the inflation rate. However, the Fed decisions might be altered after the new US Government takes office. All in all, decreasing 4 rounds of Rate cuts to 2 in the year 2025 hints lower USD depreciation in the new year and subsequently less rise in oil prices than expected. On the other hand, the forecasted surplus of oil supply in 2025 mainly due to the decrease in oil demand from China could serve as a factor of decrease in global oil prices in 2025. Therefore, the fall in oil prices seems plausible if the excess oil supply offsets the effect of cut in Fed Funds Rate on this variable. As for Iran, the case is more complicated since its oil exports revenues not only depend on the market mechanisms and Fed Funds Rate changes, but also on intensification of economic sanctions in the aftermath of the new US President inauguration.

2. REAL SECTOR

The latest CBI report on the national accounts of Iran suggests 2.9 percent and 2.7 percent economic growth rates, respectively, in 1403H1 and in 1403Q2, considering updating the base year to 1400.[1]

As in 1403Q1, all sectors of the Iranian economy expanded throughout 1403Q2. Much of the GDP growth rate of 1403Q1 is attributed to the Industries and Mining, forming 1.1 percentage points of the 3.1 percent GDP growth rate, while in 1403Q2 the Services overtook the Industries and Mining to constitute 1.1 percentage points of the 2.7 percent GDP growth rate in that quarter. In addition, Services was the main contributor to the 2.9 percent GDP growth rate in 1403H1 with 1.0 percentage point share. Oil sector that had contributed to the GDP growth rate by 1.4 percentage points in 1402H1 and 1.3 percentage points in the year 1402 as a whole, formed only 0.7 percentage point of the GDP growth rate of 1403H1. The notable expansions of 20.9 percent in 1402H1 and 18.8 percent in the year 1402 in the Oil sector slowed down in 1403 and dropped to 9.8 percent in 1403Q1 and 8.8 percent in 1403Q2, resulting in 9.3 percent expansion in 1403H1 in that sector. However, due to the air of pessimism in the aftermath of the reelection of Donald Trump, further fall in growth rate of the Iranian Oil sector is expected. The non-oil GDP growth rate in 1403Q1, 1403Q2, and 1403H1, respectively, registered 2.5 percent, 2.3 percent, and 2.4 percent.

In the Iranian national accounts provided by the CBI, Agriculture sector encompasses activities including Farming, Forestry, Hunting, Animal Husbandry, Aviculture, and Fishery. Despite its categorization, the CBI preliminary report on the developments of the Real Sector of the economy in 1403H1 has gone over that sector in brief and has reported 6.3 percent expansion in Farming products, 8.8 percent in Horticultural products, and 3.3 percent in Livestock products compared to 1402H1. In the same period, Agriculture sector as a whole has expanded by 2.8 percent, signaling that the recession in that sector has ended. It is worth to mention that Agriculture sector formed 15.6 percent of the nominal GDP in 1403H1 with 0.4 percentage point share in the GDP growth rate in the period under discussion.

Losing 1.8 percentage points compared to 1402H1, the Industries and Mining formed 27.3 percent of the nominal GDP in 1403H1. The sector itself, consists of five subgroups of "Manufacturing", "Mining", "Electricity, Gas, Steam, and Air Conditioning Supply", "Water Supply, Sewerage, Waste Management and Remediation Activities", and finally "Construction" that, respectively expanded by 1.7 percent, 3.7 percent, 2.0 percent, 0.4 percent, and 5.5 percent in the six-month period under review. Construction subsector that grew slightly by 0.7 percent in 1402H1, grew by 5.4 percent in 1403Q1 and by 5.5 percent in 1403Q2 to constitute 0.3 percentage point of GDP growth rate of 1403H1. Note that in 1403H1, Private Construction has grown by 6.1 percent, translating to improving the supply side of Private Construction in the short run. All in all, in 1403H1, the Industries and Mining sector expanded by 2.4 percent, down 2.1 percentage points from 1402H1.

The CBI data suggests that the Services sector as the largest sector of the Iranian economy with 48.5 percent share in GDP in 1403H1 (2.4 percentage points above that of 1402H1) has expanded by 2.2 percent at constant 1400 prices compared to 1402H1. Among the various subsectors of the Services, "Administrative and Support Service Activities", "Public Administration and Defence; Compulsory Social Security", and "Transportation and Storage", respectively, contracted by 5.5 percent, 1.2 percent, and 0.4 percent in 1403H1. Other subsectors of Services have expanded in the same period with "Arts, Entertainment and Recreation" with the highest growth rate of 20.8 percent, followed by "Information and Communication" with 14.7 percent. Table 1 presents the details of the GDP growth rate by major sectors of the economy in 1403H1 and the year 1402.

1. The year 1395 was previously used as the base year for CBI calculations of GDP growth rate.

Table 1. Growth Rates of GDP and Its Subgroups at Constant 1400 Prices (percent-percentage point)

	1402				1403			Share in Growth in 1403H1
	Q1	Q2	H1	Year	Q1	Q2	H1	
Agriculture	1.7	0.6	0.9	0.8	2.7	2.8	2.8	0.4
Oil and Gas	19.6	22.3	20.9	18.8	9.8	8.8	9.3	0.7
Industries and Mining	5.0	4.0	4.5	5.1	3.2	1.7	2.4	0.8
Services	6.0	3.9	4.9	4.0	2.0	2.5	2.2	1.0
Non-oil GDP (at basic prices)	**5.2**	**3.2**	**4.1**	**4.0**	**2.5**	**2.3**	**2.4**	-
GDP (at basic prices)	**6.2**	**4.4**	**5.3**	**5.0**	**3.1**	**2.7**	**2.9**	**2.9**

Source: Central Bank of Iran

On the demand side of the economy, the Private Consumption Expenditures that had started to expand from 1399Q4 onwards, registered 1.9 percent, 1.5 percent, and 2.4 percent expansions, respectively, in 1403H1, 1403Q1 and 1403Q2. On the contrary, the Government Consumption Expenditures that had contracted by 3.4 percent in 1403Q1, expanded by 4.4 percent in 1403Q2 and finally registered 0.6 percent growth rate in 1403H1.

In accordance with the CBI, Gross Fixed Capital Formation rose by 4.1 percent in 1403H1. Prior to 1400Q1, the Gross Fixed Capital Formation was categorized into two distinct groups of "Construction" as well as "Machinery" in the CBI books, but was revised and from that quarter a third group titled "Other" joined the two initial groups. The newly added group itself contains R&D expenditures, mine exploration, precious items, and other items. During 1403H1, Gross Fixed Capital Formation expanded by 5.2 percent in Construction, by 2.9 percent in Machinery, and by 1.6 percent in Other.

Regarding the international trade, during 1403H1 the exports of goods and services grew by 5.1 percent with the imports of goods and services remaining the same (0.1 percent rise only). Table 2 present details of GDP growth rate from the expenditure side at constant 1400 prices.

Table 2. GDP Growth Rate from the Expenditure Side at Constant 1400 Prices (percent)

	1402				1403		
	Q1	Q2	H1	Year	Q1	Q2	H1
Private Consumption Expenditures	**6.6**	**2.3**	**4.4**	**1.6**	**1.5**	**2.4**	**1.9**
Government Consumption Expenditures	**6.2**	**-2.2**	**1.7**	**-0.6**	**-3.4**	**4.4**	**0.6**
Gross Fixed Capital Formation	**1.2**	**4.3**	**2.9**	**6.3**	**3.3**	**4.6**	**4.1**
Machinery	0.1	7.2	4.2	6.2	0.9	4.4	2.9
Construction	1.5	2.2	1.9	7.0	5.7	4.8	5.2
Other	13.9	-7.1	2.0	-4.4	-1.8	4.7	1.6
Net Exports of Goods and Services							
Exports of Goods and Services	6.3	25.4	15.5	13.2	8.1	2.4	5.1
Imports of Goods and Services	1.3	2.9	2.1	1.5	0.6	-0.4	0.1
GDP at Market Prices	**6.5**	**4.6**	**5.5**	**5.3**	**3.9**	**3.5**	**3.7**

Source: Central Bank of Iran

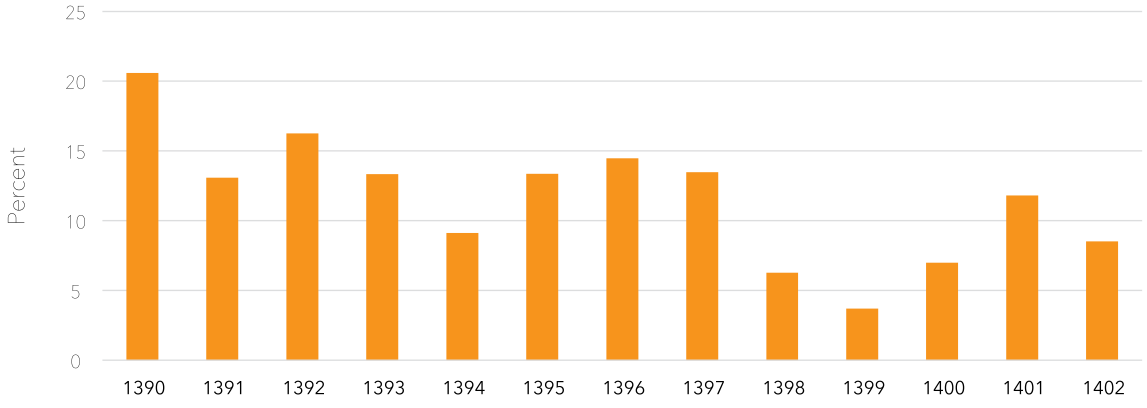
The CBI that previously used the year 1395 as the base year in national accounts, updated that year to 1400, the same base year used by the SCI. Despite this fact, the SCI reported GDP growth rate of 3.4 percent for 1403Q2, 0.7 percentage point above the corresponding figure in the CBI report, but the non-oil GDP growth rate reported by both issuing authorities is 2.3 percent for 1403Q2. In the CBI books, "Oil and Gas" is considered as a main group, while the corresponding group in the SCI books is a subsector of Industries and Mining, titled "Extraction of Oil and Natural Gas". The SCI data suggests 7.4 percent expansion in the "Extraction of Oil and Natural Gas" in 1403Q3, 1.4 percentage points below the growth rate of the corresponding group in the CBI report but the trends are the same based on both issuing authorities.

The difference in the data on the demand side of the economy reported by the two issuing authorities is crucial, i.e., contrary to the CBI that reports 4.8 percent growth rate in the Gross Fixed Capital Formation in Construction, the SCI suggests that it has contracted in 1403Q2. As for the Gross Fixed Capital Formation as a whole, the reported growth rate of the SCI is 3.3 percentage points below that of the CBI in the same period. The SCI report suggests contraction of Private Consumption Expenditures in 1403Q2 while 4.0 percent Expansion of Government Consumption Expenditures, but the CBI has reported positive growth rates for both. Regarding international trade, the difference between reports of the SCI and the CBI is shocking, in a sense that while CBI data indicates positive growth rate for exports and negative growth rate for imports in 1403H1 (net exports as a positive contributor to the GDP growth rate), the SCI has reported net exports as a factor of decrease in the GDP growth rate. Under such circumstances, analyzing the Iranian economy is a dauting task for any researcher.

2-1. Oil

Taking into account the extraordinary state of the Iranian economy under the sanctions, the highly volatile share of Oil sector in GDP from 1390 to 1402 at current prices could be observed in Graph 1. In the early stages of the imposition of sanctions on Iran in the early 1390s, the share of Oil sector in GDP started to shrink and from 20.6 percent in 1390 reached 9.1 percent in 1394. However, as the 11th IRI Administration took office in summer 1394, the efforts to improve the international relations resulted in reaching an agreement between Iran and P5+1, known as the Joint Comprehensive Plan of Action (JCPOA), causing the share of Oil sector in GDP to rise by 5.4 percentage points to 14.5 percent in 1396. However, the Oil sector again lost its share in Iran's GDP to register its low of 3.7 percent in 1399, due to various circumstances including the unilateral withdrawal of the US from the JCPOA, COVID-19 pandemic, and fall in global oil demand. The downward path of Oil sector share in GDP reversed course and in a slight upward path rose to 8.5 percent in 1402. On the basis of the national accounts provided by the CBI after revision of its base year to 1400, the share of Oil sector in GDP in 1402 is revised to 9.7 percent, respectively, above the 9.4 percent and 7.9 percent shares in 1403Q1 and 1403Q2. The CBI report suggests 9.3 percent expansion in the Oil sector value added during 1403H1 at constant 1400 prices, indicating 11.6 percentage points fall from 1402H1.

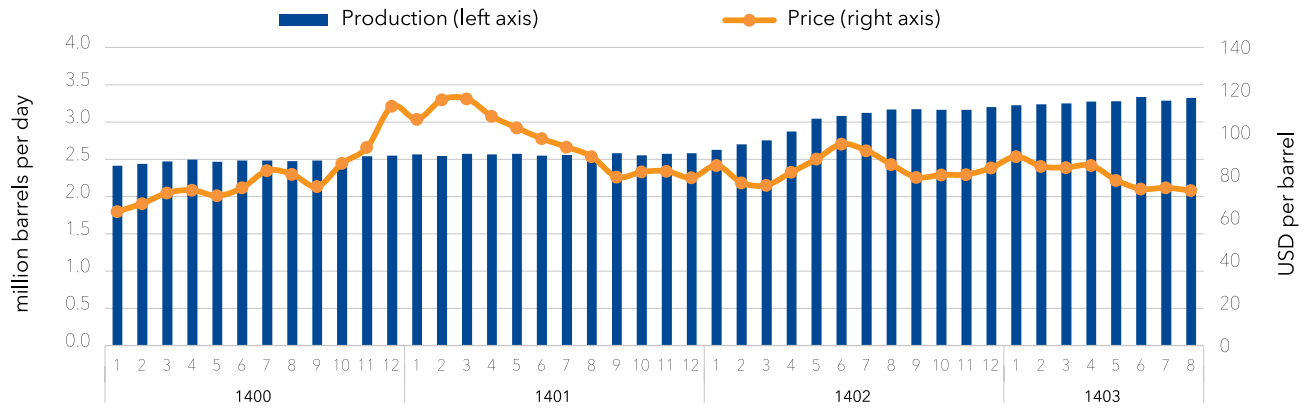
Graph 1. Share of Oil Sector in GDP at Current Prices



Source: Central Bank of Iran

As the official issuance of data on the Iranian oil production has been ceased from 1397 just after imposition of the new sanctions, the OPEC data from the secondary sources is the most reliable source in that regard. On the basis of the OPEC reports, the Iranian oil production in November 2024 (roughly corresponding to the mid-1403Q3) totaled 3.3 million barrels per day (mbpd) to stand 5.0 percent above that of November 2023. Note that the rise in the country's oil production is about to stop, i.e., due to the fall in global oil demand and the worn-out infrastructure of the Iranian Oil sector, no further rise in production seems achievable. In the aftermath of its intense falls in 1399 during COVID-19 pandemic, the price of Iran's crude oil in the year 1401 surged to above USD100 per barrel, but again started to decrease slightly. The price of Iran's crude oil registered USD72.8 in November 2024, indicating 14.3 percent fall from the same month of 2023. Graph 2 depicts Iran's average daily production as well as average price of crude oil from 1400.

Graph 2. Average Daily Crude Oil Production and Average Price of Iranian Heavy Oil



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.

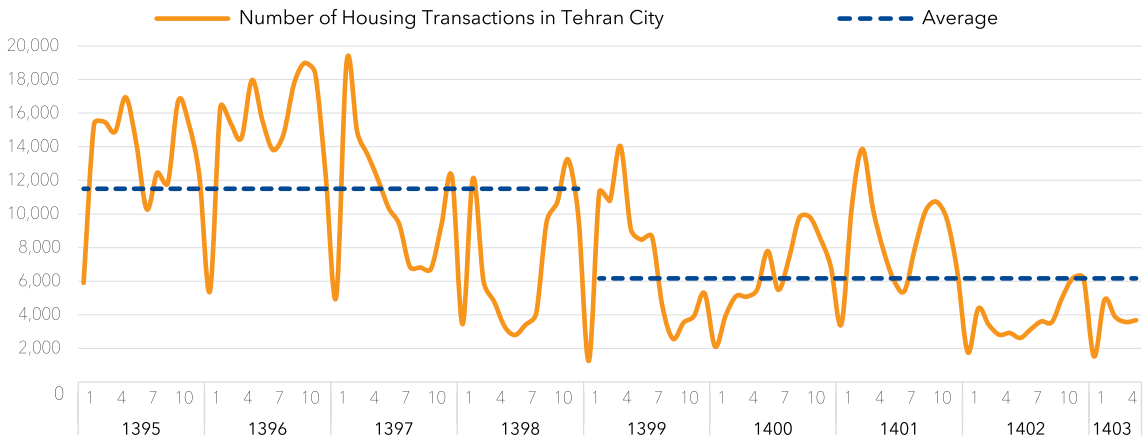
On the basis of the Tanker Trackers website[2], Iran's exports of crude oil and natural gas condensates averaged 1.6 mbpd in November 2024 and much of that, equaling 1.5 mbpd had been exported to China. In the same month, Syria's daily imports of crude oil and natural gas condensates from Iran registered 70 thousand barrels and there is no information about the rest of Iran's trade parties in this regard. However, given the regime change in Syria at the end of 2024, exports of oil and natural gas condensates to Syria is not likely to happen in 2025. Accordingly, Iran's oil exports in November 2024 indicates 10.1 percent rise from November 2023, while 14.4 percent fall from September 2024. As for Iran's oil exports, the volume of oil demand by China and the oil price discount to that party, access to oil revenues, and finally the US sanctions are the major drivers. For instance, the victory of Republicans in the 2024 US Presidential Election serves as an important factor in volume of Iran's oil exports in 2025, depending on the approach of the two countries (Iran and USA) whether to reach an agreement or not.

2-2. Housing

As the CBI is yet to publish the data on housing market while preparing this Report, the supply and demand in Tehran city housing market have been investigated only in this chapter. The data on the number of transactions in Tehran city housing market conveys a long-lasting recession in that market. As shown in Graph 3, the monthly number of transactions of residential units in Tehran city housing market that averaged 11,510 between 1395 to 1398 collapsed to 6,153 between 1399 to the mid-summer 1403.

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 our Report. The website is an independent online service that tracks and reports shipments of crude oil in several geographical and geopolitical points of interest.

Graph 3. Monthly Number of Residential Units Transactions in Tehran City



Source: Central Bank of Iran

The real growth rate of price of a square meter of the residential units in Tehran city[3] (real price return) from mid-summer 1395 to mid-summer 1403 averaged 10.4 percent annually, translating to 120.6 percent point-to-point real growth rate between the aforementioned dates. Consequently, it is crystal clear that Tehran city housing market is suffering from stagflation, basically rooted in the supply side issues in conjunction with the lower real purchasing power of Iranians. As for the demand side of the market, the share of housing expenditures in total household expenditures has touched its historical ceilings, causing the number of expected years for buying a house to escalate. As illustrated in Table 3, the average expected years for buying a 70-square meter flat in Tehran city has reached 20 in the year 1402 for urban households. The expected years are derived from the average price of a 70-square meter residential unit in Tehran city based on the CBI divided by the average urban household annual income reported by the SCI. To calculate the expected years, it is assumed that urban households' income is completely saved, aiming for purchasing a house, hence by relaxing that assumption the number of years is expected to surge.

Table 3. Expected Years for Buying a 70-Square Meter Flat in Tehran City

Year	Average Price of a Square Meter of Residential Units (IRR million)	Average Annual Income of Urban Households (IRR million)	Average Expected Years for Buying a 70-Square Meter Flat in Tehran City
1395	44.1	317.2	9.7
1396	47.9	366.8	9.1
1397	82.2	434.9	13.2
1398	132.4	541.0	17.1
1399	238.7	746.8	22.4
1400	314.8	1,124.2	19.6
1401	458.8	1,669.6	19.2
1402	749.1	2,569.4	20.4

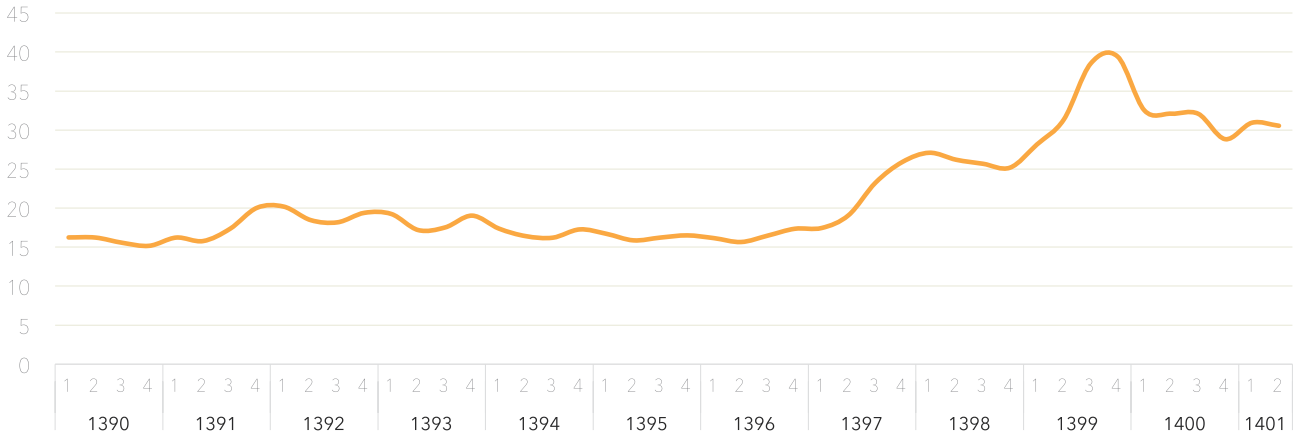
Source: Central Bank of Iran; Statistical Center of Iran

3. To calculate the real price of a square meter of residential units in Tehran, the CBI data on price of housing has been deflated using the SCI data on CPI. The year 1400 is the base year in SCI calculation.

The price to rent ratio is a key index in housing market analyses. This ratio is not only utilized for analyzing price of housing and identifying market bubbles, but also serves as a metric for households for opting between buying or renting a house. For instance, a large index conveys that buying a house is relatively more costly than renting a house, probably due to housing market bubbles. The price to rent ratio lies between 16 to 20 in many countries worldwide. The ratio for Tehran city which is derived from average price of a square meter of residential units divided by average monthly rent of a square meter of residential units (plus 3 percent of tenancy deposit) in the city is shown in Graph 4.

On the basis of the SCI, the quarterly price to rent ratio in Tehran city averaged 20.2 during 1390s and 31.2 between 1400 and 1401. Hence, due to the sharp rise in the price of housing (above the CPI inflation rate) relative to that of the rents, the housing market has yielded less (less return from renting a house) which has been a driver of recession in that market. Accordingly, in the long run, lower supply of rental housing and subsequently higher growth rate of rents than prices are expected, conveying that the regression to the mean holds for price to rent ratio in Tehran city housing market.

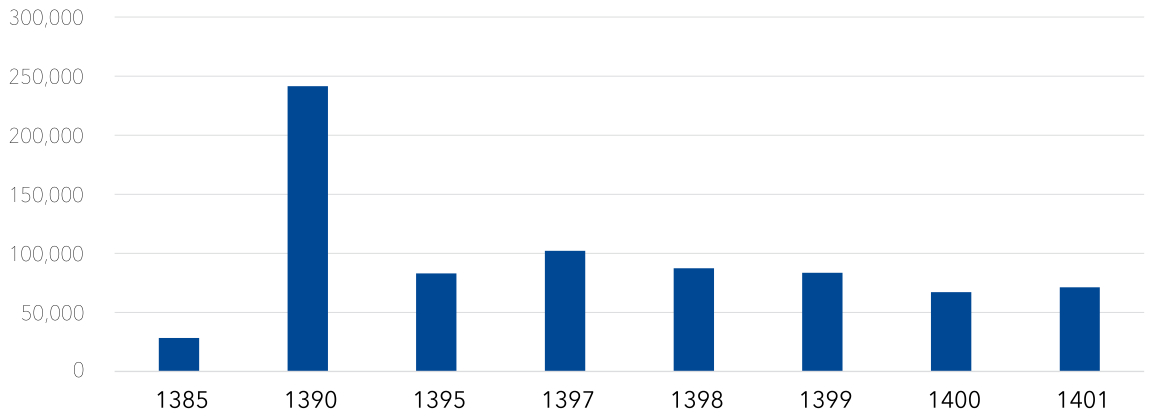
Graph 4. Price to Rent Ratio in Tehran City



Source: Statical Center of Iran

An examination of Tehran province housing market from the supply side indicates that from the year 1390 to end of 1401, the number of residential units specified in the construction permits has decreased and as shown in Graph 5, from 241.5 thousand in the beginning of that period has plummeted to 71.4 thousand at the end of the period.

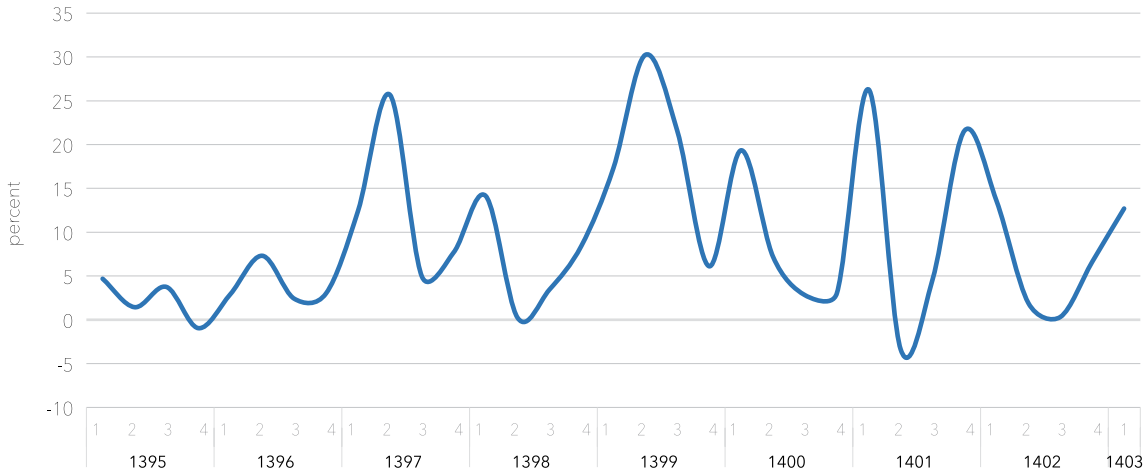
Graph 5. Number of Residential Units Specified in Construction Permits in Tehran Province



Source: Statical Center of Iran

As for the cost of construction, as shown in Graph 6, the price of construction materials in Tehran city has expanded slower than the inflation rate, but the price of land per se has constituted much of the cost of construction with about 60 percent share in total. The ratio of price of land to price of residential units in Tehran city has surged in recent years, emanating from the scarcity of land in Tehran which is expected to worsen. In other words, assuming that the inflation rate is successfully reined in, the supply side issues of housing market ought to be addressed if the recession of the housing market is to end. Otherwise, in the absence of the aforementioned assumption, even if there is a rise in prices and the number of transactions of residential units, it will be temporary and will prolong the upcoming recession in the housing market.

Graph 6. Quarterly Inflation Rate of Construction Materials in Tehran City (1390=100)



Source: Statical Center of Iran

3. LABOR MARKET

The latest report of the SCI on the Iranian labor market suggests that in 1403Q2, the unemployment rate of the population aged 15 and above has diminished by 0.4 and 0.2 percentage points compared to 1402Q2 and 1403Q1, respectively, to reach 7.5 percent. Moreover, in the same quarter, the rate of underemployment (working less than 44 hours a week) has dropped by 0.6 percentage point from 1402Q2 to reach 7.3 percent. Other labor market indices including economic participation, employment ratio (ratio of employed population to the total working age population), and unemployment rate of the population with higher education altogether improved in summer 1403 compared to summer 1402.

The unemployment rate of males registered 6.1 percent in 1403Q2, while that of the females registered 14.2 percent, respectively, 0.2 and 1.2 percentage points below those of 1402Q2. During the year under review, 443.8 thousand individuals were added to the employed population, of which, 331.8 thousand were male and 111.9 were female. Accordingly, the employment ratio among working age population grew by 0.3 percentage point among males and 0.2 percentage point among females to register 64.6 percent and 12.5 percent, respectively. All in all, the employment ratio of the working age population in summer 1403 reached 38.5 percent to stand 0.2 percentage point above that of summer 1402. Out of the 2 million unemployed population in summer 1403, 1.5 million were aged 18 to 35. Accordingly, the unemployment rate for this age group registered 14.8 percent in summer 1403, indicating 0.2 percentage point improve from summer 1402. In the same quarter, 897.6 thousand individuals with higher education were unemployed, translating to 11.6 percent unemployment rate in this group - 8.0 percent among males and 19.5 percent among females, respectively, 0.1 and 1.2 percentage points below that of 1402Q2. In 1403Q2, about 43.9 percent of the total unemployed population of the country had higher education, indicating 1.1 percentage points rise from 1402Q2. In the same season, males and females, respectively, constituted 47.3 percent and 52.7 percent of the 897.6 thousand unemployed population with higher education. The higher rate of unemployment among population with higher education relative to the average unemployment rate of the country spotlights the fact that higher education has not only assisted individuals to find a job, but also has served as a hindrance in that regard. Taking into consideration the rise in number of the population with higher education, in summer 1403 their share in total employed population rose to 27.2 percent, up 0.4 percentage point from that of summer 1402.

In 1403Q2, 784.8 thousand individuals including 380.9 thousand males and 403.9 thousand females were added to the total working age population. In the same quarter, 41.7 percent of the population at working age were active, indicating 0.1 percentage point rise in the participation rate. However, the female participation rate registered 14.6 percent. In fact, among 4.8 million active females in 1403Q2, only 4.1 million were successful in finding a job. From 1401 onwards, the female active population started to rise, while during its preceding months, the female working age population was continually rising while the female active population was falling. In spring 1397, 5.6 million females were able and willing to work, whereas in winter 1400 that figure shrank to 4.1 million, but during the years 1401 and 1402 this figure, respectively, registered 4.3 million and 4.5 million and eventually reached 4.8 million in summer 1403.

In 1403Q2, out of 25.1 million employed population, 52.1 percent participated in the Services Sector, 33.3 percent in the Industry Sector, and the remaining 14.5 percent in the Agriculture Sector. In the same quarter, 1.8 million of the employed population (7.3 percent) were underemployed, down 0.6 percentage point from that of 1402Q2, i.e., they have worked less than 44 hours a week due to some economic problems like fall in production and as such, notwithstanding their willingness to work more. Table 4 compares the major labor market indices in summers of 1402 and 1403.

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

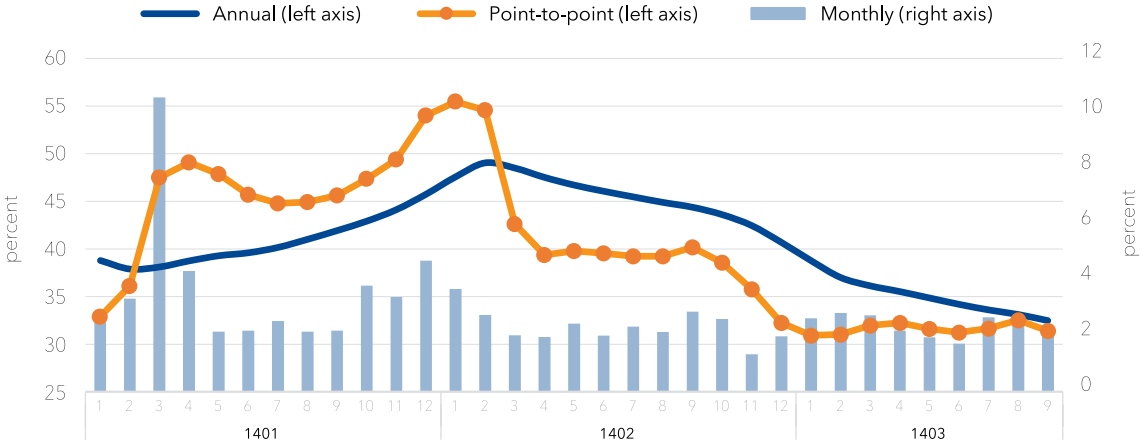
		1402Q2			1403Q2		
		Total	Male	Female	Total	Male	Female
Economic Participation	Rate (percent)	41.6	68.6	14.6	41.7	68.8	14.6
	Number (million)	26.8	22.1	4.7	27.2	22.4	4.8
Employment	Rate (percent)	38.3	64.3	12.3	38.5	64.6	12.5
	Number (million)	24.7	20.7	4.0	25.1	21.0	4.1
Unemployment	Rate (percent)	7.9	6.3	15.4	7.5	6.1	14.2
	Number (million)	2.1	1.4	0.7	2.0	1.4	0.7
Unemployment of Population Aged 18 to 35	Rate (percent)	15.0	12.0	26.6	14.8	12.1	25.1
	Number (million)	1.5	1.0	0.6	1.5	0.9	0.5
Unemployment of Population with Higher Education	Rate (percent)	12.0	8.1	20.7	11.6	8.0	19.5
	Number (million)	0.9	0.4	0.5	0.9	0.4	0.5
Share of Underemployment (percent)		7.9	8.4	4.8	7.3	7.8	4.7
Population Aged 15 and Over (million)		64.5	32.2	32.3	65.2	32.6	32.7

Source: Statistical Center of Iran

4. PRICES AND INFLATION

On the basis of the latest SCI report, the annual CPI inflation rate followed a downward path during 1403Q3 and closed that quarter at the low of 32.5 percent from the year 1400 onwards. The point-to-point CPI inflation rate that started to fall from mid-summer 1403, reversed course from the first month of fall, registering 31.6 percent and 32.5 percent, respectively, at the end of the first and second months of that quarter, but by 1.1 percentage points drop compared to the preceding month, closed 1403Q3 at 31.4 percent. The monthly CPI inflation rate behaved the same and closed 1403Q3 at 2.0 percent. Graph 7 depicts various CPI inflation rates from the beginning of 1401 to the end of fall 1403.

Graph 7. CPI Inflation Rates



Source: Statistical Center of Iran

The annual CPI inflation rate that was standing above 40 percent throughout 1402, from 48.5 percent at the end of spring of that year diminished to 40.7 percent at the end of that year. At the end of the first month of 1403 the rate dropped further to below 40 percent for the first time from 1400 onwards. The downward path of the annual CPI inflation rate maintained throughout the first 3 quarters of 1403 and from 38.8 percent at the end of 1403Q1 fell to 32.5 percent at the end of 1403Q3. On the contrary, the point-to-point CPI inflation rate was volatile during the 3 quarters of 1403 and was fluctuating between 30 percent and 32 percent. In addition, the monthly CPI inflation rate that had closed 1403Q2 at the low of 1.7 percent, started to rise in the first 2 months of fall but with a slight decrease closed that quarter at 2.0 percent. An examination of the liquidity growth rates reveals that the banks have violated the cap on the monthly growth rate of their assets in summer 1403 and probably in fall which is reflected in the monthly and point-to-point CPI inflation rates of 1403Q3.[4]

An examination of the CPI inflation rates by the twelve groups of the consumption basket of goods and services of the Iranian households at the end of fall 1403 reveals that "Housing, Water, Electricity, and Other Fuels" with the highest weight in the consumption basket has experienced the highest annual inflation rate at the end of that quarter. The annual inflation rate of this group opened 1403Q3 at 41.0 percent and slightly fell to close that quarter at 40.7 percent. Similarly, the monthly and point-to-point inflation rates of this group followed a slight downward path during 1403Q3. Among the various groups of the basket, the lowest annual inflation rate was attributed to "Communication" at the end of 1403Q3. As for the point-to-point inflation rates, the highest rate belonged to "Others" while the lowest to "Tobacco" at the end of 1403Q3. In addition, "Transportation" had the highest monthly inflation rate while "Education" experienced the lowest at the end of the period under review. The annual inflation rate of "Foods and Beverages" as the second group of the basket in terms of weight experienced a slight downward trend during 1403Q3.

4. For further information in this regard look at Monetary and Credit Aggregates chapter.

The monthly and point-to-point inflation rates in the group rose in the mid-fall 1403 but eventually diminished at the end of that quarter. The top 2 groups of the basket in total constitute 65 percent of the basket on average, hence any price change in those groups alters Iranian households' life quality. Going over the basket by cost deciles, takin into consideration the year 1400 as the base year, the top 2 groups formed more than 80 percent of the basket of 1st cost decile which is notably high. The corresponding figures for the 2nd and 3rd cost deciles were 75 percent and 72 percent, respectively. Table 5 presents the annual inflation rates of the twelve groups of the consumption basket of goods and services with their weights in a descending order at the end of fall 1403.

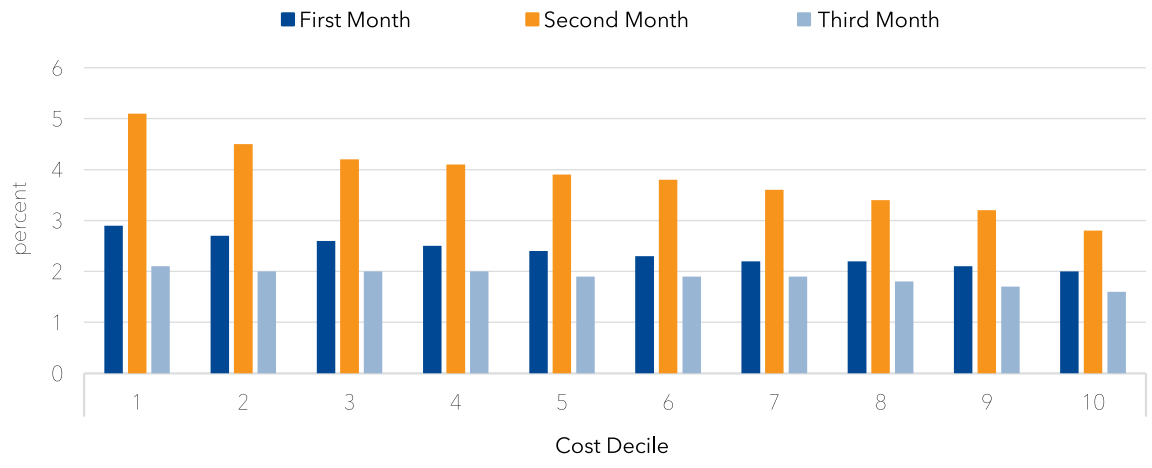
Table 5. Inflation Rates of the Consumption Basket of Goods and Services at the End of 1403Q3 (percent)

	Base Year (1400) Weight	Inflation Rate		
		Monthly	Point-to-point	Annual
Overall	**100.00**	**2.0**	**31.4**	**32.5**
Housing, Water, Electricity and Other Fuels	36.11	2.5	38.0	40.7
Foods and Beverages	28.82	1.8	26.4	26.8
Transport	8.93	2.7	31.5	27.1
Health	6.68	0.7	26.9	29.4
Clothing and Footwear	4.52	1.7	28.1	34.0
Others	4.42	1.8	39.5	36.1
Household Equipment	4.40	1.8	26.6	27.2
Communication	2.41	1.8	26.3	20.9
Restaurants and Hotels	1.35	1.3	29.5	38.9
Education	088	0.3	33.2	38.8
Recreation and Culture	0.87	1.4	27.5	31.8
Tobacco	0.62	1.0	22.5	30.4

Source: Statistical Center of Iran

The monthly developments of the CPI inflation rate by the cost deciles indicates that during 1403Q3, the first 3 cost deciles have experienced the highest monthly inflation rates in Foods and Beverages as well as Tobacco, incurring the highest inflationary pressure in providing basic life necessities. Graph 8 depicts the monthly inflation rates of Foods and Beverages as well as Tobacco by various cost deciles during 1403Q3.

Graph 8. Monthly Inflation Rate of Foods and Beverages and Tobacco During 1403Q3

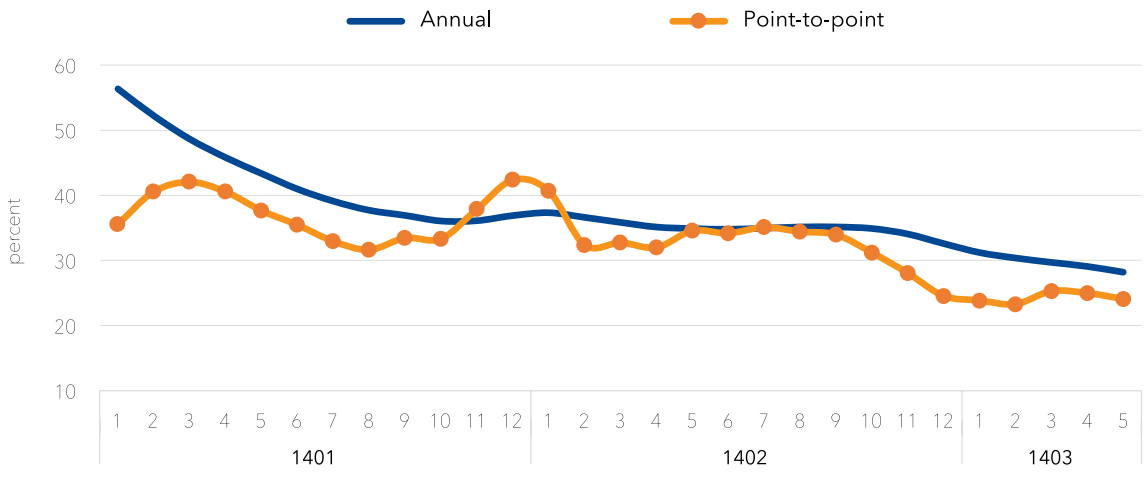


Source: Statistical Center of Iran

The CBI somehow issues CPI data, although the SCI has been responsible in that regard since the last month of 1401Q4. On the basis of the CBI news, the annual CPI inflation rate closed 1403Q3 at 36.3 percent and the point-to-point CPI inflation rate at 33.8 percent, both above the corresponding rates in the SCI report. Note that the CPI inflation rates in both the SCI and CBI reports have followed similar trends.

The latest SCI report on PPI covered summer 1403 during the preparation of this Report and that of the CBI covered PPI details till mid-summer 1403 only. But the CBI reported the PPI inflation rates for the last month of 1403Q3 without releasing any further details. On the basis of the CBI, the annual PPI inflation rate as a leading indicator of the CPI inflation rate maintained its downward path from winter 1402 and at the end of spring 1403 fell below 30 percent and eventually registered 26.7 percent at the end of 1403Q3. The considerable fall in annual PPI inflation rate to below 30 percent compared to its rates above 80 percent in 1400 is attributable to the macroprudential policy of the CBI regarding putting a cap on monthly growth rate of banks assets. In addition, on the basis of the SCI, the annual PPI inflation rate at the end of summer fell to 33.8 percent. It is worth to mention that although the reported PPI inflation rates of the SCI are above those of the CBI, they follow a similar trend. Graph 9 illustrates the developments of annual and point-to-point PPI inflation rates from the beginning of 1401 to the mid-summer 1403, based on the CBI.

Graph 9. Annual and Point-to-point PPI Inflation Rates



Source: Central Bank of Iran

5. BALANCE OF PAYMENTS

As the CBI is yet to publish data on balance of payments for the year 1403, in this chapter of the Report the latest statistics of the customs trade of the country has been investigated.

On the basis of the Islamic Republic of Iran Customs Administration (IRICA), during the first 8 months of 1403, Iran has exported 103.6 million tons of goods (excluding crude oil) valued at USD38.2 billion, while the country's non-oil imports in the same period reached 24.5 million tons valued at USD45.1 billion. Accordingly, the customs trade balance deficit diminished to USD7.0 billion in the first 8 months of 1403 compared to the USD10.2 billion in the same period of 1402.

During the first 8 months of 1403, the customs goods exports of Iran expanded by 14.7 percent in weight and 18.0 percent in value. Hence, the average value of exported goods rose to USD368 per ton in the first 8 months of 1403, above the USD358 in the same period of 1402. During the period under review, the customs goods imports of Iran contracted by 1.7 percent in weight, while expanded by 6.1 percent in value. Consequently, the average value of imported goods rose to USD1,840 per ton in the first 8 months of 1403 from the USD1,740 in the same period of 1402. All in all, the average value of each ton of imported goods is about four times that of the exported goods in the period under discussion. The exports of raw or semi-raw goods with low value-added is considered as a driver of lower average value of exported goods than that of the imported goods. In addition, the exchange rate policy of the CBI has also encouraged over invoicing in imports and under invoicing in exports by the merchants. Finally, highly concentrated exports destinations have served as an obstacle to the exports development and has made the country's international trade proceeds vulnerable to the economic and political developments of the major trade counterparts.

On the basis of the IRICA, gold bullion value at USD4.6 billion, cattle feed corn at USD1.8 billion, as well as cellular phone at USD1.5 billion were, respectively, the major imported goods during the first 8 months of 1403. Note that during the period under review, the imports of gold bullion skyrocketed by 371 percent in weight and 462 percent in value, constituting 10 percent of total customs imports of the country.

With USD2.5 billion exports of gold bullion to Iran, Turkey ranked the largest exporter of this commodity to the country with 55 percent share in total. This considerable rise rooted in the CBI circular of summer 1402 regarding the settlements of foreign exchange commitments of exporters. the Iranian exporters are required to transfer their exports proceeds to the country, and based on the aforementioned circular, this transfer was possible in the form of gold bullion. Due to USD transfer limitations, the circular highly tempted the Iranian exporters to convert their export proceeds to gold to easily settle their commitments. In addition to gold bullion, during the first 8 months of 1403, imports of first-hand passenger car also escalated. In the period under review 29,418 passenger cars valued at USD617.5 million were imported to the country, indicating 736 percent rise in number and 784 percent expansion in value.

During the first 8 months of 1403, petrochemical products including liquified natural gas (LNG) valued at USD5.1 billion, liquified propane valued at USD1.2 billion, and methanol valued at USD1.7 billion were the top 3 export items of Iran. All in all, in the period under review 44.9 million tons of petrochemicals valued at USD17.5 billion have been exported, indicating 31.4 percent rise in weight and 27.8 percent rise in value compared to the same period of 1402. Out of the total customs exports of the country in the first 8 months of 1403, 46.0 percent was attributed to petrochemical products, far above that of the year 1402 as a whole (37.8 percent). The statistics on Iranian customs trade in the first 8 months of 1402 and 1403 are provided in Table 6.

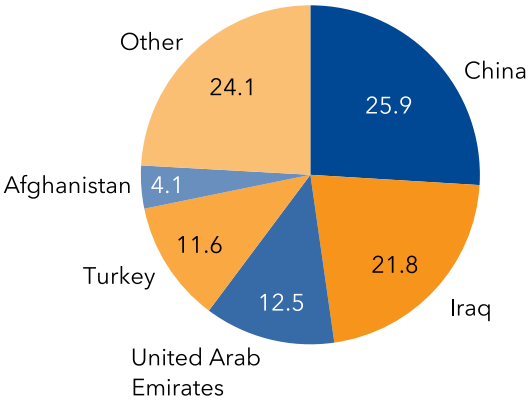
Table 6. Iran's Customs Trade

	First 8 Months of 1402			First 8 Months of 1403			Percentage Change	
	Weight (1000 tons)	Value (USD million)	Value to Weight Ratio (USD per ton)	Weight (1000 tons)	Value (USD million)	Value to Weight Ratio (USD per ton)	Weight	Value
Exports	90,321	32,320	358	103,558	38,152	368	14.7	18.0
Imports	24,956	42,522	1,704	24,525	45,127	1,840	-1.7	6.1
Customs Trade Balance	**65,365**	**-10,202**	-	**79,033**	**-6,975**	-	**20.9**	**-31.6**

Source: Islamic Republic of Iran Customs Administration

China, Iraq, UAE, Turkey, and Afghanistan, respectively, were the top 5 exports destinations of Iran, altogether forming 75.9 percent of the total exports of the country in the first 8 months of 1403. The exports to China registered USD9.9 billion with 25.9 percent share in total exports, followed by Iraq at USD8.3 billion with 21.8 percent share, UAE at USD4.8 billion with 12.5 percent share, Turkey at USD4.4 billion with 11.6 percent share, and Afghanistan at USD1.6 billion with 4.1 percent share. Graph 10 depicts the major exports destinations of Iran during the first 8 months of 1403.

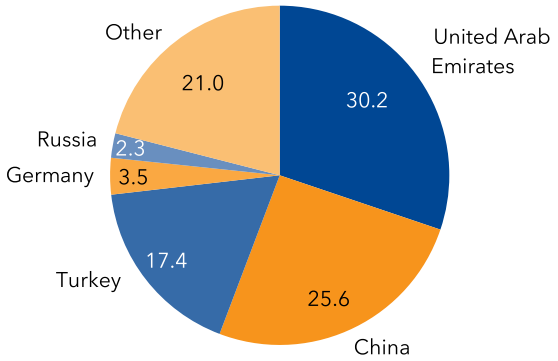
Graph 10. Main Customs Exports Destinations of Iran During the First 8 Months of 1403 by Share in Total (percent)



Source: Islamic Republic of Iran Customs Administration

Among the various trade counterparts of Iran, imports from the UAE registered USD13.6 billion, constituting 30.2 percent of the total imports to Iran to put UAE at the first place. As for other major trade parties, China with USD11.5 billion of exports to Iran with 25.6 percent share in total, followed by Turkey at USD7.9 billion with 17.4 percent share, Germany at USD1.6 billion with 3.5 percent share, and finally Russia at USD1.1 billion and 2.3 percent share, respectively occupied the 2nd to the 5th places among Iran's sources of imports. The imports from the top 5 sources of imports formed 79.0 percent of the total imports of the country in the period under review. Graph 11 illustrates Iran's major sources of imports during the first 8 months of 1403.

Graph 11. Main Customs Imports Sources of Iran During the First 8 Months of 1403 by Share in Total (percent)

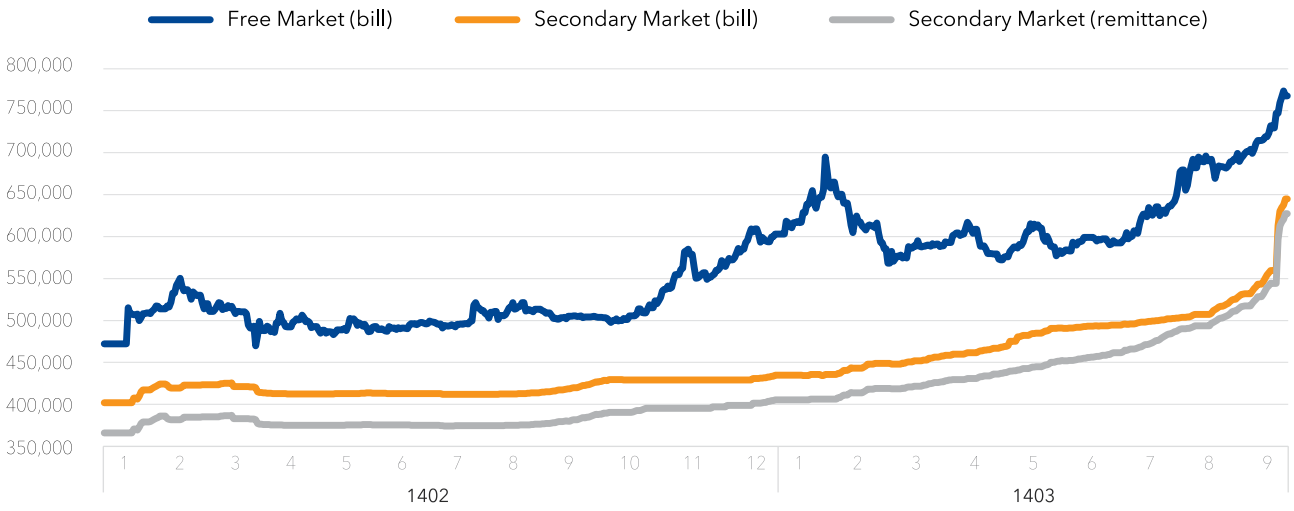


Source: Islamic Republic of Iran Customs Administration

6. FOREIGN EXCHANGE MARKET

The Iranian free market for foreign exchanges was highly volatile during 1403Q3 as a result of the various political developments, both domestic and global. The USD/IRR exchange rate that had opened 1403Q3 at 595,500 closed that quarter at 767,550. The price of US Dollar during 1403Q3 averaged 675 thousand Rials, indicating 13.7 percent rise compared to the IRR594 thousand average of 1403Q2 and 33.4 percent rise compared to the IRR506 average of 1402Q3. Graph 12 illustrates the developments of USD/IRR exchange rates in various markets in 1402 and the first 3 quarters of 1403.

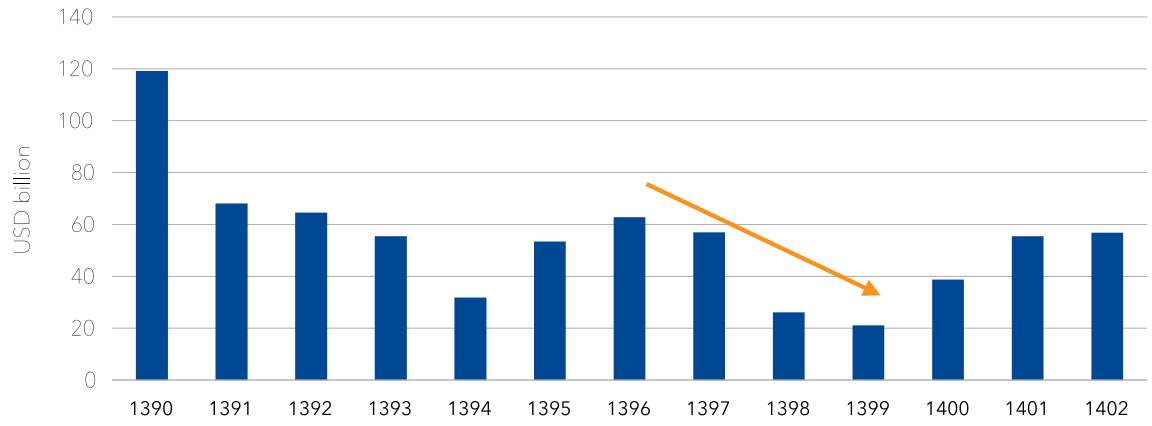
Graph 12. USD/IRR Exchange Rate in Various Markets



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

Both the domestic and international developments serve as the drivers of the changes in USD/IRR exchange rates, for instance Trump's victory in the US Presidential Election, regime change in Syria, and the intensified tensions between the Islamic Republic and Israel are as such. As shown in Graph 13, during the first tenure of Trump as the president of the US from 2017 to 2021, the value of oil exports of Iran plummeted by 66.5 percent and from USD62.768 billion in the first year of the period under review reached USD21.043 billion at the last year of that period. Hence, the reaction of the Iranian foreign exchange market to reelection of Trump in fall 1403 is not regarded as strange.

Graph 13. Value of Iran's Oil Exports



Source: Central Bank of Iran

In addition, Table 7 presents the changes in the USD/IRR bill exchange rate in the past 5 quarters.

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

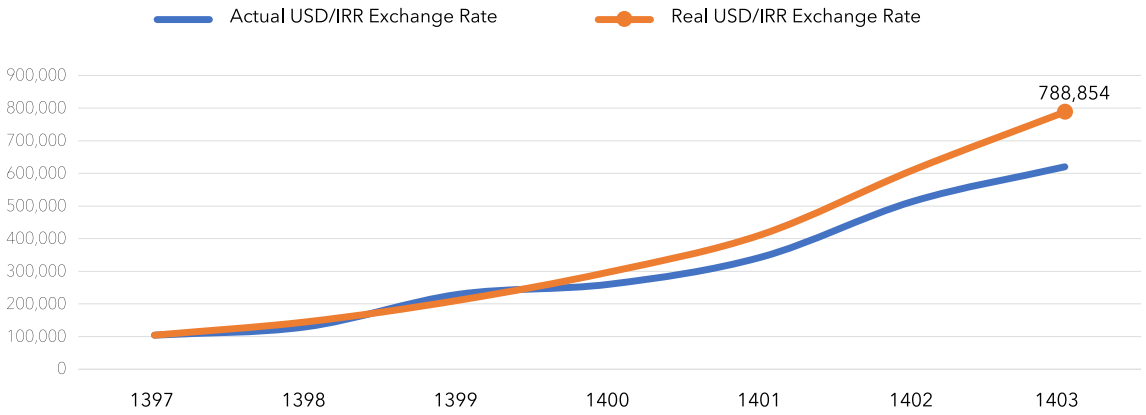
	Average	Maximum	Minimum	Standard Deviation	Coefficient of Variation
1402Q3	506,254	521,500	492,410	6,954	0.01
1402Q4	554,401	609,200	499,490	34,305	0.06
1403Q1	611,620	695,000	568,500	27,926	0.05
1403Q2	593,642	616,910	572,200	10,961	0.02
1403Q3	675,159	773,650	595,500	44,624	0.06

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

It is worth to mention that the effect of political developments on the foreign exchange market is short run and in the long run, the USD/IRR exchange rate acts in line with the Purchasing Power Parity (PPP) to approach its real rate. The PPP suggests that the expenditures on two specific baskets of goods in two different economies ought to be the same, otherwise the imports or exports change in a way to clear the price difference in a mechanism by which the exchange rates change. As a result, if the domestic inflation rate stands above that of abroad, the exchange rate has to rise if the PPP is to hold.

While using PPP in analyses, the base year is of high importance. For instance, in economies such as the Iranian economy that frequently experiences exchange rate shocks due to the failure of the economic policymakers' exercises to stabilize nominal exchange rates notwithstanding high inflation rates, the year in which the shocks are occurred is the appropriate base year. Besides, as the oil exports serves as another factor of exchange rate changes in Iran, using a base year in which the oil export volume and oil price are similar to the year under review, could be helpful. Accordingly, the year 1397 could be considered the same as 1403. In Graph 14 the difference between the actual and real USD/IRR exchange rates on the basis of PPP is depicted. Using 1397 as the base year, the average real USD/IRR exchange rate for the year 1403 is estimated 789 thousand.

Graph 14. Real USD/IRR Exchange Rate (base year is 1397) *



Source: Statistical Center of Iran; Gold, Coin, and Currency Information Network; International Monetary Fund; research calculations
* The exchange rate for each year is the average rate except for the year 1403 that is 9-month average.

The USD/IRR bill exchange rate in the secondary market opened 1403Q3 at 495 thousand and in an upward path closed the same quarter at 644 thousand. The gap between the USD/IRR bill exchange rate in the free market and the secondary market averaged 24 percent, 33 percent, and 28 percent, respectively in the 3 consecutive months of 1403Q3. From the last month of fall 1403, a subdivision was added to the secondary market where the importers and exporters are able to trade foreign exchanges. The newly added subdivision bears some advantages including legal contract between the trade parties, requirement of exporters to observe the deadline for settlement of foreign exchange commitments, registered requests of trade parties in the system and available room for negotiation, no possibility of registration of fake orders, higher rates than those in other subdivisions of the secondary market, and finally a starting point for exchange rate unification.

Note that as part of the foreign exchanges in the new market is supplied by state-owned exporters, the Government intervention via such companies is inevitable. Furthermore, despite the claim that the newly added market follows free market mechanisms, a fluctuation limit was considered, at least in the early stages of these developments.

Currently, the major foreign currency suppliers of the country including exporters of petrochemicals, refinery products, steel, base metals, as well as oil product are absent in the new subdivision of the secondary market and are supposed to join that market by the end of the second month of winter 1403. Hence, the new market is currently not that sizeable and in the initial month of its activity, AED542 million, USD87 million, CNY10 million, and EUR1 million were traded only within that.

The expansion of transactions in the new market, elimination of the fluctuation limit, and getting rid of the Government intervention could help the foreign exchange rates in the free market and in the new market to converge. Letting the major suppliers of foreign currencies supply their export proceeds at rates above the decreed rates causes under invoicing to diminish and on the other hand, there would be no more room for rent seeking in the foreign exchange market and regarding imports, and over invoicing will be reduced, as well. Moreover, increasing imports costs will also lead to a decrease in imports volume. Consequently, increasing the supply of exporters' foreign currencies in conjunction with decreasing the importers' demand for foreign currencies due to higher foreign exchange rates could serve as factors of fall in the free-market exchange rates.

7. MONETARY AND CREDIT AGGREGATES

The latest CBI statistics on the monetary aggregates covers first 8 months of 1403 while preparing this Report. At the end of the 8th month of 1403, the Liquidity (M2) registered IRR93,922.1 trillion, up 28.1 percent from the same month of 1402 and 19.2 percent above the end of 1402. Accordingly, during the first 8 months of 1403, the monthly growth rate of Liquidity averaged 2.2 percent, standing above that of the same period of 1402, conveying that the banks have not observed the CBI regulation regarding monthly growth rate of their assets.[5] Moreover, the Monetary Base (M0) reached IRR12,046.2 trillion at the end of the 8th month of 1403, indicating 20.7 percent and 10.3 percent rises compared to the same point in 1402 and the end of 1402, respectively. Table 8 presents the developments of Liquidity and Monetary Base at the end of the 8th month of 1403.

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 08/1403 Compared to		Share in M0 Growth Rate at the End of 08/1403 Compared to	
	08/1402	12/1402	08/1403	08/1402	12/1402	08/1402	12/1402
Monetary Base (M0)	**9,984.2**	**10,921.3**	**12,046.2**	**20.7**	**10.3**	**20.7**	**10.3**
CBI Foreign Assets (net)	3,134.9	18,537.1	22,781.5	626.7	22.9	196.8	38.9
CBI Claims on Public Sector (net)	171.7	-1,786.8	-873.9	-	-51.1	-10.5	8.4
CBI Claims on Public Sector	3,465.3	4,742.8	5,705.9	64.7	20.3	22.4	8.8
Public Sector Deposits with CBI	3,239.6	6,529.6	6,579.8	99.8	0.8	-32.9	-0.4
CBI Claims on Banks	6,130.7	7,713.5	7,322.5	19.4	-5.1	11.9	-3.6
Other Assets (net)	546.9	-13,542.5	-17,183.9	-	26.9	-177.5	-33.4
Balance of Implementation of Monetary Policy	1,258.6	2,040.0	2,939.0	133.5	44.1	16.8	8.2
Liquidity (M2)	**73,293.1**	**78,774.5**	**93,922.1**	**28.1**	**19.2**	**Share in Liquidity at the End of**	
						12/1402	**08/1403**
Money (M1)	**17,633.0**	**19,146.4**	**22,503.8**	**27.6**	**17.5**	**24.3**	**24.0**
Notes and Coins with the Public	1,258.5	1,468.8	1,480.2	17.6	0.8	1.9	1.6
Sight Deposits	16,374.5	17,677.6	21,023.6	28.4	18.9	22.4	22.4
Checks (net)	229.7	522.6	579.1	152.1	10.8	0.7	0.6
Quasi-Money	**55,660.1**	**59,628.1**	**71,418.3**	**28.3**	**19.8**	**75.7**	**76.0**
Interest-free Saving Deposits*	6,071.3	7,603.5	9,877.2	62.7	29.9	9.7	10.5
Short Term Deposits	16,635.0	16,865.4	19,322.9	16.2	14.6	21.4	20.6
One-year Deposits	14,123.4	14,508.7	14,726.3	4.3	1.5	18.4	15.7
Two-year Deposits	3,918.4	4,183.5	3,637.8	-7.2	-13.0	5.3	3.9
Three-year Deposits	13,013.1	14,382.9	21,086.6	62.0	46.6	18.3	22.5
Four-Year Deposits	3.6	3.6	317.2	-	-	0.0	0.3
Five-year Deposits	66.2	65.2	65.0	-1.8	-0.3	0.1	0.1
Miscellaneous Deposits	1,829.1	2,015.3	2,385.3	30.4	18.4	2.6	2.5
M2 Money Multiplier	**7.34**	**7.21**	**7.80**	**6.2**	**8.1**	**-**	**-**

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

5. On the basis of the CBI circular, the monthly growth rate of assets for commercial banks is 2.0 percent and for specialized banks is 2.5 percent. Taking into account the considerable share of commercial banks in the total assets of the banks (about 85 percent), the 2.2 percent monthly growth rate of liquidity during the first 8 months of 1403 is attributable to this sort of banks.

The annual growth rate of Liquidity that was losing its pace from the mid-1400 due to the implementation of the CBI macroprudential policy, reached the low of 24.1 percent in the first month of 1403, but reversed course and from 25.6 percent in the 2nd month of 1403 reached 28.4 percent in the 5th month of that year. With a slight decrease, the annual growth rate of Liquidity closed 1403Q2 at 27.8 percent. In the first 2 months of 1403Q3 Liquidity grew by 28.6 percent and 28.1 percent, respectively, compared to the corresponding months of 1402Q3. During the first 8 months of 1403 the Liquidity grew by 2.2 percent per month on average, above the 1.8 percent monthly average of the same period of 1402. Given the cap on the monthly growth rate of the banks' assets, the 2.2 percent monthly average in the first 8 months of 1403 suggests that the banks have violated the CBI requirements. On the basis of the CBI circular, the banks' assets are investigated on a quarterly basis and any deviation from the decreed caps results in more legal reserves of the violating banks with the CBI. On the basis of the Liquidity developments, in 1403Q1, the monthly growth rate of this monetary aggregate averaged 1.9 percent while in its succeeding quarter, the rate climbed to 2.7 percent. Therefore, the legal reserves ratio should have risen at the end of 1403Q2, but the monetary statistics suggests that the ratio has even fallen. The fall in the legal reserve ratio could be attributed to releasing about IRR500 trillion of the legal reserves of banks with the CBI, aiming for financing mandatory loans.

An examination of the Liquidity by its components, Money (M1) and quasi-money, reveals that at the end of the 8th month of 1403, M1 has grown by 17.5 percent and quasi-money by 19.8 percent compared to the end of 1402, causing the share of quasi-money in Liquidity to rise by 0.3 percentage point to 76.0 percent at the end of the 8th month of 1403. Among the components of quasi-money, the three-year deposits expanded by 46.6 percent, while the two-year deposits contracted at the end of the 8th month of 1403 compared to the end of 1402. The considerable expansion of the three-year deposits in the period under review emanates from the arbitrary waiver of penalty for prematurity withdrawal by some banks and conversion of matured one-year and two-year deposits to the three-year deposits.

The M1 (notes and coins in circulation and sight deposits), interest-free saving deposits, and short-term deposits in aggregate formed 55 percent of the Liquidity at the end of the 8th month of 1403 which is considered as a large share. The share of three-year deposits in liquidity in the same point registered 22.5 percent, far close to the share of sight-deposits in Liquidity at 22.4 percent. All in all, the shares of liquidity components in this monetary aggregate convey that in the first 8 months of 1403, investment in long-term deposits has not been desirable. Considering the drivers of the rise in price of foreign currencies and crypto currencies in 1403Q3, further rise in the share of sight deposits in liquidity in the remainder of that quarter seems plausible.

On the basis of the latest CBI report, the Monetary Base reached IRR12,046.2 trillion at the end of the 8th month of 1403, indicating 10.3 percent rise from the end of 1402 and 20.7 percent compared to the same point of 1402. The annual growth rate of M0 that had reached its low of 21.1 percent at the end of the 2nd month of 1403 reversed course and followed an upward path in its 3 following months, but eventually closed 1403Q2 at 18.7 percent, far below the 41.7 percent of the end of 1402Q2. The M0 grew by 21.3 percent and 20.7 percent, respectively, at the end of the 1st and 2nd months of 1403Q3 compared to the corresponding months of 1402Q3. During the first 8 months of 1403, the CBI Net Foreign Assets grew by 22.9 percent at the end of the 8th month of 1403 compared to the end of 1402, forming much of the M0 growth rate in the period under review at 38.9 percentage points. Note that from the last month of 1402, the CBI revised its USD/IRR exchange rate for currency translation and the rate of 42 thousand Rials per US Dollar was replaced by a higher exchange rate.[6] Hence, in examination of the annual changes of CBI Net Foreign Assets this point has to be taken into account. Accordingly, the annual 627 percent rise in CBI Net Foreign Asset at end of the 8th month of 1403 is attributed to the higher USD/IRR exchange rate used of currency translation. Without considering the effect of the USD/IRR exchange rate changes for conversion in the one-year period under review, the CBI Net Foreign assets have in fact contracted by about 19 percent at the end of the 8th month of 1403 on an annual basis, i.e., from about USD75 billion at the end of the 8th month of 1402 has dropped to

6. Prior to the last month of 1402, the CBI USD/IRR exchange rate for currency translation was 42 thousand but from that point onwards, it was replaced by the weighted USD/IRR exchange rate. The weighted exchange rate solely represents a weighted average of USD/IRR bill and remittance exchange rates in the secondary market and the USD rate of IRR285 thousand for imports of essential goods. At the end of 1402 the USD/IRR weighted exchange rate was 377 thousand.

about USD60 billion at the end of the 8th month of 1403.

During the first 8 months of 1403, the CBI Net Claims on the Public Sector constituted 8.4 percentage points of the 8-month M0 growth rate, serving as the 2nd contributor to the expansion of that monetary aggregate. In other words, CBI claims on the Public Sector has grown faster than the Public Sector Deposits with the CBI.

The CBI Claims on Banks contracted by 5.1 percent during the first 8 months of 1403 and decreased the M0 growth rate by 3.6 percentage points in that period. The developments of M0 reveals that at the end of the 6th month of 1403, this monetary aggregate has contracted compared to its preceding month, mainly due to fall in the CBI Claims on Banks. Accordingly, it seems that the IRR500 trillion released from the legal reserves of the banks with the CBI has been spent on settlement of part of CBI Claims on Banks at the end of 1403Q2, causing the M2 Money Multiplier to rise. Contrary to the end of 1403Q2, the monetary base followed an upward path in the first 2 months of 1403Q3.

In the first 8 months of 1403, CBI Net Other Assets expanded by 26.9 percent and due to its negative value, caused the M0 growth rate to fall by 33.4 percentage points in the period under discussion. Note that despite the 44.1 percent expansion of the balance of implementation of money policy in the 8-month period under review, the CBI Net Other Assets remained negative. In analyzing the annual changes of the CBI Net Other Assets, the same logic in analyzing changes of the CBI Net Foreign Assets holds, i.e., in order to offset the effect of rise in USD/IRR exchange rate for currency translation, equivalent to the rise in CBI Net Foreign Assets from this source has been reduced from the CBI Net Other Assets to make it more negative.

The aggregate balance sheet of the banks and non-bank credit institutions reveals that at the end of the 8th month of 1403, their Assets (Liabilities) less below the line items have grown by 42.2 percent from the same point in 1402 and by 29.3 percent from the end of 1402. On the Assets side, Foreign Assets, Claims on Non-public Sector, and Other Assets, respectively, were the top 3 contributors to both the annual and 8-month growth rates of the Assets. Note that in the aftermath of the revision of M0 components in the CBI books from the dates 1400 and after, the Deposit with the CBI includes those in IRR only and the deposits in foreign currencies are included in Other Assets of banks. On the Liabilities side, Deposits of Non-public Sector, Other Liabilities, and Foreign Liabilities were the top 3 drivers of the 42.2 percent annual expansion of Liabilities at the end of the 8th month of 1403. However, Foreign Liabilities put Other Liabilities behind and after the Deposits of Non-public Sector served as the 2nd driver of the 8-monts 29.3 percent growth rate of Liabilities. A summary of Assets and Liabilities of banks and non-bank credit institutions 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 08/1403			08/1403 Percentage Change Compared to	
	08/1402	12/1402	08/1403	Public Commercial	Public Specialized	Non-public	12/1402	08/1402
Assets (excluding below the line Items)	**129,145.2**	**142,022.3**	**183,684.3**	**41,641.4**	**27,049.4**	**114,993.5**	**29.3**	**42.2**
Foreign Assets	22,988.4	23,854.1	39,438.1	5,325.8	9,782.0	24,330.3	65.3	71.6
Notes and Coins	189.2	191.9	407.2	170.8	20.2	216.2	112.2	115.2
Deposits with the CBI	8,536.5	9,260.6	10,158.8	2,490.8	696.3	6,971.7	9.7	19.0
Claims on Public Sector	8,786.8	9,749.4	13,091.5	5,508.4	2,763.3	4,819.8	34.3	49.0
Claims on Non-public Sector	60,359.1	66,509.0	77,693.3	16,121.2	10,517.7	51,000.4	16.7	28.6
Other	28,285.2	32,457.3	42,949.4	12,024.4	3,269.9	27,655.1	32.3	51.8
Liabilities (excluding below the line Items)	**129,145.2**	**142,022.3**	**183,684.3**	**41,641.4**	**27,049.4**	**114,993.5**	**29.3**	**42.2**
Deposits of Non-public Sector	72,034.6	77,305.7	92,441.9	23,167.9	8,492.1	60,781.9	19.6	28.3
Debt to CBI	6,130.7	7,713.5	7,322.5	2,622.8	1,305.2	3,394.5	-5.1	19.4
Deposits of Public Sector	469.8	392.0	889.1	538.7	245.9	104.5	126.8	89.3
Capital Account	1,775.1	2,599.6	3,906.6	72.5	955.6	2,878.5	50.3	120.1
Foreign Liabilities	19,407.2	20,479.7	33,114.0	5,245.1	8,447.7	19,421.2	61.7	70.6
Other	29,327.8	33,531.8	46,010.2	9,994.4	7,602.9	28,412.9	37.2	56.9

Source: Central Bank of Iran

At the end of the 8th month of 1403, the balance of extended facilities by banks registered IRR88,235.1 trillion, up 36.3 percent from the IRR64,727.1 trillion in the same point of 1402. The balance of deposits also grew by 35.6 percent to 115,689.2 trillion in the same period. Accordingly, the ratio of extended facilities to deposits less legal reserves reached 83.8 percent at the end of the 8th month of 1403, only 0.1 percentage point above that of the same point in 1402. The balance of extended facilities and deposits of the banking system at the end of the 8th month of 1403 are presented in Table 10.

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

	08/1402	08/1403	Percentage Change
Extended Facilities	64,727.1	88,235.1	36.3
Deposits	85,298.5	115,689.2	35.6
Deposits Less the Required Reserves	77,106.2	105,256.0	36.5
Ratio of Extended Facilities to Deposits Less the Required Reserves (percent)	83.9	83.8	-

Source: Central Bank of Iran

During the first 8 months of 1403, IRR42,954.3 trillion facilities has been extended to various sectors of the economy by the banking system, indicating 24.7 percent rise compared to the same period of its preceding year. Out of total extended facilities in the period under discussion, 76.7 percent, equivalent to IRR32,934.4 trillion is attributed to the businesses (individuals and legal entities) and the remaining 23.3 percent at IRR10,010.9 trillion to the final consumers (households). Going over the extended facilities by various sectors of the economy reveals that during the first 8 months of 1403, Services sector had the highest share of 40.0 percent in total extended facilities to the businesses followed by Industries and Mining at 38.4 percent. Among various types of extended facilities, in the same period, 76.7 percent of extended facilities to businesses and 58.8 percent of the total extended facilities were attributed to the Working Capital.

8. FISCAL POLICY

8-1. Budget Bill of 1404

The first section of the Budget Bill of 1404 as the first Bill proposed by the 14th IRI Administration was delivered to the IRI Parliament right on time in the beginning of the 2nd month of fall 1403. The first section of the Budget Bill generally includes notes, ceiling of Sources of General Budget by General Revenues and Disposal of Financial and Non-financial Assets, assumptions used for estimations, and finally budget balances. The first section was passed in general by the Parliament in 8 days, and in the next step, the details are being surveyed.

On the basis of the Budget Circular of 1404, the 4 main pillars including social capital improvement, observation of rules, continuous improvements, and decreasing inequality have to be taken into account. In addition, it has been claimed that while preparing the Bill of 1404, organizing the Uses to eliminate the Budget imbalances, more tax exemption for middle class of society, smartening of tax system, higher cooperation between public and private sectors, organizing Government Securities, banking system reform, and elimination of sectoral imbalances have been taken into consideration.

The Total Government Budget in the Budget Bill of 1404 is up 84.2 percent from that of the Budget Law of 1403, emanating from inclusion of off-budget items to the Budget Bill of 1404. Note that the sources of Subsidies Reform Plan were previously off-budget and consequently were not included in the Total Government Budget of 1403, so if they are included, the difference between the Total Government Budget in Law of 1403 and in the Bill of 1404 decreases to 56.7 percent. The Total Government Budget consists of Budget of State-owned Companies and Government General Budget. The Budget of State-owned Companies in the Budget Bill of 1404 is up 46.7 percent from the corresponding figure in the Budget Law of 1403. The Government General Budget in the Budget Bill of 1404 stands 66.5 percent above that of 1403 Budget Law and itself consists of General Sources as well as Dedicated Revenues. The Dedicated Revenues are obtained by some government organizations and are spent in the same organizations, i.e., these sorts of revenues are not directed to the Treasury and could not be redistributed by that. Contrary to the Dedicated Revenues, General Sources are directly in the hands of Government and the Treasury. The General Sources per se consists of General Revenues (taxes and proceeds from state-owned properties), Disposal of Non-financial Assets (mainly proceeds from oil exports and disposal of state-owned properties), and Disposal of Financial Assets (mainly sales of debt securities and withdrawal from the National Development Fund-NDF). The Treasury spends these sources to cover General Uses including Current Expenditures (compensation of employees, payments to the pension funds, and subsidies), Acquisition of Non-financial Assets (development expenditures), and Acquisition of Financial Assets (settlement of unpaid obligations from previous years such as principal repayment of matured Government Debt Securities). An overview of the 1404 Budget Bill is presented in Table 11.

Table 11. An Overview of 1404 Budget Bill (IRR trillion-percent)

Sources						Uses					
	1404 Budget Bill	Amended 1403 Budget Law*	1403 Budget Law	1404 Budget Bill Growth to Amended 1403 Budget Law	1404 Budget Bill Growth to 1403 Budget Law		1404 Budget Bill	Amended 1403 Budget Law*	1403 Budget Law	1404 Budget Bill Growth to Amended 1403 Budget Law	1404 Budget Bill Growth to 1403 Budget Law
General Revenues	22,756.0	15,983.0	15,983.0	42.4	42.4	Current Expenditures	40,810.0	26,369.9	18,787.4	54.8	117.2
Disposal of Non-financial Assets	23,320.0	16,560.0	6,445.6	40.8	261.8	Acquisition of Non-financial Assets	11,966.0	6,530.1	4,000.0	83.2	199.2
Disposal of financial Assets	13,800.0	3,190.0	3,191.8	332.6	332.4	Acquisition of financial Assets	7,100.0	2,833.0	2,833.0	150.6	150.6
General Sources	**59,876.0**	**35,733.0**	**25,620.4**	**67.6**	**133.7**	**General Uses**	**59,876.0**	**35,733.0**	**25,620.4**	**67.6**	**133.7**
Dedicated Revenues	4,200.0	2,751.0	2,751.0	52.7	52.7	From Dedicated Revenues	4,200.0	2,751.0	2,751.0	52.7	52.7
Sources of General Government Budget	**64,076.0**	**38,484.0**	**28,371.4**	**66.5**	**125.8**	**Uses of General Government Budget**	**64,076.0**	**38,484.0**	**28,371.4**	**66.5**	**125.8**
Sources of State-owned Companies	54,890.0	37,415.7	37,415.7	46.7	46.7	Uses of State-owned Companies	54,890.0	37,415.7	37,415.7	46.7	46.7
Sources of Total Government Budget	**118,966.0**	**75,899.7**	**64,587.1**	**56.7**	**84.2**	**Uses of Total Government Budget**	**118,966.0**	**75,899.7**	**64,587.1**	**56.7**	**84.2**

Source: 1404 Budget Bill and 1403 Budget Law
* To have a more reliable comparison between the 1404 Budget Bill and 1403 Budget Law, the off-budget items (sources and uses of Subsidies Reform Plan as well as sources and uses of Armed forces) have been added to the Government Budget of 1403.

In the Budget Bill of 1404, share of NDF in proceeds from oil exports is proposed 48 percent and unlike its preceding year, the Government is allowed to withdraw 28 percentage points of that as a loan. Accordingly, given the assumptions of the Bill, the 48 percent share of NDF in oil exports proceeds equals EUR14.9 billion and in terms of Rial equals 8,971.9 trillion (1EUR=IRR602.3 thousand). The 28-percentage point Government Borrowing from NDF equals 8.7 billion in EUR and 5,233.6 trillion in Rial. However, in the Budget Bill of 1404 the borrowing from NDF is IRR5,410.0 trillion, up 3.4 percent from the aforementioned estimated figure. On the basis of the assumptions of 1404 Budget Bill, daily exports of oil and natural gas condensates is estimated 1.250 million barrels at EUR57.5 per barrel. In addition, the estimated figure for natural gas exports is 16 billion cube meters during 1404 at EUR0.30 per cube meter. The assumptions for estimation of oil revenues are presented in Table 12.

Table 12. Estimated Oil Revenues in 1404 Budget Bill*

Assumptions	1402 Budget Law	1403 Budget Bill	1403 Budget Law	1404 Budget Bill	1404 Budget Bill (less sales of feedstock to petrochemicals)	1404 Budget Bill to 1402 Budget Law Percentage Change	1404 Budget Bill to 1403 Budget Law Percentage Change
Oil and Natural Gas Condensates Exports (1000 barrels a day)	1,300.0	1,350.0	1,350.0	1,250.0	1,250.0	-3.8	-7.4
Sales of Feedstock to Domestic Petrochemical Companies (1000 barrels a day)	145.0	67.0	67.0	67.0	0.0	-100.0	-100.0
Oil Price per Barrel (USD)	75.0	71.0	71.0	63.3	63.3	-15.7	-10.9
Price of Natural Gas Condensates per Barrel to Be Sold to Domestic Petrochemical Companies (USD)	71.3	67.5	67.5	60.1	60.1	-15.7	-10.9
Share of National Petroleum Company in Exports of Oil and Natural Gas Condensates (percent)	14.5	14.5	14.5	14.5	14.5	0.0	0.0
Share of National Gas Company in Net Exports of Natural Gas (percent)	14.5	14.5	14.5	14.5	14.5	0.0	0.0
Share of NDF in Exports of Oil and Natural Gas Condensates and Net Gas Exports (percent)	42.0	40.0	45.0	48.0	48.0	14.3	6.7
Government Share in Exports of Oil and Natural Gas Condensates (percent)	43.5	45.5	40.5	37.5	37.5	-13.8	-7.4
Government Share in Sales of Feedstock to Domestic Petrochemical Companies (percent)	85.5	85.5	85.5	85.5	85.5	0.0	0.0
Government Share in Net Exports of Natural Gas (percent)	43.5	45.5	40.5	37.5	37.5	-13.8	-7.4
Share of National Petroleum Company in Sales of Natural Gas Condensates to Domestic Petrochemical Companies (percent)	14.5	14.5	14.5	14.5	14.5	0.0	0.0
USD/IRR Exchange Rate in the Budget for Imports of Other Goods (IRR1000)	-	396.0	396.0	557.7	557.7	-	40.8
USD/IRR Exchange Rate in the Budget for Imports of Essential Goods (IRR1000)	285.0	285.0	285.0	385.0	385.0	35.0	35.0
Net Exports of Gas (USD billion)	6.2	3.5	3.5	5.3	5.3	-13.8	52.6
Total Revenues from Exports of Crude Oil and Natural Gas Condensates (IRR trillion)	35.1	35.0	35.0	28.9	28.9	-17.8	-17.5
Total Revenues from Sales of Feedstock to Domestic Petrochemical Companies (USD billion)	3.8	1.6	1.6	1.5	0.0	-100.0	-100.0
Share of NDF in Total Revenues in Foreign Currencies (USD billion)	17.3	15.4	17.3	16.4	16.4	-5.4	-5.2
Share of National Petroleum Company in Oil Exports and Domestic Sales of Feedstock (USD billion)	5.6	5.3	5.3	4.4	4.2	-25.7	-21.2
Share of National Gas Company from Proceeds of Net Gas Exports (USD billion)	0.9	0.5	0.5	0.8	0.8	-13.8	52.6
Share of Government in Total Proceeds of Oil and Gas Condensates Exports (USD billion)	15.3	15.9	14.2	10.8	10.8	-29.1	-23.6
Government Share in Total Proceeds from Net Exports of Gas (USD billion)	2.7	1.6	1.4	2.0	2.0	-25.7	41.3
Share of Government in Sales of Feedstock to Domestic Petrochemical Companies (USD billion)	3.2	1.4	1.4	1.3	0.0	-	-
Foreign Exchange Needed for Imports of Essential Goods (USD billion)	-	15.0	15.0	12.1	12.1	-	-19.3
Total Oil Revenues (government share-IRR trillion)	**6,038.1**	**5,827.8**	**5,065.7**	**6,072.6**	**5,090.0**	**-15.7**	**0.5**

Source: Budget Bills of 1403 and 1404, Budget Laws of 1402 and 1403, and their assumptions according to the report of Parliament Research Center.
* Unlike the Budget Bills of its preceding year, in the Budget Bill of 1404 the foreign proceeds are reported in EUR. Hence, in order to compare current table with the tables of previous years, the figures are converted to USD.

It seems that the proceeds from sales of feedstock to domestic petrochemical companies has not been included in the Sources of General Budget in 1404 Budget Bill and might have been added to the Sources of Subsidies Reform Plan. However, in the absence of Sources of Subsidies Reform Plan and given the assumptions of the 1404 Budget Bill, the share of Government in oil revenues equals IRR5,090.0 trillion, not far different from the corresponding figure of the Budget Law of 1403. In the Budget Bill of 1403, the share of NDF in Petrodollars was proposed 40 percent and consequently the share of Government equaled IRR5,828 trillion. However, the Parliament increased the NDF share to 45 percent which logically causes the share of Government to decrease to IRR5.066 trillion. Despite the change in NDF share, surprisingly

the Parliament did not decrease the share of Government in Petrodollars and eventually IRR5,828 trillion in the 1403 Budget Bill was approved. All in all, the share of Government in oil exports proceeds in the Budget Bill of 1404 is 12.7 percent below the approved figure of 1403 Budget Law.

Unlike its preceding years, in the Budget Bill of 1404, off-budget sources including proceeds from domestic sales and exports of oil products, domestic sales of natural gas, sales of feedstock to domestic petrochemical companies, and oil resources allocated to armed forces and special plans have been added to the proceeds from Oil, Gas, and Oil Products in General Budget in addition to the Exports of Oil and Gas Condensates and Net Exports of Natural Gas. Hence, proceeds from Oil, Gas, and Oil Products is estimated IRR21,070.0 trillion in the Budget Bill of 1404. Table 13 presents the details of this component of the General Revenues in the Budget Bill of 1404.

Table 13. An Overview of the Oil Revenues in 1404 Budget Bill (IRR trillion)

	1403 Budget Law	1404 Budget Bill	1404 Budget Bill to 1403 Budget Law Percentage Change
Proceeds from Exports of Oil and Gas Condensates and Net Exports of Natural Gas	5,827.4*	5,090.0	-12.7
Sources of Subsidies Reform Plan	7,857.0	9,110.0	20.1
Oil Revenues Allocated to Armed Forces	2,530.1	5,610.0	121.7
Oil Revenues Allocated to Special Plans	-	1,260.0	-
Proceeds from Oil, Gas and Oil Products	**15,944.4**	**21,070.0**	**32.1**

Source: Budget Bill of 1404, Budget Law of 1403, and report of the Parliament Research Center
* As explained above, the share of Government in petrodollars in the Budget Law of 1403 remained the same as that of the Budget Bill despite the rise in the share of NDF from 40 percent to 45 percent in the same regard.

In the Budget Bill of 1404, IRR250.0 trillion is proposed for Disposal of State-owned Properties, down 59.7 percent from the Budget law of 1403, but notwithstanding this decrease, the realization of proposed figure seems unlikely and IRR20.0 trillion realization of this source of Budget during the first half of 1403 supports this claim. Additionally, in order to settle its debts to the banking system and the Social Security Organization (SSO), the Government intends to dispose IRR2,000 trillion of its properties. Therefore, the Disposal of Non-financial Assets is proposed IRR23,320.0 trillion in the Budget Bill of 1404, up 40.8 percent from the amended Budget Law of 1403.

In the Budget Bill of 1404, IRR11,966 trillion was proposed for Acquisition of Non-financial Assets, 83.2 percent above that of the amended Budget Law of 1403. Out of this figure, IRR5,600.0 trillion is attributed to the Acquisition of Non-financial Assets from sources of General Budget, 40.0 percent above the corresponding figure in the Budget Law of 1403. In addition, the remaining IRR5,100.0 trillion and IRR1,260.0 trillion of the Acquisition of Non-financial Assets are attributed to "Delivering Crude Oil to Armed Forces" and "Delivering Crude Oil to Authorized Executive Organizations", respectively. In other words, it is planned that from the IRR6,870 trillion oil proceeds allocated for the armed forces and special plans, IRR6,360 trillion be spent for their development expenditures and IRR510 trillion for their current expenditures. Accordingly, the Net Disposal of Non-financial Assets registers IRR11,354.0 trillion surplus in the Budget Bill of 1404.

In the Budget Bill of 1404, the Tax Revenues account for 32.8 percent of General Sources, indicating 5.4 percentage points fall compared to the amened Budget

Law of 1403 and 20.5 percentage points fall compared to the Budget Law of 1403. IRR19,640.0 trillion has been proposed for Tax Revenues in the Budget Bill of 1404, of which 13.4 percent belongs to Imports Tax. The Direct Taxes and Taxes on Goods and Services in Total has grown by 39.1 percent in the Budget Bill of 1404 compared to that of the Budget Law of 1403. In addition, the proposed figure for Imports Tax in the Budget Bill of 1404 stands 84.6 percent above the approved figure in 1403 Budget Law. Given the assumptions of 1404 Budget Bill, it seems that 41.0 percent of the Imports Tax is attributed to the tax on imports of passenger cars, equaling IRR1,084.0 trillion. For imports of essential goods ERU11 billion with 1 percent tariff rate and for imports of other goods (excluding passenger cars) EUR48.4 billion with average tariff rate of 5 percent are considered as the assumptions.

The Current Expenditures form 68.2 percent of the General Uses in the Budget Bill of 1404 at IRR40,810.0 trillion to stand 54.8 percent above that of the amended Budget Law of 1403. On the basis of the Parliament Research Center and Budget Bill of 1404, out of the Current Expenditures about IRR9,110.0 trillion belongs to the Uses of Subsidies Reform Plan including cash subsidies at IRR4,050.0 trillion, bread subsidies at IRR2,500.0 trillion, retirement pension at IRR1,890.0 trillion, and other uses. In addition, IRR510.0 trillion of the Current Expenditures of 1404 Budget Bill is attributed to the armed forces as well as the special plans from delivering crude oil to them. Consequently, remaining IRR31,190.0 trillion is attributed to other sorts of current expenditures. For instance, IRR2,000.0 trillion is proposed for interest payments of the Government Debt Securities in the Budget Bill of 1404. In this regard, the Ministry of Economic Affairs and Finance has estimated only IRR992.2 trillion for interest payment of Government Debt Securities for the year 1404. Accordingly, even taking into account the permission of interim issuance of Debt Securities during 1404 and also interest payment of the issued Debt Securities in excess of the approved figure in 1403 Budget Law, the IRR2,000.0 trillion for interest payment of Debt Securities in 1404 seems to be overestimated. All in all, the Operating Balance Deficit in the Budget Bill of 1404 is estimated IRR18,054.0 trillion, far above the corresponding figure in preceding years, signaling that much of the Current Expenditures could not be financed through General Revenues in 1404.

Same as usual, in the Budget Bill of 1404 part of the budget deficit is planned to be financed through Disposal of Financial Assets. In that regard, issuance of IRR7,000.0 trillion Government Debt Securities has been proposed in the Budget Bill of 1404, up 174.5 percent from the corresponding figure in the Budget Law of 1403. In the Budget Bill of 1404, Issuance of Government Debt Securities accounts for 50.7 percent of the Disposal of Financial Assets and 11.7 percent of the General Sources, respectively, indicating 29.2 percentage points fall and 4.6 percentage points rise from the corresponding figures in the Budget Law of 1403. Out of total issuance of Government Debt Securities, IRR2,000.0 is proposed for settlement of Government Debt to the banking system as well as the Social Security Organization. In addition, IRR550.0 trillion issuance of Government Debt Securities via Municipalities, Subsidiaries of Ministry of Interior, and subsidiaries of Ministry of Road and Transportation is off-budget, much of them backed by the Government.

In the Budget Bill of 1404, IRR1,350.0 trillion is estimated for proceeds from the Disposal of State-owned Companies, up 125.0 percent from the approved figure in the Budget Law of 1403. Out of the estimated figure from the aforementioned source, IRR270 trillion is attributed to the Disposal of Persian Gulf Petrochemical Industries, however realization of the remaining IRR1,080.0 trillion seems unlikely to happen. Borrowing IRR5,410.0 trillion from NDF is also considered as a subsidiary of the Disposal of Financial Assets in the Budget Bill of 1404. All in all, Disposal of Financial Assets at IRR13,800.0 trillion accounts for 23.0 percent of the General Sources in the Budget Bill of 1404, 332.6 percent above the approved figure in the Budget Law of 1403. As for the Acquisition of the Financial Assets, IRR7,100.0 trillion is proposed in the Budget Bill of 1404, indicating 150.6 percent rise from the approved figure of the Budget Law of 1403. Out of the aforementioned figure, IRR4,000.0 trillion is attributed to the settlement of Government Debt to the banking system as well as the Social Security Organization which is planned to be financed through issuance of Government Debt Securities and disposal of properties. In the remaining IRR3,1000.0 trillion of the Acquisition

of Financial Assets, IRR2,700.0 trillion is considered in the Budget Bill of 1404 for principal repayment of the matured previously-issued Government Debt Securities, 21.5 percent above the approved figure in the Budget Law of 1403. Accordingly, in the Budget Law of 1404 the Net Disposal of Financial Assets is supposed to register IRR6,700.0 trillion. The main figures of the Budget Bill of 1404 are presented in Table 14.

Table 14. Main Figures of Budget Bill of 1404 (IRR trillion-percent)

	1404 Budget Bill	Share in General Sources of 1404 Budget Bill	1404 Budget Bill to 1403 Budget Law Percentage Change		1404 Budget Bill	Share in General Uses of 1404 Budget Bill	1404 Budget Bill to 1403 Budget Law Percentage Change
Revenues (general)	**22,756.0**	**38.0**	**42.4**	**Expenditures (current)**	**40,810.0**	**68.2**	**54.8**
Tax revenues	19,640.0	32.8	43.9				
Proceeds from State-owned Properties	1,410.0	2.4	4.4				
Proceeds from Sales of Goods and Services	606.0	1.0	31.5				
Proceeds from Crimes and Damage Fines and Miscellaneous	1,100.0	1.8	110.7				
Operating Balance					**-18,054.0**	**-**	**73.8**
Disposal of Non-financial Assets	**23,320.0**	**38.9**	**40.8**	**Acquisition of Non-financial Assets**	**11,966.0**	**20.0**	**74.1**
Proceeds from Crude Oils and Oil Products	21,070.0	35.2	32.2				
Proceeds from Disposal of Government Properties and Others	250.0	0.4	-59.7				
Disposal of Properties for Debt Settlement (banks and SSO)	2000.0	3.3	-				
Net Disposal of Non-financial Assets					**11,354.0**	**-**	**13.2**
Disposal of Financial Assets	**13,800.0**	**23.0**	**332.6**	**Acquisition of Financial Assets**	**7,100.0**	**11.9**	**150.6**
Sales of Islamic Debt Securities	7,000.0	11.7	174.5	Principal Repayment of Islamic debt Securities	2,700.0	4.5	21.5
Disposal of State-owned Companies	1,350.0	2.3	125.0	Unpaid Obligations from Previous Years	4,000.0	6.7	-
Withdrawal from the NDF	5,410.0	9.0	-	Other	400.0	-	-
Other	40.0	0.1	0.0				
Net Disposal of Financial Assets					**6,700.0**	**-**	**1,776.8**

Source: Budget Bill of 1404 and Budget Law of 1403

8-2. Government Budget Performance in 1403

As no official data on the realization of 1403 Budget Law targets was published while preparing this Report, the data from the Supreme Audit Court of Iran and some unofficial sources have been used in that regard. Accordingly, during 1403H1, the actual General Sources and the actual General Uses amounted to IRR12,770.0 trillion and IRR13,380.0 trillion, respectively, indicating 99.7 percent and 104.4 percent realization ratios. This 4.7 percentage points difference between the realization ratios of General Sources and General Uses resulted in IRR610.0 trillion Overall Budget Deficit in 1403H1 and was financed through some sources such as withdrawal from State-owned companies accounts with the Treasury and the Revolving Fund of the Treasury (financed by the CBI), which should be repaid by the end of the year.

During 1403H1, the actual General Revenues (various type of taxes, etc.) registered IRR6,759.5 trillion, accounting for 84.6 percent of the approved figure in 1403 Budget Law for the period under review. Given the IRR11,720.0 trillion actual Current Expenditures with 124.8 percent realization ratio, the Operating Balance Deficit in 1403H1 reached IRR4,960.5 trillion.

Thanks to the contribution of Petrodollars, Disposal of Non-financial Assets in 1403H1 overshot its target of 1403 Budget Law by 3.4 percent to reach IRR3,332.0 trillion. In the same period, the actual Oil Revenues registered IRR3,312.0 trillion to stand 13.7 percent above the approved figure of the Budget Law of 1403. Note that the realization ratio of Oil Revenues for 1403H1 is estimated based on that of the first 5 months of 1403 (113.7 percent) due to lack of data. As for the Disposal of Government Properties, the actual amount in 1403H1 reached IRR20.0 trillion, accounting for 6.5 percent of the target for that period in the Budget Law of 1403. The actual Acquisition of Non-financial Assets (development expenditures) reached IRR650.0 trillion in 1403H1, accounting for 32.5 percent of the approved figure in the Budget Law of 1403 for that period. Accordingly, the Net Disposal of Non-financial Assets has a surplus of IRR2,682.0 trillion to be spent on Current Expenditures (financing Operating Balance Deficit).

During 1403H1, the Net Disposal of Financial Assets with a surplus of IRR1,668.5 trillion served as another source of financing the Operating Balance Deficit. On the basis of the CBI, in 1403H1, the Issuance of Government Debt Securities aiming for financing the Budget Deficit resulted in raising IRR1,471 trillion through auctions to overshoot the 6-month target of Budget Law by 15.6 percent. In the same period, IRR145.4 trillion was obtained from Disposal of State-owned Companies. The actual Acquisition of Financial Assets registered 71.3 percent of the corresponding figure in the Budget Law of 1403 to reach IRR1,010 trillion, out of which IRR864.0 trillion (85.5 percent) is attributed to the principal repayment of matured Government Debt Securities that were previously issued. The fiscal performance of the Government in the first half of 1403 is presented in Table 15.

Table 15. Government Fiscal Performance in 1403H1 (IRR trillion-percent)

	1403 Budget Law	Approved for 1403H1	Realization in 1403H1	Estimated Realization for the year 1403	Realization of 1403H1 as a Percentage of Legislated	Estimated Realization of 1403 as a Percentage of Legislated	Share in Estimated Performance of General Sources and Uses in 1403
Sources	**25,620.4**	**12,810.2**	**12,770.0**	**27,657.9**	**99.7**	**108.0**	**100.0**
General Revenues	**15,983.0**	**7,991.5**	**6,759.5**	**15,781.7**	**84.6**	**98.7**	**57.1**
Tax Revenues	13,645.0	6,822.5	5,775.3	13,497.4	84.7	98.9	48.8
Corporations	4,687.5	2,343.8	2,479.0	5,417.3	105.8	115.6	19.6
Income	1,897.1	948.6	1,006.8	2,162.9	106.1	114.0	7.8
Wealth	400.8	200.4	118.9	240.6	59.3	60.0	0.9
Goods and Services	5,234.6	2,617.3	1,521.9	4,636.8	58.2	88.6	16.8
Imports	1,425.0	712.5	648.7	1,039.8	91.0	73.0	3.8
Other Revenues	2,338.0	1,169.0	984.2	2,284.2	84.2	97.7	8.3
Disposal of Non-financial Assets	**6,445.6**	**3,222.8**	**3,332.0**	**4,490.0**	**103.4**	**69.7**	**16.2**
Oil and Oil Products	5,827.4	2,913.7	3,312.0	4,450.0	113.7	76.4	16.1
Other	618.2	309.1	20.0	40.0	6.5	6.5	0.1
Disposal of Financial Assets	**3,191.8**	**1,595.9**	**2,678.5**	**7,386.3**	**167.8**	**231.4**	**26.7**
Sales of Islamic Debt Securities	2,546.0	1,273.0	1,471.4	3,208.0	115.6	126.0	11.6
Disposal of State-owned Companies	600.0	300.0	145.4	290.9	48.5	48.5	1.1
Other	45.8	22.9	1,061.7	3,887.4	4,636.3	8,487.7	14.1
Uses	**25,620.4**	**12,810.2**	**13,380.0**	**27,657.9**	**104.4**	**108.0**	**100.0**
Current Expenditures	**18,787.4**	**9,393.7**	**11,720.0**	**20,306.9**	**124.8**	**108.1**	**73.4**
Acquisition of Non-financial Assets	**4,000.0**	**2,000.0**	**650.0**	**3,168.0**	**32.5**	**79.2**	**11.5**
Acquisition of Financial Assets	**2,833.0**	**1,416.5**	**1,010.0**	**2,833.0**	**71.3**	**100.0**	**10.2**
Subsidies Reform Plan Deficit	-	-	-	**1,350.0**	-	-	-
Operating Balance	**-2,804.4**	**-1,402.2**	**-4,960.5**	**-4,525.3**	**353.8**	**161.4**	-
Net Disposal of Non-financial Assets	**2,445.6**	**1,222.8**	**2,682.0**	**1,322.0**	**219.3**	**54.1**	-
Net Disposal of Financial Asset	**358.8**	**179.4**	**1,668.5**	**4,553.3**	**930.0**	**1,269.0**	-
Operating Balance (Subsidies Reform Plan Deficit included)	-	-	-	**-5,875.3**	-	-	-

Source: Budget Law of 1403; Tasnim News Agency; Fars News Agency; Donya-e-Eqtesad Daily; Iranian National Tax Administration; Ministry of Economic Affairs and Finance; Supreme Audit Court of Iran; Parliament Research Center

Despite prohibition of withdrawal from the NDF in the Budget Law of 1403, in accordance with the report of Supreme Audit Court of Iran, in 1403H1, in order to finance Government current expenditures, IRR1,038 trillion has been withdrawn from NDF under the title of Disposal of Financial Assets. Given that the new IRI President's proposal for cutting NDF share in Petrodollars by 20 percentage points was consented by the IRI Supreme Leader, on the basis of assumptions of Budget Law of 1403, it is estimated that the Government gains USD7.7 billion through this source. In addition to the IRR120 trillion withdrawal from the NDF based on the permit of 1402, another IRR918 trillion was withdrawn in 1403H1. Considering average USD/IRR remittance exchange rate of 429.8 thousand in 1403H1, the withdrawal from NDF is estimated USD2.1 billion in 1403H1, hence in the remainder of year the year 1403, another USD5.6 billion could be withdrawn. Using the average USD/IRR exchange rate of 504.8 thousand during 1403Q3, in 1403H2 the withdrawal from NDF in terms of Rail reaches IRR2,803 trillion. All in all, the Government gains IRR3,841 trillion through withdrawal from the NDF in 1403, of which, IRR3,721 trillion is attributed to cut in 1403 NDF share in Petrodollars and IRR120 trillion to the withdrawal with the permit of its preceding year.

The actual General Sources (Uses) of Government in 1403 as a whole is estimated IRR27,657 trillion with 108.0 percent realization rate. As for the General Revenues (various type of tax, etc.), IRR15,781.7 trillion is estimated to be materialized in the year 1403, based on the performance of 1403H1 and the assumptions used in the Budget Law of 1403. On the other hand, the Government Current Expenditures in 1403 is estimated IRR21,656.9 trillion based on its realization ratio of 1402 as well as inclusion of the estimated Subsidies Reform Plan deficit of IRR1,350 trillion by the Parliament Research Center. Hence, the Operating Balance Deficit is estimated IRR5,875.3 trillion.

The Parliament Research Center estimated IRR4,450.0 trillion of Oil Revenues for the year 1403. Using the realization ratios of 1403H1, the Disposal of State-owned Properties is estimated IRR40 trillion for the year 1403 as a whole. Accordingly, the Disposal of Non-financial Assets for the year 1403 totals IRR4,490.0 with 76.4 percent realization ratio. Assuming 79.2 percent realization of Acquisition of Non-financial Assets for 1403, same as that of 1402, this sorts of uses register IRR3,168.0 trillion for the whole year. Therefore, the Net Disposal of Non-financial Assets registers IRR1,322.0 trillion to be spent for Government Current Expenditures and financing Operating Balance Deficit.

Financing Budget Deficit through Issuance of Government Debt Securities is supposed to overshoot its target in 1403 Budget Law by 26.0 percent to reach IRR3,208.0 trillion, given the data on the auctions held by the CBI in the first 9 months of 1403 and the permit of issuance of IRR1,000 trillion Government Debt Securities in excess of the corresponding figure in the Budget Law of 1403. It is assumed that out of the IRR1,000 trillion extra issuance of Government Debt Securities, IRR500 trillion be traded by 35.0 percent below face value as Islamic Treasury Bonds. In other words, out of total issuance of Government Debt Securities in 1403 (IRR3,546.0 trillion), IRR3,046 trillion is Murabaha Debt Securities, hence, given the price discount based on the realization ratio in the first 9 months of 1403, financing via this method reaches IRR2,883.0 trillion. Additionally, financing through the issuance of IRR500 trillion Treasury Bonds in facts results in IRR325.0 trillion finance in 1403, taking into consideration the 35.0 percent discount in face value[7]. Furthermore, the Disposal of State-owned Companies for the year 1403 is estimated based on its performance in 1403H1. It is also estimated that through block Disposal of Persian Gulf Petrochemical Industries, IRR290 trillion be obtained in 1403 as a whole. Taking into consideration the IRR3,841 trillion borrowing from the NDF in 1403, it is assumed that the rest subsidiaries of the Disposal of Financial Assets materialize completely based on 1403 Budget Law. The Acquisition of Financial Assets is supposed to hit the 1403 Budget Law target at IRR2,833.0 trillion. Accordingly, the Net Disposal of Financial Assets surplus in 1403 is estimated IRR4,553.3 trillion, constituting 16.5 percent of the General Sources.

In the Budget Law of 1403, IRR2,546.0 trillion was approved for Issuance of Government Debt Securities, up 61.3 percent from that of the 1402 Budget Law. In that regard, the CBI in cooperation with the Ministry of Economic Affairs and Finance started to hold weekly auctions in the money market as well as the capital market from mid-spring 1403 and till the end of 1403Q3, 31 rounds of auctions were held. In the 31 auctions, IRR2,796.0 trillion Murabaha Debt Securities was issued and their accumulated supply reached IRR7,662.2 trillion. Out of the supplied amount, IRR1,306.8 trillion was demanded by banks, albeit the Ministry of Economic Affairs and Finance approved IRR1,279.7 of that only. In addition, IRR1,366.7 trillion Government Debt securities was sold in the capital market through auctions. All in all, the traded Government Debt Securities through auctions in the first 9 months of 1403 totaled IRR2,646.4 trillion, up 212.9 percent from the same period of 1402 at IRR845.9 trillion (considering the price discount). Due to the 5.3 percent discount on the face value of the IRR2,796.0 trillion issued Government Debt Securities (IRR149.6 trillion discount), in fact IRR2,646.4 trillion has been financed in the first 9 months of 1403. Note that in the Budget Law of 1403, IRR254.6 trillion has been approved for Issuance of Government Debt Securities that was materialized in the first 7 months of 1403. In addition, out of the IRR1,000 trillion Issuance of Debt Securities in excess of the approved figure (new permit), IRR250.0 trillion has been issued and sold until the end of 1403Q3.

On the basis of the Treasury report, IRR1,893.8 trillion Government Debt Securities has been purchased by banks and non-bank credit institutions in the first 9

7. Islamic Treasury Bonds are zero-coupon bonds, while Murabaha Debt Securities are coupon bonds.

months of 1403, far different from the CBI reports in that regard. In other words, IRR614.0 trillion Government Debt Securities has been purchased by banks and non-bank credit institutions indirectly from in the capital market. Accordingly, in the first 9 months of 1403, 71.6 percent of the Government Debt Securities has been purchased by banks and non-bank credit institutions. A summary of Government Debt Securities auctions in the first 9 months of 1403 is shown in Table 16.

Table 16. Government Debt Securities Auctions Held by CBI in Capital Market and Money Market (IRR trillion-percent)

Month	1402					1403							
	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	Point-to-point Growth of Trades in the Money Market	Point-to-point Growth of Trades in the Capital Market	Point-to-point Growth of Total Trades
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
07	753.6	9.0	9.0	51.3	60.3	1,172.5	48.8	22.7	486.1	508.7	151.4	847.9	743.8
08	816.4	1.0	1.0	287.0	287.9	862.4	382.8	382.8	0.0	382.8	39,362.9	-100.0	32.9
09	578.3	19.1	0.0	126.4	126.4	295.9	110.6	110.6	172.9	283.5	-	36.8	124.3
Total	**3,651.4**	**285.6**	**158.4**	**687.5**	**845.9**	**7,662.2**	**1,306.8**	**1,279.7**	**1,366.7**	**2,646.4**	**707.9**	**98.8**	**212.9**

Source: Central Bank of Iran

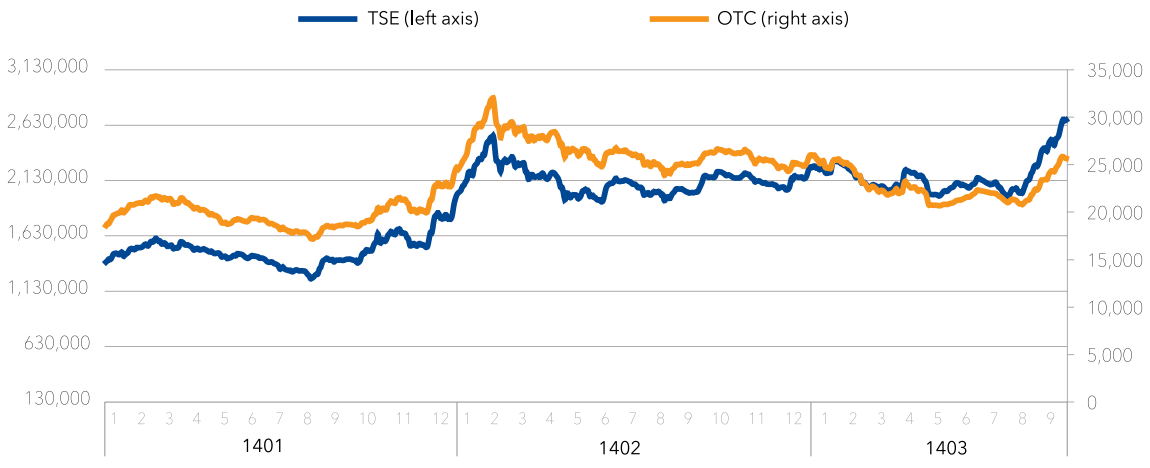
In addition to the auctions, the government also issues Debt Securities through two other distinct methods. First, selling Murabaha Debt Securities in the capital market via an underwriter, and second, providing government creditors with Islamic Treasury Bonds in exchange of its debts. However, in the first 9 months of 1403 no securities were disposed through the two aforementioned methods.

From mid-summer 1400 onwards, Over the Counter (OTC) has been in charge of issuing the data on debt market transactions by its players including Government, CBI, banks, Investment Funds, etc. From mid-summer 1400 to the end of 1403Q3, the net accumulated purchase of government debt securities by the CBI and by the Investment Funds registered IRR2,577.3 trillion and IRR3,496.9 trillion, respectively. Note that the CBI is prohibited from purchasing those sorts of securities through the primary market (IPO) and the figure of net purchase attributed to that organization is regarding the secondary market. The banks that were mainly the 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 the first 9 months of 1403 and the net purchase of government debt securities by banks reached IRR1,091.6 trillion through primary and secondary markets during the first 9 months of 1403. Accordingly, the net accumulated purchase of government debt securities by the banks from mid-summer 1400 to the end of fall 1403 is estimated about IRR1,911.6 trillion.

9. CAPITAL MARKET

At the end of the 1st month of 1403Q3, the TSE Overall Index fell by 4.3 percent compared to its preceding month, mainly due to the extensive outflow of retail capitals as a result of uncertainties from political tensions in the Middle East. The net outflow of capital by individuals that was mainly in Stocks and Exchange-traded Funds in the early fall 1403, reached IRR7.8 trillion, indicating the dominance of political atmosphere in investors' decisions. During the 2nd and 3rd months of 1403Q3, the bearish trend of the Iranian capital market reversed course as the political tensions in the Middle East region subsided, the remittance rate in the secondary market for foreign exchanges rose, and higher profitability of export-oriented companies was expected. Note that at the end of the 1st month of 1403Q3, the price to earnings ratio, P/E, reached its low of 5.67 from the end of fall 1394, causing the stock prices to tempt potential buyers to enter the market. In the last month of 1403Q3, the value of TSE transactions expanded by 155 percent compared to the last month of 1403Q2. Moreover, the net inflow of retail capitals (by individuals) in the 2nd and 3rd months of 1403Q3 totaled IRR8.9 trillion, signaling that the capital market was gradually gaining retail investors' trust. All in all, the TSE and OTC Overall Indices closed 1403Q3 with 27.8 percent and 17.5 percent expansions compared to the end of 1403Q2, respectively. The developments of the TSE and OTC Overall Indices from the beginning of 1401 to the end of fall 1403 are shown in Graph 15.

Graph 15. TSE and OTC Overall Indices



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

The value of TSE transactions in 1403Q3 reached IRR7,022.0 trillion, up 57.7 percent from that of 1402Q3. Among various TSE markets, the highest value of transactions was attributed to Derivatives with 161.5 percent, while the lowest to the Stocks with 9.2 percent. The total value of TSE transactions during the first 9 months of 1403 contracted by 12.9 percent compared to the same period of its preceding year. During the first 9 months of 1403, market for Derivatives experienced the highest growth rate of 54.5 percent in value of transactions and the Stock market experienced the highest fall of 49.6 percent in the same regard. The narrower fluctuation limit could be referred to as the major driver of the collapse in the value of the stock market transactions during the period under review. The rise in value of transactions of Exchange Traded Funds is emanated from underwriting new Leverage Funds and Sectoral Funds and higher returns of Fixed-income Mutual Funds than the interest rates on deposits offered by the banks. The value of transactions of various TSE markets in falls and the first 9 months of 1402 and 1403 are presented in Table 17.

Table 17. Value of Transactions in Various TSE Markets (IRR trillion)

Market	1402Q3	1403Q3	1403Q3 to 1402Q3 Percentage Change	First 9 Months of 1402	First 9 Months of 1403	First 9 Months of 1403 to First 9 Months of 1402 Percentage Change
Shares	2,375.0	2,594.3	9.2	10,569.5	5,328.5	-49.6
Debt Securities	277.9	348.9	25.5	863.3	1,007.9	16.7
Derivatives	65.5	171.4	161.5	199.0	307.5	54.5
Exchange-traded Funds	1,734.9	3,896.6	124.6	5,417.9	8,191.7	51.2
Professional Investments*	-	10.7	-	-	21.6	-
Total	**4,453.3**	**7,022.0**	**57.7**	**17,049.7**	**14,857.1**	**-12.9**

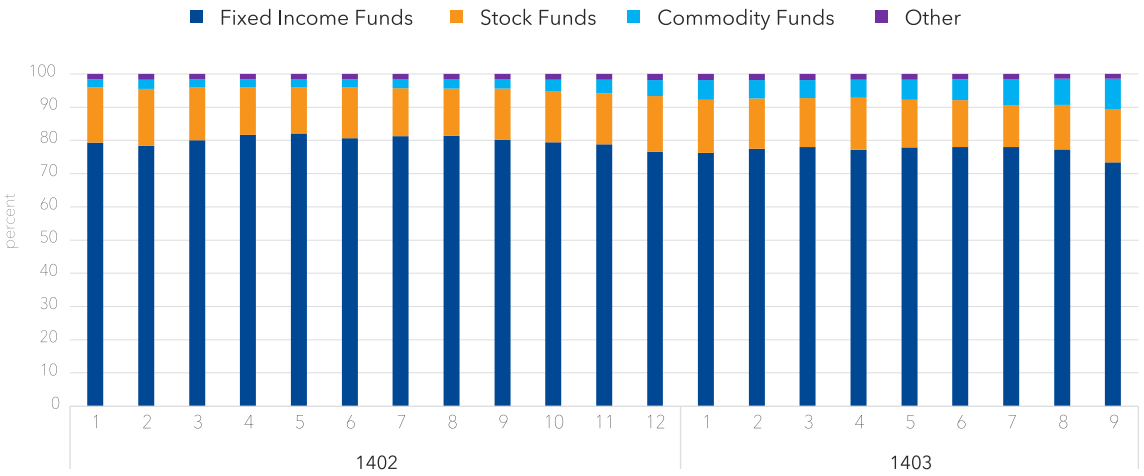
Source: http://new.tse.ir

* 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.

By the end of 1403Q3, the net asset value of 373 Investment Funds (Exchange Traded Funds and Mutual Funds) reached IRR10,195 trillion, up 45.0 percent from that of the end of 1402Q3. Out of the 373 Investment Funds, 137 are Fixed Income Funds, 145 are Stock Funds, 15 are Commodity Funds (mainly gold), and the remaining 76 are engaged in other types of investment.

From the beginning of 1402 to the end of fall 1403, share of net asset value of Fixed Income Funds in the total net asset value of Investment Funds fell from 79.3 percent to 73.3 percent while that of the Commodity Funds rose from 2.3 percent to 9.1 percent. During the period under review, share of Stock Funds remained the same at about 16 percent. In the same period, the net asset values of Fixed Income Funds, Stock Funds, and Commodity Funds, respectively, registered IRR7,477 trillion, IRR1,644 trillion, and IRR928 trillion, indicating 56.9 percent, 63.8 percent and more than 400 percent growth rates. In other words, the Commodity Funds has absorbed much of the liquidity inflow compared to other Funds due to their appealing features including tax exemption, possibility of investment with small amounts, ease of trade, no risk of keeping commodities such as gold and saffron, and finally lower transaction fees. Note that the Commodity Funds have also yielded more than the 2 other Funds. In the year ended the last day of 1403Q3, the annual average return of the Commodity Funds, Fixed Income Funds, and Stock Funds, respectively, registered 83.1 percent, 29.4 percent, and 24.2 percent. Among the Commodity Funds, the Gold Funds per se yielded 91.7 percent in the one-year period under review. The shares of various Investment Funds in Total Net Asset Value of Investment Funds are shown in Graph 16.

Graph 16. Shares of Various Investment Funds in Total Net Asset Value of Investment Funds



Source: Tehran Securities Exchange Technology Management Company

The volume of TSE transactions in the first 9 months of 1403 reached 1.957 trillion shares, indicating 11.4 percent fall compared to the same period of 1402. Similarly, the number of transactions in the same period fell by 46.2 percent. Accordingly, the average value of each transaction from IRR153 million in the first 9 months of 1402 rose to IRR247 million in the first 9 months of 1403, indicating higher growth rate than the CPI inflation rate. The volume and number of TSE transactions as well as the average value of per TSE transaction by various markets in the first 9 months of 1402 and 1403 are shown in Table 18.

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

Market	Volume of Transactions (billion)			Number of Transactions (1000 times)			Average Value of Each Transaction (IRR million)		
	First 9 Months of 1402	First 9 Months of 1403	Percentage Change	First 9 Months of 1402	First 9 Months of 1403	Percentage Change	First 9 Months of 1402	First 9 Months of 1403	Percentage Change
Shares	1,885.3	1,495.5	-20.7	93,548.6	38,667.6	-58.9	113.0	137.8	22.0
Debt Securities	0.9	1.0	17.6	8.3	11.7	51.2	103,485.1	86,223.5	-16.7
Derivatives	26.0	19.0	-26.8	4,177.6	8,244.4	93.1	47.6	37.3	-21.7
Exchange- traded Funds	296.5	428.1	44.4	13,995.6	13,049.6	-5.1	387.1	627.7	62.2
Professional Investments	-	13.1	-	-	181.9	-	-	118.7	-
Total	**2,208.7**	**1,956.8**	**-11.4**	**111,730.2**	**60,155.2**	**-46.2**	**152.6**	**247.0**	**61.9**

Source: http://new.tse.ir

The TSE market capitalization at the end of 1403Q3 grew by 16.1 percent to IRR88,683 trillion compared to the end of 1402. In addition, the OTC market capitalization grew by 8.6 percent to IRR26,713 trillion in the same period. In the 9-month period under discussion, TSE Overall Index rose by 22.1 percent, above the Equally-weighted Index at 11.4 percent, conveying that the shares of small listed companies have experienced less price rise compared to those of the large companies on average. In addition, the Free-float[8] index of TSE at the end of 1403Q3 rose by 17.6 percent to 3,354 thousand compared to the end of 1402. From the higher growth rate of TSE Overall Index than its Free-float Index during the first 9 months of 1403, it is grasped that the share price of companies with more free-float shares has experienced less rises. All in all, it could be claimed that the shares of large listed companies have experienced higher price rise relative to the other listed companies. Various TSE indices are presented in Table 19.

Table 19. TSE Indices in the First 9 Months of 1403

	Market Capitalization (IRR trillion)	Equally-weighted Index (thousand)	Overall Index (thousand)	Financial Index (thousand)	Industrial Index (thousand)	Free-float Index (thousand)
End of 1403Q3	88,683	827	2,680	2,268	2,564	3,354
End of 1402	76,401	743	2,195	1,918	2,090	2,851
Percentage Change	**16.1**	**11.4**	**22.1**	**18.3**	**22.7**	**17.6**

Source: http://new.tse.ir

From the beginning of 1403 to the end of fall, IRR1,904.1 trillion has been financed by the TSE listed companies, of which 83.9 percent was via raising capital (matured claims and cash contributions or accumulated reserves and profits), 11.8 percent via Issuance of Debt Securities, and 3.3 percent via Put Options. In the first 9 months of 1403, one newly-listed company raised IRR2.5 trillion via initial public offering (IPO). Table 20 presents details of various methods of finance by the TSE listed Companies in the first 9 months of 1402 and 1403.

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

	First 9 Months of 1402		First 9 Months of 1403		Percentage Change of Value
	Value	Share in Total (percent)	Value	Share in Total (percent)	
Total	**990.0**	**100.0**	**1,904.1**	**100.0**	**92.3**
Raising Capital (except for asset revaluation)	737.9	74.5	1,598.1	83.9	116.6
Initial Public Offering	14.1	1.4	2.5	0.1	-82.7
Issuance of Debt Securities	102.1	10.3	223.8	11.8	119.1
Issuance of Put Options	115.8	11.7	63.7	3.3	-45.0
Underwriting in Professional Investment Market	20.0	2.0	16.0	0.8	-20.1

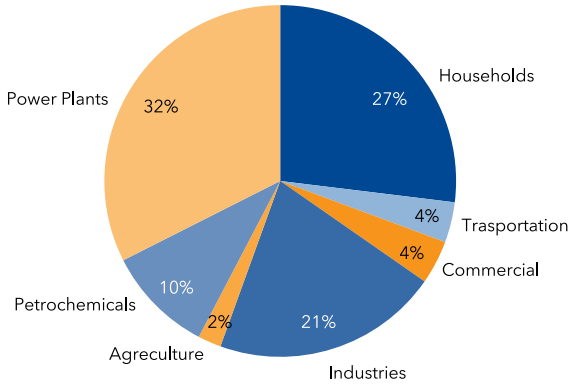
Source: http://new.tse.ir

8. 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.

10. OTHER DEVELOPMENTS

Despite bearing the 2nd largest gas reserves, Iran is grappling with energy crisis. Due to the gas crisis, widespread power outages occurred in the country during fall 1403, forcing some industries to shut down, for instance the cement industry. Moreover, the unscheduled closures of many organizations in the country are attributable to the same issue. Under such circumstances and to cope with the gas crisis, the Government launched a campaign known as "Two Degrees Less", that recommends the citizens to decrease heating system temperature of their houses by 2 degrees Celsius. On the basis of the Statistical Yearbook of 1401, the gas consumption of the households formed only 26.9 percent of the total gas consumption, however, this share is higher during cold seasons. Graph 17 depict gas consumption in Iran by various sectors.

Graph 17. Gas Consumption in Iran by Sectors in 1401



Source: Statistical Center of Iran

In order to get through the energy crisis in Iran, some suggest price liberalization in that regard, however, they ignore the presence of government. Precisely speaking, so long as the government intervention in the economy persists, especially in the energy sector, price liberalization is not effective enough, because there would be no incentive for the public sector to improve cost structures, investment in new technologies, etc. In fact, economic liberalization (including privatization) precedes price liberalization.

11. KEY POINTS

• Any development of Federal Funds Rate in the United States is referred to as a dominant driver of the world economy and subsequently the Iranian economy. Despite previous expectations, the Fed officials came to conclusion to cut the Rate only twice in 2025, translating to lower USD depreciation in the new year and lower fall in global oil prices.

• The Iranian GDP expansion maintained in 1403H1, albeit slowed down. Precisely speaking, the GDP growth rate that registered 5.0 percent in 1402, dropped to 3.1 percent in 1403Q1 and 2.7 percent in 1403Q2. Part of the drop in GDP growth rates roots in slowing down in Oil sector growth rate. On the demand side of the economy, the growth rate of Gross Fixed Capital Formation fell to 4.1 percent in 1403H1 compared to 6.3 percent in 1402.

• The Oil and Gas constituted 9.7 percent of GDP in 1402, 9.4 percent in 1403Q1 and 7.9 percent in 1403Q2. In 1403H1 and at constant 1400 prices, this sector expanded by 9.3 percent, 11.6 percentage points below that of 1402H1. In November 2024, the point-to-point growth rate of the Iranian oil production reached 5.0 percent, while price of Iran's crude oil per barrel diminished by 14.3 percent.

• In 1403Q2, the unemployment rate of the population aged 15 and above reached 7.5 percent, indicating 0.4 percentage point fall from 1402Q2. In Summer 1403, out of the total unemployed population, 43.9 percent was attributed to the population with higher education, up 1.1 percent from that in summer 1402.

• The diminishing trend of the annual CPI inflation rate maintained in the first 3 quarters of 1403 and closed 1403Q3 at 32.5 percent, while the point-to-point CPI inflation rate was fluctuating between 30 percent to 32 percent during the same period. As for the annual PPI inflation rate, the SCI suggested 33.8 percent at the end of summer and the CBI suggested 26.7 percent at the end of fall 1403. Notwithstanding the different figures, the PPI inflation rates in the reports of both issuing authorities have followed same descending trends.

• During the first 8 months of 1403, the value of customs exports grew by 18.0 percent and that of the customs imports by 6.1 percent compared the same period of 1402, causing the Trade Balance Deficit to diminish.

• The price of US Dollar during 1403Q3 averaged 675 thousand Rials, indicating 13.7 percent rise compared to the IRR594 thousand average of 1403Q2 and 33.4 percent rise compared to the IRR506 average of 1402Q3. On the basis of PPP, the average real USD/IRR exchange rate is estimated 789 thousand for the year 1403, considering the year 1397 as the base year.

• The annual growth rate of Liquidity that was losing its pace from the mid-1400 due to the implementation of the CBI macroprudential policy, reached the low of 24.1 percent in the 1st month of 1403, but reversed course and from 25.6 percent in the 2nd month of 1403 reached 28.4 percent in the 5th month of that year. With a slight decrease, the annual growth rate of Liquidity closed 1403Q2 at 27.8 percent. In the first 2 months of 1403Q3 Liquidity grew by 28.6 percent and 28.1 percent, respectively, compared to the corresponding months of 1402Q3. During the first 8 months of 1403, the monthly Liquidity growth rate stood above that of the same period of 1402, conveying that the banks have violated the CBI requirements. The notes and coins in circulation and sight deposits (M1), interest-free saving deposits, and short-term deposits in aggregate formed 55 percent of the Liquidity at the end of the 8th month of 1403. The share of three-year deposits in liquidity in the same point was the same as the share of sight-deposits in Liquidity. All in all, in the first 8 months of 1403, investment in long-term deposits has not been desirable.

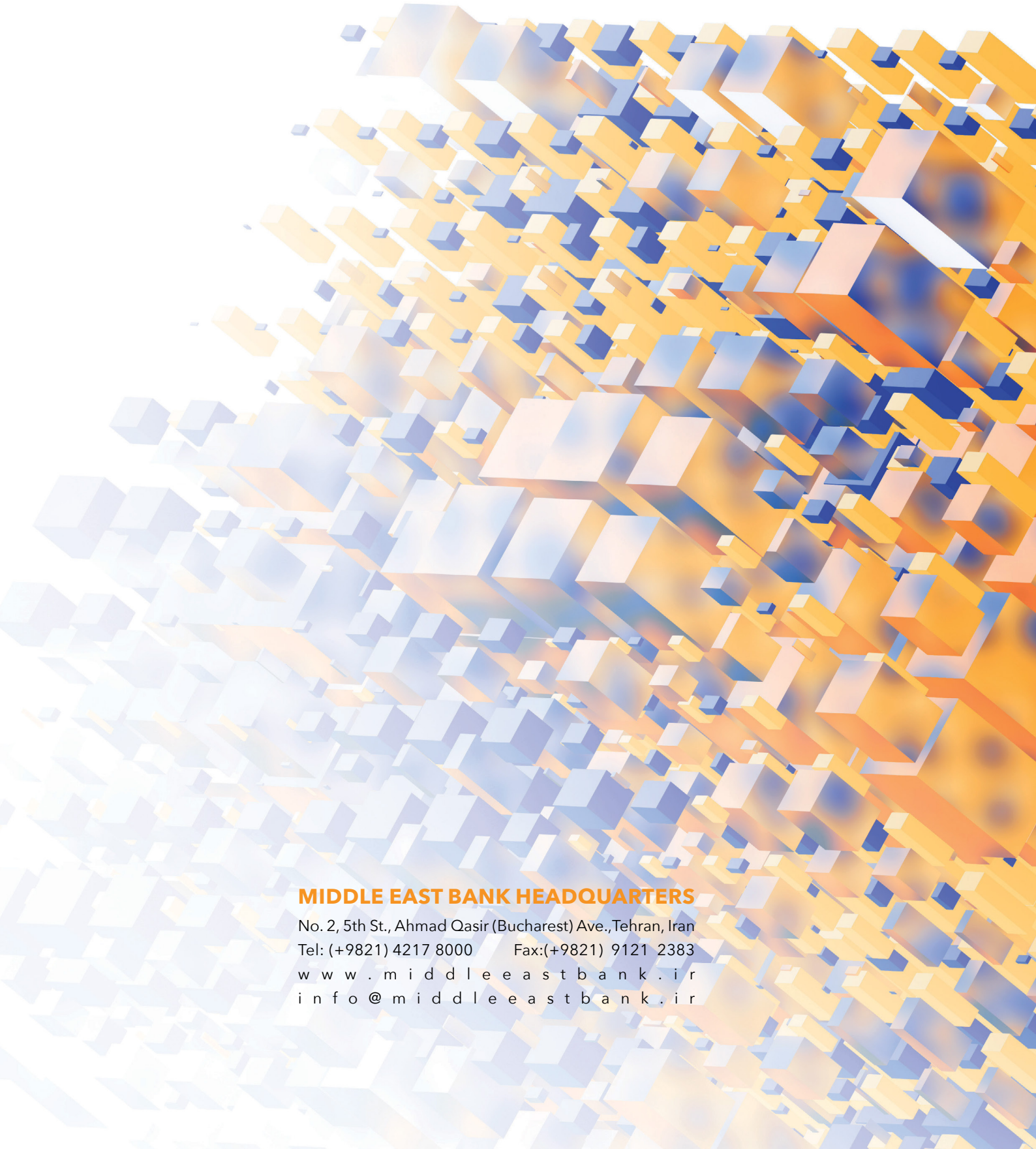
• The annual growth rate of Monetary Base (M0) that had reached its low of 21.1 percent at the end of the 2nd month of 1403 reversed course and followed an upward path in its 3 following months, but eventually closed 1403Q2 at 18.7 percent, far below the 41.7 percent at the end of 1402Q2. The M0 grew by 21.3 percent and 20.7 percent, respectively, at the end of the 1st and 2nd months of 1403Q3 compared to the corresponding months of 1402Q3. In the first 8 months of 1403, CBI claims on banks was a factor of decrease in the Monetary Base. Due to the fall in the CBI Claims on Banks, at the end of the 6th month of 1403 the M0 contracted compared to its preceding month. Hence, releasing IRR500 trillion of legal reserves with the CBI aimed for making mandatory loans is expected to be spent for settlement of part of CBI Claims on Banks, causing the M0 to fall and the M2 Money Multiplier to rise.

• In the Budget Bill of 1404, IRR118,966 trillion was proposed for the Total Government Budget, up 56.7 percent from that of the Budget Law of 1403 (amended version). The Budget Bill of 1404 also contains some items that were off-budget previously. The General Sources and Uses in 1404 Budget Bill expanded by 67.6 percent compared to that of the Budget Law of 1403 and the Operating Balance Deficit reached IRR18,054 trillion, indicating that in 1404 only a small portion of the Current Expenditures could be covered via General Revenues.

• In 1403H1, the realization of the General Uses of Budget surpassed that of the General Sources by 4.8 percentage points, resulting in IRR610.0 trillion Overall Budget Deficit. During the same period, 124.8 percent of Current Expenditures and 84.6 percent of General Revenues approved for 1403H1 were materialized, therefore the Operating Balance Deficit registered IRR4,960.5 trillion, of which IRR2,682.0 trillion was financed through Net Disposal of Non-financial Assets thanks to the remarkable oil exports. In order to cover the rest of this deficit, in addition to financing Acquisition of Financial Assets, Issuance of Government Debt Securities was inevitable. During the first 9 months of 1403, IRR2,796.0 trillion Government Debt Securities were sold through the auctions held by the CBI. Taking into

account their price discount, those securities have in fact resulted in financing IRR2,646.4 trillion of the Budget Deficit.

• At the end of 1403Q3, the TSE and OTC Overall Indices expanded by 22.1 percent and 11.7 percent compared to the end of 1402, respectively. In the 2nd and 3rd months of 1403Q3 the Iranian capital market became much appealing, as the political tensions in the Middle East region subsided, the remittance rate in the secondary market for foreign exchanges rose, and higher profitability of export-oriented companies was expected. The total value of transactions in the last month of 1403Q3 stood 155 percent above that of the last month of 1403Q2.



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