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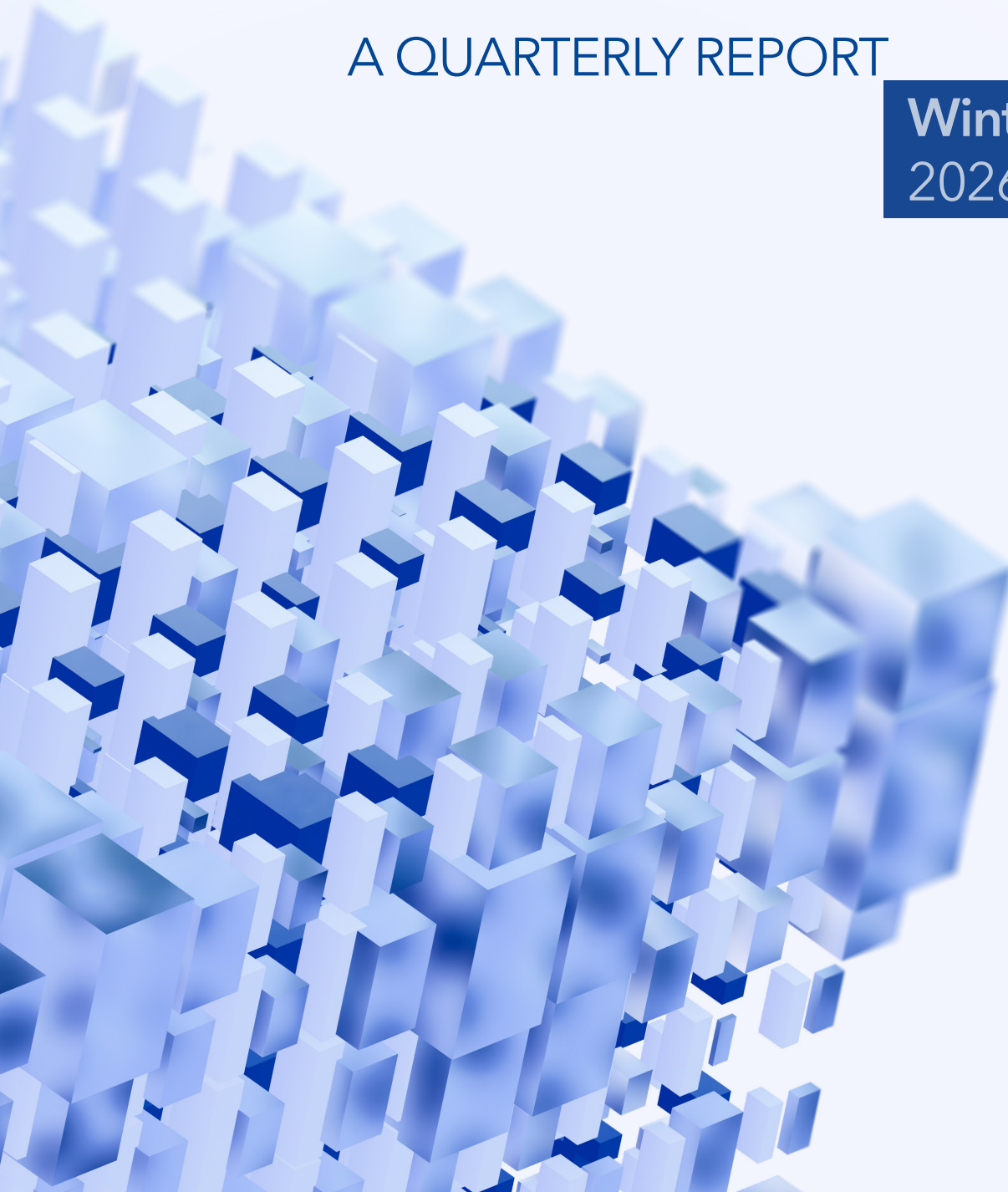


RECENT

ECONOMIC DEVELOPMENTS IN IRAN

A QUARTERLY REPORT

Winter 1404
2026Q1





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NOTE:

- In this Report the growth rate of a variable means the percentage change of that variable during the period under review, or at the point under discussion, compared to the similar period or point in the preceding year. As such, “the growth rate of oil revenues in the fourth quarter of 1404” indicates the percentage change in oil revenues between the fourth quarter of 1403 and the fourth quarter of 1404.
- Iran follows the Persian Calendar, a solar calendar in which years start on the first day of spring and end on the last day of winter. The four quarters of the year correspond exactly to the four seasons. This report covers the year 1404 that starts on March 21, 2025 and ends on March 20, 2026. The fourth quarter of 1404 (referred to as 1404Q4), winter of 1404, roughly corresponds to the first quarter of 2026 in the Gregorian Calendar (2026Q1).
- The following table provides an easy reference while reading this Report.

1403Q4= 12/21/2024- 03/20/2025, roughly 2025Q1

1404Q1 = 03/21/2025 - 06/21/2025, roughly 2025Q2

1404Q2 = 06/22/2025 - 09/22/2025, roughly 2025Q3

1404Q3 = 09/23/2025 - 12/21/2025, roughly 2025Q4

1404Q4= 12/22/2025- 03/20/2026, roughly 2026Q1

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IRAN'S ECONOMY AT A GLANCE

	1403Q2	1403Q3	1403Q4	1403	1404Q1	1404Q2	1404Q3	1404Q4
Labor Force Participation & Unemployment Rates (percent)								
Participation (15 Years and Over)	41.7	41.2	40.1	41.0	41.2	40.8	40.7	-
Unemployment (15 Years and Over)	7.5	7.2	7.8	7.6	7.3	7.4	7.8	-
Unemployment (Youth Aged 15-24)	19.4	20.2	21.0	20.1	19.7	19.0	21.5	-
Real Growth Rates of GDP and Its Subsectors at Constant 1400 Prices (percent)								
Gross Domestic Product (GDP)	2.6	3.9	3.2	3.1	-2.0	0.5	-	-
Industries and Mining	0.9	4.0	2.0	2.4	-6.5	-0.4	-	-
Oil	6.1	0.1	4.6	4.6	0.1	2.1	-	-
Agriculture	3.6	4.1	2.8	3.6	-2.5	-3.1	-	-
Services	2.8	4.3	3.9	3.3	1.1	2.5	-	-
Non-oil GDP	2.3	3.9	3.1	3.0	-2.2	0.4	-	-
Gross Fixed Capital Formation (at market prices)	3.6	4.4	4.5	3.8	-13.9	-9.1	-	-
Oil (daily average - thousand barrels)								
Production*	3,296	3,301	3,311	3,286	3,283	3,240	3,224	-
Point-to-point Inflation Rates (percent)								
Growth Rate of Consumer Price Index (1400=100)	35.5	34.7	37.4	35.8	40.6	42.0	48.2	66.8**
Growth Rate of Producer Price Index (1400=100)	25.1	25.3	33.3	27.6	37.1	44.9	57.5	-
Balance of Payments (USD million)								
Oil Exports	15,881	16,196	15,728	65,841	15,225	15,521	-	-
Non-oil Exports	11,337	13,223	13,466	49,580	10,699	13,323	-	-
Imports of Goods	21,769	20,914	27,787	88,567	17,263	19,164	-	-
Goods Account (net)	5,449	8,505	1,407	26,854	8,661	9,681	-	-
Non-oil Goods Account (net)	-9,939	-7,179	-12,917	-36,308	-6,262	-5,638	-	-
Current Account	2,303	5,343	-2,916	13,232	6,369	5,211	-	-
Capital Account	-4,478	-1,706	-6,593	-20,714	-8,746	-6,127	-	-
Change in Foreign Reserves	201	-801	92	804	965	45	-	-
Foreign Exchange Rates (USD/IRR daily average)								
Free Market (bill)	593,642	675,159	862,096	684,269	883,354	936,730	1,114,261	1,548,704
Secondary Market (remittance)***	444,904	504,877	669,470	507,183	691,774	697,147	710,858	1,253,321
Monetary and Credit Aggregates (end of period - IRR trillion)								
Monetary Base (M0)	11,542	12,165	13,594	13,594	14,444	16,124	18,258	-
CBI Claims on Banks	5,859	8,225	11,702	11,702	7,315	9,378	12,645	-
CBI Claims on Public Sector (net)	-879	-1,438	-3,690	-3,690	-1,026	-551	-619	-
CBI Net Foreign Assets	21,704	26,278	31,886	31,886	33,591	34,552	36,342	-
Liquidity (M2)	90,705	96,036	101,660	101,660	110,588	124,087	135,345	-
Money (M1)	22,351	23,443	26,317	26,317	26,496	30,303	33,854	-
Sight Deposits	20,908	21,952	24,526	24,526	24,581	28,151	31,624	-
Non-sight Deposits (quasi-money)	68,355	72,593	75,342	75,342	84,092	93,784	101,490	-
M2 Money Multiplier	7.86	7.89	7.48	7.48	7.66	7.70	7.41	-
Government Budget and Fiscal Position (IRR trillion)								
The data in this section is not available								
Tehran Stock Exchange (end of period)								
Overall Index (TEDPIX)	2,097,005	2,210,217	2,710,088	2,710,088	2,984,605	2,540,174	3,898,235	3,713,956
Financial Index	2,664,767	1,949,564	2,311,206	2,311,206	2,810,518	2,574,062	3,391,863	3,087,670
Industrial Index	1,996,195	2,101,115	2,589,606	2,589,606	2,804,554	2,354,195	3,716,399	3,568,380
Market Capitalization (IRR trillion)	95,669	117,301	120,583	120,583	132,174	114,313	166,104	-

Source: Various reports of Central Bank of the Islamic Republic of Iran (CBI), Statistical Centre of Iran (SCI) and Tehran Stock Exchange (TSE); Gold, Coin, and Currency Information Network

* According to OPEC reports from secondary sources

**as the CBI was yet to publish CPI report of the last month of 1404 while preparing this report, in this table the quarterly CPI inflation rate in 1404Q4 is based on the SCI and the rest of the figures are based on the CBI.

***From the beginning of the 11th months of 1403, all foreign exchange transactions in the secondary market were carried out in its newly added subdivision at higher rates. In the late fall 1404, the USD/IRR bill exchange rate in the secondary market was increased to a rate close to that of the free market and from the 2nd week of winter 1404 the exchange rate unification was enforced.

INTRODUCTION

This quarterly Report investigates the Iranian economy by its various sectors and opens with analyzing the effects of the USA-Israel invasion of Iran in the late Feb 2026 on the ecopolitical interactions between Iran and the Arab States of the Persian Gulf. The Report proceeds with going over the real sector of the economy including GDP developments with its growth rate in the first 9 months of 1404 on the basis of the reports of the Statistical Center of Iran (SCI) and the developments of production and price of Iran's crude oil in the first 11 months of 1404. The labor market indices in 1404Q3 are also covered in Chapter 3.

Chapter 4 covers the developments of various Consumer Price Index (CPI) inflation rates according to the SCI in winter 1404 (hereafter referred to as 1404Q4) and that of the Producer Price Index (PPI) on the basis of CBI and SCI in 1404Q3.

In the fifth chapter, the developments of the Balance of Payments (BOP) in the first half of 1404 (hereafter referred to as 1404H1) based on the CBI and the changes in the customs imports and exports in the first 10 months of 1404 on the basis of Islamic Republic of Iran Customs Administration (IRICA) are investigated. The daily developments of the US Dollar price in the domestic free market and the secondary market are explored in 1404Q4 in chapter 6. In the succeeding chapter, the monetary and credit aggregates are analyzed by Monetary Base (M0), Money (M1), Quasi-money, and Liquidity (M2) in the first 9 months of 1404. A summary of assets and liabilities of the banking system, the balances of deposits and extended facilities, and the data on extended facilities by various sectors of the economy for the same period are presented in the same chapter.

Chapter 8 of the Report goes over the Budget Law of 1405 and the actual Tax Revenues in the first 8 months of 1404 and the sales of Government Debt Securities in the year 1404 as a whole. The developments of the Iranian capital market indices are investigated in Chapter 9. The Report concludes with going over the energy supply shock due to the closure of the Strait of Hormuz.

1. GLOBAL ECONOMIC DEVELOPMENTS

The year 1404, undoubtedly, could be referred to as one of the most dramatic and challenging time spans in the Iranian history during past half a century. In that year, two destructive wars were imposed on Iran, the first in mid-June 2025 and the second in the late Feb 2026 (respectively, corresponding to the late spring 1404 and the late winter 1404). The second war, however, resulted in a notable shift in political redlines of Iran and the Arab countries of the Persian Gulf since most of the US military bases and installments in those countries were attacked by the IRI military forces, as was previously warned by Iran.

Among the aforementioned countries, the developments of the political and commercial interactions between Iran and the UAE are of high importance as the UAE has always been among the top 5 trade parties of Iran for a long period, both in terms of value and volume of trade. Additionally, the UAE has served as a major financial intermediary for Iran's international transactions especially during sanction eras. The close bonds between Iran and the UAE, nevertheless, are rooted in their warm political relations in the aftermath of the UAE independence in 1971 and also ease of company registration in the UAE for foreigners. For instance, partnership with UAE citizens is not a must for registration of Limited Liability Companies (LLC) and General Trading Companies and also the registration process is fast and easy. The registered companies with incomes below a certain threshold are also entitled

income tax exemption. However, Iran's attacks on the USA military bases in the UAE resulted in such a strained relationship between Iran and that country that the UAE decided to revoke the residence permits of all Iranians, but shortly after it backtracked. Accordingly, the restoration of relationship between the two parties will be uncertain, even if the ceasefire is extended or the war ends.

Meanwhile, among Iran's neighboring countries, Turkey was the one that could skillfully remain neutral in the face of the second invasion of Iran by USA and Israel and endeavored to put an end to the war by playing a mediating role alongside Pakistan. It is noteworthy that the long-standing historical bond between Iran and Turkey that strengthened after the fall of Ottoman Empire in conjunction with the alteration of company registration law of Turkey could potentially prepare the ground for extensive financial relationships between Iran and Turkey in post-war era, causing the UAE to lose its share in favor of Turkey in that regard. For instance, in 2026, the requirement of partnership with Turkish citizens for company registration was eliminated and also the potential foreign investors were entitled to register a wider range of company types, albeit with higher tax rates compared to UAE. All in all, the future of IRI-USA relations, the state of the Strait of Hormuz and whether the economic sanctions on Iran persist or are lifted, altogether serve as the major drivers of Iran's financial and commercial relations with its neighbors.

2. REAL SECTOR

At the time of preparing this report, data from the SCI on the Iranian national accounts suggest 1.0 percent and 2.8 percent GDP expansions, respectively, in the first 9 months of 1404 and in 1404Q3, using 1400 as the base year for GDP calculations. During 1404Q3, all sectors of the Iranian economy expanded but the Agriculture. The Agriculture sector contracted in all the first 3 quarters of 1404, with 2.9 percent contraction in 1404Q3. On the contrary, in the same quarter, "Industries and Mining" as well as "Services" sectors, respectively, grew by 3.6 percent and 2.6 percent. All in all, the GDP growth rate registered 2.8 percent in 1404Q3, of which 2.0 percent is owed to "Industries and Mining" sector. However, due to the negligible 0.2 percent GDP expansion in 1404H1, the economic growth rate of the first 9 months of 1404 registered 1.0 percent only. Note that in all the first 3 quarters of 1404 and subsequently in the first 9 months of that year as a whole, much of the GDP expansion has been driven by the "Industries and Mining" as well as "Services" sectors, i.e., these two sectors with the same growth rates of 1.4 percent in the first 9 months of 1404 have formed 0.7 and 0.5 percentage points of the 1.0 percent GDP growth rate, respectively, while the Agriculture sector by 3.0 percent contraction has served as a factor of decrease in GDP growth rate by 0.2 percentage point during the time span under review.

An examination of "Industries and Mining" by its subgroups reveals that "Industries" as well as "Mining" have contributed to the GDP growth rate of 1404Q3 by 0.4 and 1.5 percentage points, respectively, resulting in a 3.6 percent expansion in the value-added of "Industries and Mining" at constant 1400 prices in that quarter. Nevertheless, these two subgroups have contributed to the growth rate of the first 9 months of 1404 differently, i.e., in the first 9 months of 1404, "Industries" contracted by 0.3 percent, while "Mining" expanded by 3.2 percent, respectively, contributing to the GDP growth rate by negative 0.1 and positive 0.8 percentage points. Accordingly, the value-added of "Industries and Mining" at constant 1400 prices grew by 1.4 percent in the first 9 months of 1404 compared to the same period of 1403.

In 1404Q3, "Extraction of Oil and Natural Gas" as well as "Other Mining" as the two components of "Mining", respectively, expanded by 6.1 percent and 5.3 percent. The former subgroup itself, contributed to the GDP growth rate of 1404Q3 by 1.4

percentage points. Moreover, in the first 9 months of 1404, "Extraction of Oil and Natural Gas" grew by 3.2 percent to form 0.8 percentage point of the GDP growth rate in that period. As a subgroup of "Industries", in 1404Q3, "Water and Electricity Supply" contracted by 6.7 percent at constant 1400 prices, however, due to its negligible share in GDP, it has decreased the GDP growth rate of 1404Q3 by only 0.04 percentage point. In the first 9 months of 1404, the same subgroup contracted by 7.8 percent to decrease the economic growth rate by 0.04 percentage point in that period. "Manufacturing", as another subgroup of "Industries" contracted by 0.5 percent in the first 9 months of 1404 and given its 18.2 percent share in GDP (at current prices) caused the economic growth rate to fall by 0.1 percentage point. The "Natural Gas Distribution" subgroup in the first 9 months of 1404 also grew by 1.5 percent. As for "Construction", this subgroup grew by 0.2 percent only in the first 9 months of 1404 and on a quarterly basis, respectively, experienced 0.4 percent and 2.8 percent expansions in spring and summer 1404, while contracted by 1.7 percent in fall that year. All in all, the "Industries and Mining" as the largest sector of the economy in the SCI books, constituted 45.9 percent and 47.4 percent of GDP at current prices, respectively, in 1404Q3 and in the first 9 months of 1404, down 3.2 and 1.2 percent from the corresponding figures in the year 1403.

The Services sector that formed 43.2 percent of GDP at current prices in the first 9 months of 1404, expanded by 1.4 percent at constant 1400 prices in that period on the basis of the SCI report. Moreover, from a quarterly viewpoint, this sector constituted 44.0 percent of the GDP at current prices in 1404Q3 and experienced 2.6 percent expansion in that quarter at constant 1400 prices. Among the Services subsectors, "Social Services" as well as "Wholesale and Retail Trade, Accommodation and Food Service Activities", respectively, contracted by 1.2 percent and 0.4 percent in the first 9 months of 1404, while the rest of the subgroups expanded. In this regard the "Financial and Insurance Services" recorded the highest expansion of 8.8 percent to constitute 0.3 percentage point of the GDP growth rate of the first 9 months of 1404, followed by "Transport, Storage and Communication", "Real Estate, Renting and Business Activities" and "Public Services, Education, Human Health and Social Work Activities" with respective 1.9 percent, 1.3 percent and 0.8 percent expansions.

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In the SCI books, Agriculture sector that encompasses "Farming, Hunting and Forestry" as well as "Fishing", contracted by 2.9 percent in 1404Q3. This sector constituted 6.5 percent of the GDP at current prices in the same quarter, 0.4 percentage point below that of 1403Q3. A breakdown of Agriculture by its subsectors reveals a 3.5 percent contraction in "Farming, Hunting and Forestry" in 1404Q3. In addition, Fishing expanded by 3.0 percent in 1404Q3, taking into consideration the negligible and volatile value-added of this subsector. Note that the

developments of Fishing are normally independent of the rest of the sectors of the Iranian economy. In the first 9 months of 1404, Agriculture sector formed 9.5 percent of GDP at current prices, indicating 0.8 percentage point rise from the same period of its preceding year. During the period under discussion, "Farming, Hunting and Forestry" experienced a negative 3.4 percent growth rate, while "Fishing" grew by 4.6 percent. Table 1 presents the GDP growth rate by the main sectors of the Iranian economy.

Table 1. Growth Rates of GDP by Major Sectors of the Iranian Economy at Constant 1400 Prices (percent-percentage point)

	1403		1404				Share in Growth of the First 9 Months 1404
	First 9 Months	Total	Q1	Q2	Q3	First 9 Months	
Agriculture	3.3	3.2	-2.7	-3.2	-2.9	-3.0	-0.2
Industries and Mining	3.6	3.4	-0.3	0.9	3.6	1.4	0.7
Services	2.4	2.6	0.4	1.1	2.6	1.4	0.5
Non-oil GDP (at basic prices)	2.2	2.1	-0.5	-0.2	1.8	0.4	-
GDP (at basic prices)	3.1	3.1	-0.2	0.5	2.8	1.0	1.0

Source: Statistical Center of Iran

As for the demand side of the economy, the Private Consumption Expenditures (at constant 1400 prices) expanded by 2.1 percent in 1404Q3. Given its 54.3 percent share in GDP at current prices, the Private Consumption Expenditures constituted 0.9 percentage point of the GDP growth rate of 1404Q3 at constant prices. These sorts of expenditures contracted by 0.1 percent in the first 9 months of 1404. On the contrary, the Government Consumption Expenditures expanded by the same rate of 1.8 percent, both in 1404Q3 and in the first 9 months of 1404, respectively, constituting 6.7 percent and 3.8 percent of the GDP at current prices in the periods under review.

The expansion of this component of GDP which had started in 1400, maintained and extended into the first 9 months of 1404. The SCI report suggests a 2.3 percent contraction in the Gross Fixed Capital Formation in 1404Q3, resulting in 0.3 percentage point fall in the GDP growth rate at constant prices. Among its

subgroups, the Gross Fixed Capital Formation expanded by 2.8 percent in Construction, while contracted by 5.0 percent in Machinery. All in all, in the first 9 months of 1404, the Gross Fixed Capital Formation contracted by 3.0 percent, mainly due to the fall in Gross Fixed Capital Formation in Machinery, causing the GDP growth rate in the first 9 months of 1404 to fall by 0.5 percentage point. In the first 9 months of 1404, Gross Fixed Capital Formation in Construction grew by 0.2 percent, while in Machinery fell by 5.1 percent.

Regarding the international trade, in 1404Q3, the Exports of Goods and Services grew by 0.1 percent only and the Imports of Goods and Services diminished by 15.3 percent at constant 1400 prices. Moreover, during the first 9 months of 1404, the Exports and Imports of Goods and Services experienced 1.8 percent and 18.2 percent contractions, respectively, signaling a decline in international trade of the country. Table 2 presents the GDP growth rates from the expenditure side.

Table 2. Growth Rates of GDP From Expenditure Side at Constant 1400 Prices (percent-percentage point)

	1403		1404			
	First 9 Months	Total	Q1	Q2	Q3	First 9 Months
Private Consumption Expenditures	0.0	-0.1	-1.1	-1.4	2.1	-0.1
Government Consumption Expenditures	3.8	3.8	1.8	1.8	1.8	1.8
Gross Fixed Capital Formation	1.1	0.7	-2.1	-4.5	-2.3	-3.0
Machinery	1.8	0.9	-3.5	-6.7	-5.0	-5.1
Construction	0.0	0.5	0.4	-1.7	2.8	0.2
Net Exports of Goods and Services						
Exports of Goods and Services	10.6	7.2	-8.8	4.0	0.1	-1.8
Imports of Goods and Services	4.7	2.4	-23.3	-16.7	-15.3	-18.2
Inventory Changes and Errors	5.0	7.1	-5.3	-9.2	-2.9	-6.3
GDP at Market Prices	3.4	3.2	-0.5	0.1	2.9	0.8

Source: Statistical Center of Iran

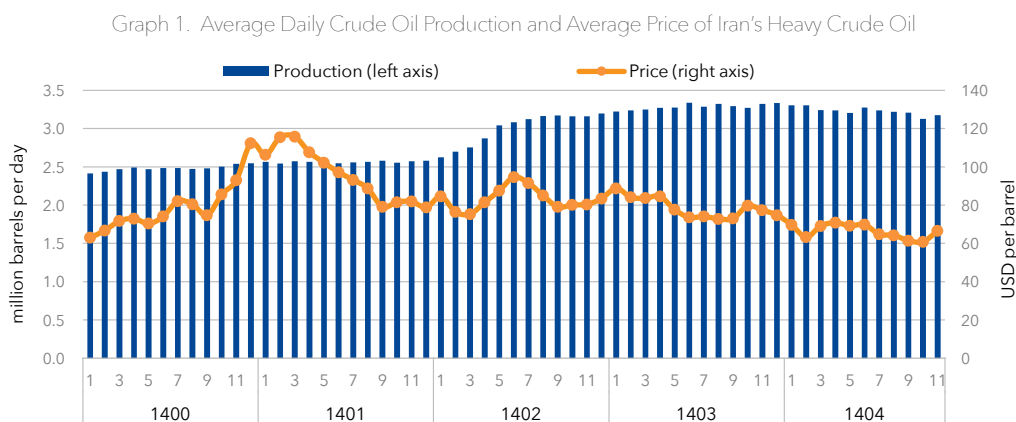
2-1. Oil

As no official data on Iran's oil exports have been released in recent years, the available figures in that regard mainly come from international sources and independent estimates. For instance, TankerTrackers¹ website estimated Iran's oil exports at around 1.5 million and 2.2 million barrels per day (mbpd), respectively, for Jan and Feb 2026 (roughly corresponding to the 10th and 11th months of 1404), indicating 16.8 percent and 29.0 percent rises from the corresponding months of 2025. In the aftermath of the outbreak of the USA-Israel war against Iran in late Feb 2026, contrary to expectations, Iran's oil exports temporarily improved and registered 2.4 mbpd in late 1404 and 2.8 mbpd in early 1405 on the basis of the Economist. In fact, as the Iranian oil tankers could freely pass through the Strait of Hormuz - unlike those of the other countries - Iran's oil exports experienced a temporary rise. According to the IRI Oil Minister, the War against Iran not only resulted in the rise in oil prices, but also ended up in a considerable fall in oil price discounts on Iran's oil.

In the course of the USA-Israel war against Iran and in a highly volatile energy market, some sources claim that Iran has enjoyed a remarkable rise in its oil revenues. As such, the Kobeissi Letter has reported a considerable monthly rise in Iran's oil revenues in Mar 2026, i.e., it has estimated that Iran's daily oil revenues have increased by USD25 million to USD139 million. Part of this boost in oil revenues is also attributed to the change in pricing of Iran's crude

oil. Precisely speaking, the gap between the price of Iran's light crude oil and Brent crude oil price that was USD10 prior to the USA-Israel war against Iran, narrowed down to USD2, hence the fall in this gap alongside the rise in global oil prices were the contributors to the rise in Iran's oil revenues. The same source claimed that Iran obtains extra revenues from the passage of vessels from the Strait of Hormuz through receiving tolls up to USD2 million per vessel. All such circumstances took place meantime the USA was making efforts to prevent oil prices from jumping that resulted in temporary loosening of some of the sanctions on Iran's oil shipments, especially those previously loaded onto vessels.

Moreover, on the basis of the OPEC reports from the secondary sources as the only available statistical source of reliable data, Iran's oil production in Feb 2026 (roughly corresponding to the 11th month of 1404) averaged 3.2 mbpd, indicating a 4.4 percent fall compared to Feb 2025. Nevertheless, due to technical constraints and aging infrastructure and oil wells, Iran's oil production has reached its maximum. Even if sanctions and international restrictions were fully lifted, a further short-term increase in Iran's oil supply appears unlikely. Graph 1 shows the average daily crude oil production and the average price of Iran's heavy crude oil from the beginning of 1400 to the end of the 11th month of 1404.



Source: OPEC Monthly Oil Market Reports, production data based on secondary sources

Note: OPEC data are reported in Gregorian calendar months, which have been approximately converted to Iranian calendar months here

1. Tanker Trackers is an independent online service that monitors and reports on the shipment of crude oil and gas condensates across different regions. The website uses daily satellite data, coastal imagery, and AIS (Automatic Identification System) information to produce its analyses and reports on maritime exports.

The recent geopolitical developments and security concerns in the Middle East have resulted in the supply side of the oil market playing a more prominent role than the demand side. In other words, in the pre-war era, some factors including China's demand for oil as well as Federal Reserve's monetary policy were the dominant factors on the demand side of the oil market. On the basis of OPEC reports, in Jan and Feb 2026, Iran's Heavy Crude oil price averaged USD60.9 and USD66.6 per barrel, respectively, down 23.6 percent and 14.0 percent from those of the same months of 2025. Yet, amid the war era the global oil market experienced a notable price hike in Mar 2026, causing the oil price to rise by 60 percent (the highest rise since

1988) to USD118 per barrel by the end of that month. Eventually, the political efforts aimed at reaching an agreement between USA and Iran helped the oil price fall to USD104. However, according to Bloomberg, oil futures prices surged to USD140 per barrel at certain points of the war era.

All in all, the Middle East Developments, especially the USA-Israel war against Iran convey the fact that the global oil market now reacts to geopolitical risks more than ever before. Accordingly, the oil prices are affected by news and expectations about the future of the Middle East region. Although Iran's oil price has enjoyed rises under such circumstances, the possibility of ceasefire collapse and attack on Iran's oil infrastructure still exists.

3. LABOR MARKET

The latest report of the SCI on the Iranian labor market suggests that in 1404Q3, the unemployment rate of the population aged 15 and above registered 7.8 percent, respectively, 0.6 and 0.4 percentage points up from 1403Q3 and 1404Q2. Moreover, in 1404Q3, the rate of economic participation fell by 0.5 percentage points. Despite this fall which reflects the exit of a portion of the population from the labor market, the unemployment rate has risen. Regarding the employment rate as well as the rate of underemployment (working less than 44 hours a week), in 1404Q3 the former contracted by 0.7 percentage point, while the latter expanded by 0.5 percentage point to 7.9 percent from 1403Q3. The unemployment rate of the population with higher education in 1404Q3 registered 10.7 percent, indicating a 0.4 percentage point improvement compared to the same quarter of 1403, despite the undesirable conditions of the Iranian labor market.

In 1404Q3, the unemployment rate of males registered 6.1 percent and that of females registered 16.0 percent, respectively, indicating 0.2 and 2.3 percentage points rises from 1403Q3. During the period under review, the employed population declined by 126.8 thousand individuals, i.e., the number of males rose by 160.8 thousand, while that of the females fell by 287.6 thousand. Note that the 160.8 thousand increase in employed males was not in proportion to the total increase in the male working age population, subsequently the employment ratio of males and females at working age registered 63.7 percent and 11.5 percent in 1404Q3, respectively, down 0.3 and 1.0 percentage points compared to 1403Q3. All in all, in 1404Q3, the employment ratio fell by 0.7 percentage point compared to 1403Q3 to 37.5 percent.

Out of the 2.1 million unemployed population in 1404Q3, 1.5 million aged 18 to 35. Accordingly, the unemployment rate for this age group registered 15.9 percent in that quarter, indicating 1.6 percentage points rise from 1403Q3. In the same quarter, 821.2 thousand individuals

with higher education were unemployed, translating to an unemployment rate of 10.7 percent in this group in total - 6.9 percent among males (0.9 percentage point below that of 1403Q3) and 19.0 percent among females (same as that of 1403Q3). In fall 1404, around 39.2 percent of the total unemployed population of the country had higher education, indicating 3.9 percentage points fall from 1403Q3. In the same quarter, males and females, respectively, constituted 45.0 percent and 55.0 percent of the 821.2 thousand unemployed population with higher education.

In 1404Q3 and compared to the same quarter of its preceding year, 815.2 thousand individuals, including 397.2 thousand males and 418.0 thousand females were added to the total working age population. In the same period, 160.8 thousand individuals were added to the male active population, while that of the females fell by 287.6 thousand, causing the total active population to fall by 126.8 thousand. Hence, in 1404Q3, 40.7 percent of the population at working age were active, indicating a fall of 0.5 percentage point compared to 1403Q3. This low rate of participation is mainly attributed to the female population of the country, in a sense that out of the 33.2 million females aged 15 and above, only 4.5 million were able and willing to work in 1404Q3. In other words, the female participation rate in that quarter registered 13.6 percent only. Out of the 4.5 million females that were willing to work, only 3.8 million succeeded in finding a job. In 1404Q3, out of 24.9 million employed population, 53.2 percent participated in the Services Sector, 33.2 percent in the Industry Sector, and the remaining 13.6 percent in the Agriculture Sector. In the same quarter, 2.0 million of the employed population (7.9 percent) were underemployed, up 0.5 percentage point from that of 1403Q3, 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 3 compares the major labor market indices in falls of 1403 and 1404.

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Table 3. Major Labor Market Indices by Gender for the Population Aged 15 and Above

		1403Q3			1404Q3		
		Total	Male	Female	Total	Male	Female
Economic Participation	Rate (percent)	41.2	68.0	14.5	40.7	67.8	13.6
	Number (million)	26.9	22.2	4.7	26.9	22.4	4.5
Employment	Rate (percent)	38.2	64.0	12.5	37.5	63.7	11.5
	Number (million)	25.0	20.9	4.1	24.9	21.1	3.8
Unemployment	Rate (percent)	7.2	5.9	13.7	7.8	6.1	16.0
	Number (million)	2.0	1.3	0.6	2.1	1.4	0.7
Unemployment of Population Aged 18 to 35	Rate (percent)	14.3	11.6	24.1	15.9	12.6	27.9
	Number (million)	1.4	0.9	0.5	1.5	0.9	0.6
Unemployment of Population with Higher Education	Rate (percent)	11.1	7.4	19.0	10.7	6.9	19.0
	Number (million)	0.8	0.4	0.5	0.8	0.4	0.5
Share of Underemployment (percent)		7.4	8.0	4.2	7.9	8.4	4.9
Population Aged 15 and Over (million)		65.4	32.7	32.8	66.3	33.1	33.2

Source: Statistical Center of Iran

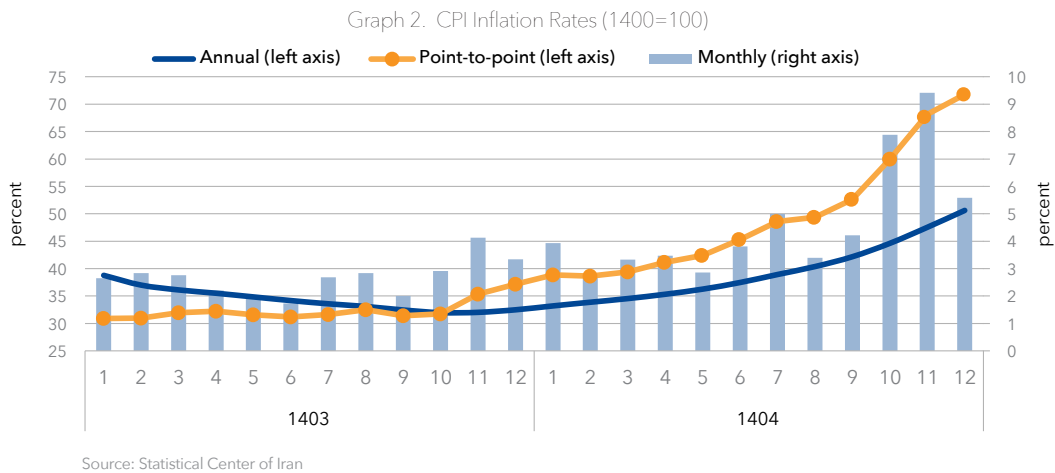
It is noteworthy that the uncertainties from the USA-Israel attack on Iran that started in the late 1404, would adversely affect the Iranian labor market alongside the rest of the Iranian economy. Precisely speaking, in a risky macroeconomic environment, the firms opt for prudent actions regarding production as well as recruitment. For instance, industries that were directly attacked and businesses that were affected by internet blackout may

be forced to lay off workers due to undesirable economic conditions. Moreover, any damage or disruption in the economic infrastructures including transportation networks, energy distribution systems, oil and gas facilities, etc., could result in slowing down in production and distribution especially in energy-intensive industries. Together, these factors may lead to widespread layoffs and/or rise in underemployment.

4. PRICES AND INFLATION

The rise in the annual CPI inflation rate speeded up in 1404Q4 and the rate that had opened that quarter at 44.6 percent, closed it at 50.6 percent, the SCI report suggests. Similarly, the point-to-point CPI inflation rate followed a steeper upward path in 1404Q4 and from 60.0 percent in the first month of

1404Q4 rose to 71.8 percent in the last month of that quarter. The CBI data covered the CPI till the end of the 11th month of the year 1404, however, the reported inflation rate by both issuing authorities followed same trends. In Graph 2, various CPI inflation rates in 1403 and 1404 are presented.



On the basis of the SCI report, the annual CPI inflation rate that was below 40 percent throughout the year 1403, reached its low of 32.0 percent in the 11th month of that year. However, it reversed course to step in a persistent upward path and eventually surpassed 40 percent from the 8th month of 1404. The annual CPI inflation rate registered 44.6 percent and 47.5 percent in the first 2 consecutive months of 1404Q4 and closed the year 1404 at historical high of 50.6 percent. In 1404Q4, the rise in the point-to-point CPI inflation rate accelerated and from 60.0 percent in the first month of 1404Q4 rose to 71.8 percent in its last month, signaling higher annual CPI inflation rates in coming months. In the same quarter, the CPI experienced larger monthly changes compared to the rest of the quarters of the same year and registered 7.9 percent, 9.4 percent and 5.6 percent rises, respectively, in the 3 consecutive months of 1404Q4. Additionally, the CBI data suggest 44.2 percent and 46.3 percent for annual CPI inflation rate in the first 2 months of 1404Q4, respectively, far close to the corresponding

figures in the SCI report. The point-to-point CPI inflation rate that had surpassed 40 percent from the 1st month of 1404, rose to 55.0 percent in the 1st month of 1404Q4 and to 62.2 percent in its 2nd month on the basis of the CBI report, below the corresponding figures calculated by the SCI. All in all, the rise in the CPI inflation rates in 1404Q4, especially the point-to-point rate, to a large extent could be attributed to the exchange rate unification from the 3rd week of that quarter on the one hand and the developments of the monetary aggregates, notably the increase in share of money in M2 and emerging of new problems in the banking system due to the USA-Israel wars against Iran, on the other hand. Moreover, the developments of M2 indicates that the monthly growth rate of this variable has been increasing since the beginning of 1403. Precisely speaking, the extraordinary state of the Iranian economy, emanating from uncertainties has caused the monetary authority to leave more room for banks for extending more facilities.

Given that much of the economic infrastructure and industries were incurred notable damages due to the USA-Israel attack on Iran from the last month of 1404Q4, the rise in mandatory loans aiming for reconstruction is very likely to happen, resulting in higher inflation rates in the year 1405. Besides, the rise in demand for notes and also higher CBI claims on public sector would fuel the increasing path of the CPI inflation rate. An examination of the CPI inflation rate by the 12 main groups of the consumption basket of goods and services of the SCI reveals that in the last month of 1404, the highest annual inflation rate belonged to "Foods and Beverages" at 68.3 percent and the highest point-to-point and monthly inflation rates were attributed to "Tobacco" with respective rates of 125.1 percent and 17.1 percent. On the contrary, the lowest annual, point-to-point and monthly inflation rates, respectively, belonged to "Communication" at 35.9 percent, to "Housing, Water,

Electricity, Gas and Other Fuels" at 34.9 percent and to "Education" at 0.2 percent. Going over the CPI inflation rates by the weights assigned to each group of the consumption basket also reveals 3-digit point-to-point inflation rates in "Foods and Beverages" with the second largest weight in the last 2 months of the year 1404, translating to significant pressure on Iranians in providing their basic needs and especially notable welfare loss in low-income groups.

The CBI has only released the monthly inflation rates of the various groups of its consumption basket of goods and services. On the basis of the report issued by this authority, in the 11th month of 1404, the highest monthly inflation rate of 27.4 percent belonged to "Tobacco" while the lowest of 0.3 percent to "Education".

Table 4 presents the inflation rates of the 12 main groups of the consumption basket of goods and services in the last month of 1404Q4 based on the SCI report.

Table 4. Inflation Rates of the Consumption Basket of Goods and Services at the End of 1404Q4 (1400=100)

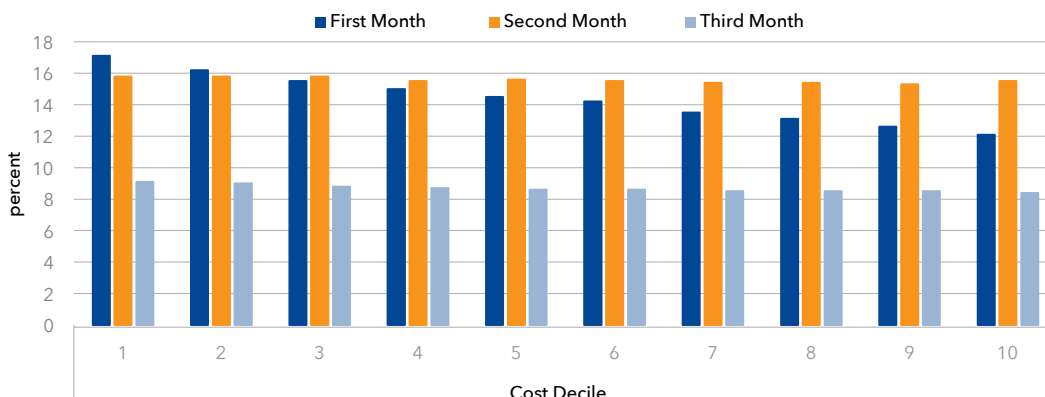
Group	Base Year (1400) Weight	Inflation Rate		
		Monthly	Point-to-point	Annual
Overall	100.00	5.6	71.8	50.6
Housing, Water, Electricity and Other Fuels	36.11	1.7	34.9	36.1
Foods and Beverages	28.82	8.4	112.5	68.3
Transport	8.93	4.1	67.5	43.5
Health	6.68	2.6	59.0	49.1
Clothing and Footwear	4.52	6.5	56.9	42.3
Other Goods and Services	4.42	6.7	90.4	65.2
Household Equipment	4.40	8.8	72.8	50.4
Communication	2.41	3.5	55.3	35.9
Restaurants and Hotels	1.35	5.7	70.9	44.2
Education	0.88	0.2	44.7	41.3
Recreation and Culture	0.87	4.1	60.8	45.5
Tobacco	0.62	17.1	125.1	62.3

Source: Statistical Center of Iran

According to the SCI report on the CPI by various cost deciles, in the 3 consecutive months of 1404Q4, the highest monthly inflation rates in "Foods and Beverages" as well as "Tobacco" have been experienced by the bottom 3 cost deciles, while the lowest rates in these sorts of goods belonged to the top 1 cost decile.

Accordingly, from a monthly view point, the bottom cost deciles have incurred higher inflationary pressure than the top cost deciles in providing their daily basic needs. In Graph 3, the monthly aggregated inflation rates of "Foods and Beverages" as well as "Tobacco" by cost deciles in 1404Q4 are depicted.

Graph 3. Monthly Aggregated Inflation Rate in Foods and Beverages and Tobacco During 1404Q4

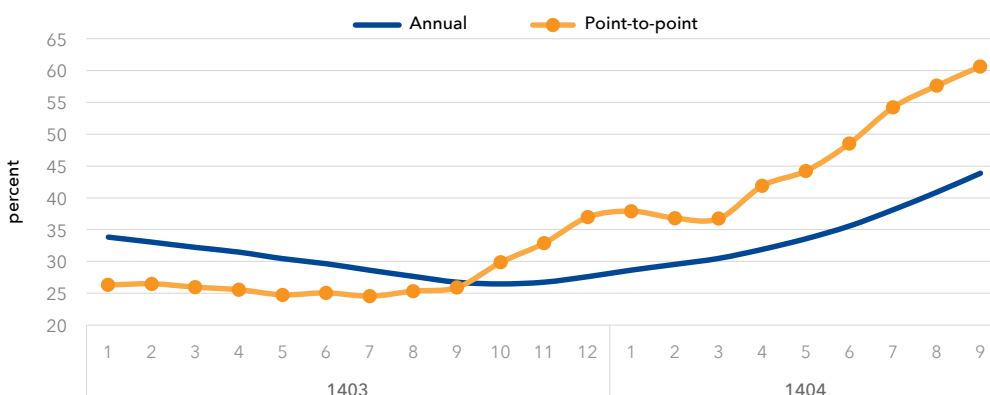


Source: Statistical Center of Iran

The latest reports of both SCI and CBI on PPI cover till the end of 1404Q3, albeit the former’s report is on a quarterly basis and that of the latter is on a monthly basis. Note that the year 1400 has been used as the base year for PPI calculations by both issuing authorities. The CBI data suggest that the PPI inflation rate as a leading indicator of the CPI inflation rate maintained its upward path that had started from the 11th month of 1403 throughout the first 3 quarters of 1404, while this rise intensified in 1404Q3. The annual PPI inflation rate, respectively, registered 38.1 percent, 40.9 percent and 41.9 percent in the 3 consecutive

months of 1404Q3. As for the point-to-point PPI inflation rate, that rate started to rise from the first month of 1404Q2 after a period of decline in its preceding quarter and reached its high of 60.6 percent at the end of 1404Q3. Furthermore, the SCI reported annual PPI inflation rate of 45.5 percent at the end of 1404Q3. Notwithstanding the difference between the PPI inflation rates of the both issuing authorities, they have followed same trends. Graph 4 depicts the developments of the annual and point-to-point PPI inflation rates from the beginning of 1403 to the end of 1404Q3 on the basis of the CBI report.

Graph 4. Annual and Point-to-point PPI Inflation Rates (1400=100)



Source: Central Bank of Iran

5. BALANCE OF PAYMENTS

The CBI estimated BOP - the aggregate of Current Account, Capital Account and Errors and Omissions, which ultimately reflects changes in foreign reserves - at USD1.010 billion for 1404H1, far different from the USD1.513 billion in the same period in its preceding year.

In 1404H1, the current account surplus reached USD11.6 billion, indicating a 7.6 percent increase from the USD10.8 billion in 1403H1. Moreover, the deficit of Net Capital Account that had registered USD12.4 billion in 1403H1 rose to USD14.9 billion in 1404H1.

The Current Account itself contains Goods Account, Services Account, Income Account², and Current Transfers Account. The Goods Account that is the difference of the values of goods exports and goods imports, reached USD18.3 billion in 1404H1, up 8.3 percent from the USD16.9 billion in 1403H1. The Non-oil Trade Balance deficit in 1404H1 marked USD11.9 billion, 26.6 percent below that of 1403H1. As for the Oil Trade Balance surplus, it fell by 8.8 percent to USD30.2 billion in 1404H1. All in all, the expansion of Current Account during 1404H1 was mainly driven by the contraction of the Non-oil Trade Balance deficit.

The Services Account deficit of USD5.5 billion in 1403H1 grew by 31.4 percent to USD7.3 billion in 1404H1. Between

the same periods, the deficit of Income Account also fell from USD533 million to USD446 million.

As for Errors and Omissions, this BOP component that had registered USD3.123 billion in 1403H1, rose by 37.7 percent to USD4.301 billion in 1404H1, constituting 37.1 percent of the Current Account in that period. The rise in Errors and Omissions is mainly attributed to the lack of data on unofficial transactions, delayed registration of foreign transactions and unobservable capital movements that altogether make Iran's international trade statistics less reliable.

The exchange rate unification that was implemented in the third week of 1404Q4 would also serve as a driver of BOP developments, i.e., the elimination of the gap between the official and market exchange rates evaporates the incentives for imports over-invoicing and exports under-invoicing. Accordingly, in the Current Account, the non-oil exports would be more profitable while imports become more costly, resulting in the fall in Non-oil Trade Balance deficit and BOP improvement.

However, the positive effect of the exchange rate unification on BOP may be offset by the USA-Israel war against Iran which began in late 1404. The details of BOP in the first halves of 1403 and 1404 are presented in Table 5.

Table 5. Balance of Payments (USD million)

	1403H1	1404H1	Percentage Change
Current Account	10,805	11,580	7.2
Goods Account	16,942	18,342	8.3
Exports (FOB)	56,809	54,769	-3.6
Oil	33,917	30,746	-9.3
Non-oil	22,891	24,022	4.9
Imports (FOB)	39,866	36,427	-8.6
Gas and Oil Products	764	505	-33.9
Other Goods	39,103	35,922	-8.1
Services Account	-5,524	-7,260	31.4
Income Account	-533	-446	-16.3
Current Transfers Account	-81	944	-
Net Capital Account	-12,415	-14,872	19.8
Errors and Omissions	3,123	4,301	37.7
Overall Balance	1,513	1,010	-33.3

Source: Central Bank of Iran

2. Mainly including compensation of workers and revenues and expenditures associated with investments

At the time of preparing this Report, the IRICA had provided detailed customs trade data for the first 10 months of 1404. However, the same organization released only the aggregated figures of trade value and volume of the year 1404 as a whole. Accordingly, the total customs trade (imports plus exports) of the country reached USD109.673 billion in value and 191.588 million tons in weight, respectively, 17.0 percent and 1.1 percent below the corresponding figures of 1403. In 1404, the customs exports totaled USD51.657 in value and 150.508 million tons in weight, while the customs imports totaled USD58.016 billion in value and 41.080 million tons in weight.

An examination of the detailed data of customs trade reveals that in the first 10 months of 1404, 130.0 million

tons of goods valued at USD45.0 billion have been exported from Iran, while 33.2 million tons of goods valued at USD49.1 billion have been imported to the country. In the 10-month period under review, Iran's customs exports expanded by 1.4 percent in weight but in terms of value contracted by 6.3 percent compared to the same period of 1403. Similarly, as for customs imports, it expanded by 4.6 percent in weight, whereas contracted by 15.5 percent in value, translating to lower value of both export and import goods on average. Therefore, the deficit of customs trade balance that had registered USD10.1 billion in the first 10 months of 1403 fell to USD4.1 billion in the first 10 months of 1404. The details of Iran's customs trade in the first 10 months of 1403 and 1404 are presented in Table 6.

Table 6. Iran's Customs Trade

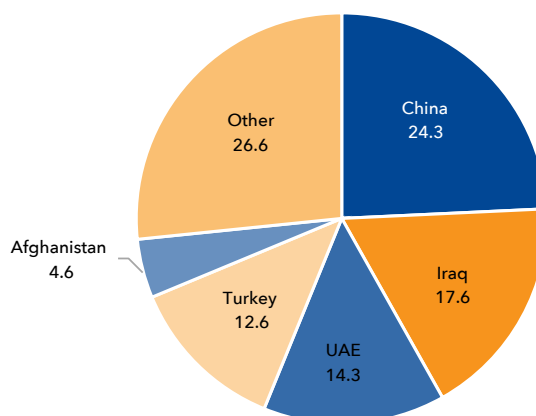
	First 10 Months of 1403			First 10 Months of 1404			Percentage Change	
	Weight (1000 ton)	Value (USD million)	Value to Weight Ratio (USD per ton)	Weight (1000 ton)	Value (USD million)	Value to Weight Ratio (USD per ton)	Weight	Value
Exports	128,191	48,043	374.8	130,036	45,015	346.2	1.4	-6.3
Imports	31,720	58,148	1,833.2	33,177	49,107	1,480.2	4.6	-15.5
Customs Trade Balance	96,471	-10,105	-	96,859	-4,092	-	0.4	-59.5

Source: Islamic Republic of Iran Customs Administration

During the first 10 months of 1404, 73.4 percent of Iran's total exports was destined for China, Iraq, UAE, Turkey, and Afghanistan as its top 5 exports parties. In the period under review, customs exports to China registered USD10.9 billion to constitute 24.3 percent of the total exports of Iran, followed by Iraq at USD7.9 billion with 17.6

percent share, UAE at USD6.4 billion with 14.3 percent share, Turkey at USD5.7 billion with 12.6 percent share and finally Afghanistan at USD2.1 billion with 4.6 percent share in total exports of Iran. The major customs exports destinations of Iran by their share in total customs exports of Iran in the first 10 months of 1404 are shown in Graph 5.

Graph 5. Major Customs Exports Destinations of Iran in the First 10 Months of 1404 (percent)

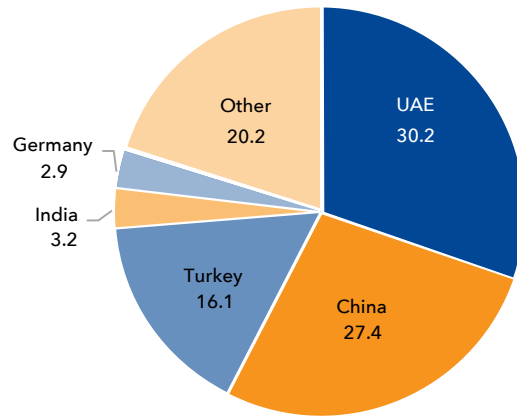


Source: Islamic Republic of Iran Customs Administration

With regard to Iran’s customs imports, UAE ranked as the top one source, providing USD14.8 billion of Iran’s imports with 30.2 percent share in total imports of the country during the first 10 months of 1404. In the same period, the imports from China and Turkey registered USD13.4 billion and USD7.9 billion, respectively, constituting 27.4 percent and 16.1 percent of Iran’s total customs imports. Accordingly, UAE, China and Turkey as the top 3 sources of imports have

provided 73.7 percent of Iran’s import needs, implying a high concentration risk. India with USD1.5 billion and Germany with USD1.4 billion exports to Iran ranked as 4th and 5th sources of imports of Iran with 3.2 percent and 2.9 percent share in total Iran’s customs imports, respectively. In Graph 6, the major sources of Iran’s customs imports by their share in total customs imports of the country in the first 10 months of 1404 are depicted.

Graph 6. Major Sources of Customs Imports of Iran in the First 10 Months of 1404 (percent)



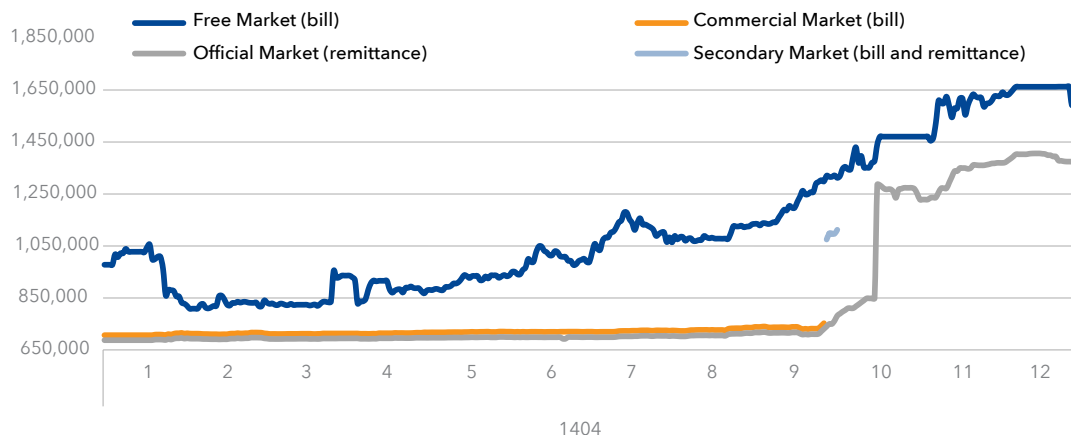
Source: Islamic Republic of Iran Customs Administration

6. FOREIGN EXCHANGE MARKET

Just like its preceding quarters, in 1404Q4, the Iranian free market for foreign exchanges was highly volatile due to various political circumstances, both domestic and international. The free-market USD price opened 1404Q4 at around IRR1.319 million and closed that

quarter at IRR1.593 million. In the same quarter, the USD/IRR exchange rate averaged 1.548 million to stand 35.3 percent above that of 1404Q3 and 79.5 percent above that of 1403Q4. Graph 7 depicts the USD price in various markets during 1404.

Graph 7. USD/IRR Exchange Rate in Various Markets*



Source: Central Bank of Iran; website of Donya-e-Eqtasad economic daily; Gold, Coin and Currency Information Networks; research calculations
 * Due to severe Rial depreciation which widened the gap between the exchange rates in the free market and in the secondary market, in late 1404Q3, the Central Bank established another market where the bill exchange rates were close to those in the free market, but it did not last long and the monetary authority unified exchange rates from the 3rd week of 1404Q4.

In response to the triggering of the Snapback Mechanism in the early 1404Q3 which resulted in the resumption of the UN sanctions, the USD price in the free market gradually increased and on the first day of 1404Q4 stood 28.0 percent above that of the same day of its preceding quarter. As the IRR depreciation intensified, the gap between the USD prices in the free market and the secondary market widened to more than 70 percent in the late 1404Q3 and the monetary authority was left with no choice but to raise the secondary market rates and eventually decided to unify

the exchange rates from the 3rd week of 1404Q4 in order to eliminate that gap. Yet, the gap that had narrowed down to 15.0 percent in the initial days of the CBI exercise, again widened due to insufficient foreign reserves, uncertainty in the economy and CBI insistence on keeping the rates which together caused the so-called exchange rate unification policy to fail. Table 7 presents the quarterly developments of USD/IRR bill exchange rate in the free market in 1403 and 1404. The figures in the last column of the Table suggest a highly volatile market from 1403Q3 on.

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

	Average	Maximum	Minimum	Standard Deviation	Coefficient of Variation
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	44,376	0.07
1403Q4	862,096	977,800	762,400	56,146	0.07
1404Q1	883,354	1,055,550	808,350	81,056	0.09
1404Q2	936,730	1,058,600	828,700	55,436	0.06
1404Q3	1,144,261	1,322,000	1,034,900	73,876	0.06
1404Q4	1,547,804	1,663,400	1,319,500	107,734	0.07

Source: Central Bank of Iran; website of Donya-e-Eqtasad economic daily; Gold, Coin and Currency Information Networks; research calculations

The Iranian free FX market experienced fewer working days in 1404Q4 than its preceding quarters of that year due to various reasons including protests in the first month of that quarter as well as the second USA-Israel war against Iran in the last month of 1404. Yet, in working days of that market, the USD price was highly volatile and even the new round of nuclear

talks in the mid-1404Q4 could not rein in the IRR depreciation. The USD price in the Iranian free FX market opened 1404Q4 at IRR1.319 million and with a 21.0 percent rise, closed the quarter at IRR1.593 million. Should the disruption in Iran's international trade, especially in the oil exports maintain, no bright outlook for the Iranian FX market could be imagined.

7. MONETARY AND CREDIT AGGREGATES

The accommodative approach of the CBI towards the banks regarding making loans in the aftermath of the 12-day War between Israel and Iran could be referred to as the main driver of the rise in M2 monthly growth rate during the year 1404, which is also most likely to maintain in the aftermath of

the second USA-Israel war against Iran. Moreover, at the end of 1404Q3, M0 registered IRR18,258.3 trillion, indicating 34.3 percent rise from the end of 1403 and 50.1 percent from the end of 1403Q3. Table 8 presents the developments of Monetary Base and Liquidity at the end of 1404Q3.

Table 8. Liquidity and Monetary Base with Their Components (IRR trillion-percent-percentage points)

	End of Period Balance			Growth Rate at the End of 09/1404 Compared to		Share in M0 Growth Rate at the End of 09/1404 Compared to	
	09/1403	12/1403	09/1404	09/1403	12/1403	09/1403	12/1403
Monetary Base (M0)	12,164.7	13,594.3	18,258.3	50.1	34.3	50.1	34.3
CBI Foreign Assets (net)	26,277.5	31,885.8	36,341.5	38.3	14.0	82.7	32.8
CBI Claims on Public Sector (net)*	-1,437.7	-3,545.5	-619.1	56.9	-82.5	6.8	21.5
CBI Claims on Public Sector	5,717.8	6,803.9	9,579.2	67.5	40.8	31.8	20.4
Public Sector Deposits with CBI	7,155.5	10,349.4	10,198.3	42.5	-1.5	-25.0	1.1
CBI Claims on Banks	8,225.3	11,701.9	12,645.0	53.7	8.1	36.3	6.9
Other Assets (net)*	-20,900.4	-26,447.9	-30,109.1	44.1	13.8	-75.8	-26.9
Balance of Implementation of Monetary Policy	2,848.3	4,039.9	3,555.7	24.8	-12.0	5.8	-3.6
Liquidity (M2)	96,036.1	101,659.5	135,344.6	40.9	33.1	Share in Liquidity at the End of	
						12/1403	09/1404
Money (M1)	23,443.4	26,317.3	33,854.3	44.4	28.6	25.9	25.0
Notes and Coins with the Public	1,491.4	1,791.3	2,230.4	49.6	24.5	1.8	1.6
Sight Deposits	21,952.0	24,526.0	31,623.9	44.1	28.9	24.1	23.4
Checks (net)	555.9	634.3	964.1	73.4	52.0	0.6	0.7
Quasi-Money	72,592.7	75,342.2	101,490.3	39.8	34.7	74.1	75.0
Interest-free Saving Deposits	10,237.3	11,500.5	15,952.8	55.8	38.7	11.3	11.8
Short Term Deposits	19,657.8	21,193.9	27,876.1	41.8	31.5	20.8	20.6
One-year Deposits	15,106.3	15,851.9	24,711.7	63.6	55.9	15.6	18.3
Two-year Deposits	3,482.0	2,820.2	2,106.9	-39.5	-25.3	2.8	1.6
Three-year Deposits	21,284.4	20,746.8	26,663.4	25.3	28.5	20.4	19.7
Four-Year Deposits	317.3	280.6	302.8	-4.6	7.9	0.3	0.2
Five-year Deposits	64.6	63.7	59.9	-7.3	-6.0	0.1	0.0
Miscellaneous Deposits	2,443.0	2,884.6	3,816.7	56.2	32.3	2.8	2.8
M2 Money Multiplier	7.895	7.478	7.413	-	-	-	-

Source: Central Bank of Iran

*The expansion/contraction of absolute form of any component that takes negative value is a factor of decrease/increase in the Monetary Base in aggregate.

The developments of the Liquidity in the first 9 months of 1404 reveals that this monetary aggregate has expanded by 3.2 percent per month on average, with the highest growth rate of 4.7 percent in the 4th month of 1404 and the lowest of 2.0 percent in the second month of the year. The uncertainties from the political tensions in 1404 have caused the monetary authority to leave more room for the banks to extend facilities in excess of the decreed cap, aiming for protecting domestic economy. Given the lack of a political agreement between Iran and the West, the 12-day War and the uncertainties about future, the Liquidity growth rate speeded up in 1404Q3 as expected. This state should have persisted into 1404Q4 which could be also justified by the upward path of the point-to-point inflation rate in that quarter. Given the outbreak of the second USA-Israel war against Iran in the last days of 1404 - a war that lasted longer than the 12-day War - much higher M2 growth rates in the near future are plausible.

An examination of M2 components reveals that shares of Money (notes and coins with the public and sight deposits) as well as short-term deposits in M2 have been continually increasing during 1404Q3, mostly as a result of the effects of triggering of the Snapback Mechanism that led to rise in the price of USD and other commodities. Moreover, the failure of the new round of nuclear talks in the mid-1404Q4 as well as the outbreak of the new USA-Israel war against Iran might have resulted in higher share of Money and short-term deposit in M2. Precisely speaking, bearing the cyberattacks on some large Iranian banks in mind, once the new war was ignited, the depositors rushed to the banks to redeem notes from their accounts, causing the banks' resources to decrease. Given that banks' assets (loans for instance) are long-term and their liabilities (deposits for instance) are short-term, the rise in note withdrawals would result in balance sheet mismatch that forces the banks to borrow from the Central Bank. As a rough example, if 20 million depositors withdraw IRR300 million notes from their accounts in one day, IRR6,000.0 trillion of banks' sources (liabilities) equivalent to 5 percent of the total deposits would evaporate in a day. Moreover, as the prematurity withdrawal penalty is waived from long-term deposits by many banks, these sorts of deposits are M1 in nature and any partial or withdrawal from such deposits could fuel the decrease in banks' sources.

The Money (notes and coins in circulation and sight deposits), interest-free saving deposits, and short-term deposits altogether formed 57.4 percent of M2 at the end of 1404Q3. Given the rise in CPI inflation rate in 1404Q4 and further depreciation of IRR, higher shares of aforementioned

components in M2 in the remainder of the year 1404 seems plausible.

The latest CBI data suggest that the average annual growth rate of Monetary Base during the first 9 months of 1404 has been above that of the same period of 1403. This rate that opened 1404Q1 at 25.9 percent, rose to 50.1 percent at the end of the 9th month of 1404. Going over the Monetary Base components indicates that at the end of the 9th month of 1404, the Net CBI Foreign Assets rose by 14.0 percent compared to the end of 1403, constituting 32.8 percentage points of the 9-month growth rate of Monetary Base as the main factor of increase in that monetary aggregate. Reconverting this component of M0 to USD using the USD/IRR remittance exchange rate in the official market, it has changed only slightly, hence much of the rise in its IRR-denominated figure is due to the rise in the USD/IRR exchange rate for conversion. Moreover, Net CBI Claims on the Public Sector has served as another contributor to the 9-month expansion of the Monetary Base with 21.5 percentage points share. From the end of 1403 to the end of the 9th month of 1404, the CBI claims on the Public Sector expanded by 40.8 percent and the Public Sector Deposits with the CBI fell by 1.5 percent, making the Net CBI Claims on the Public Sector as a factor of increase in the Monetary Base. Taking into consideration the outbreak of the second USA-Israel war against Iran in the late 1404, further rise in the CBI claims on the Public Sector in the late 1404 and early 1405 should have occurred. The CBI Claims on banks with 8.1 percent expansion at the end of the 9th month of 1404 from the end of 1403 was the third factor of increase in Monetary Base, constituting 6.9 percentage points of the M0 growth rate in the 9-month period under discussion. Note that this M0 component also should have increased due to banks' borrowing from the CBI, driven by the surge in demand for notes as well as loan repayment defaults during the war era.

At the end of the 9th month of 1404, the CBI Net Other Assets that generally takes negative values, grew by 13.8 percent - mainly aiming for elimination of the effect of the rise in USD/IRR exchange rate used for conversion of Net Foreign Assets - from the end of 1403 to serve as the only factor of decrease in the Monetary Base during the period under discussion with negative 26.9 percentage points share in the 9-month growth rate of that monetary aggregate. At the end of the 9th month of 1404, the Balance of the Implementation of the Monetary Policy as a positive subgroup of the CBI Net Other Assets contracted by 12.0 percent from the end of 1403, translating to contractionary monetary policy of that authority during the 9-month period under discussion.

The aggregated balance sheet of the banks and non-bank credit institutions reveals that at the end of the 9th month of 1404, their Assets (Liabilities) less below the line items have grown by 27.2 percent from the end of 1403. On the Assets side, Claims on Non-public Sector, Other Assets and Foreign Assets, respectively, were the top 3

contributors to the 9-month growth rates of the Assets. Moreover, on the Liabilities side, Deposits of Non-public Sector, Other Liabilities and Foreign Liabilities were the top 3 drivers of the 9-month expansion of the Liabilities. A summary of Assets and Liabilities of the 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 09/1404			09/1404 Percentage Change Compared to	
	09/1403	12/1403	09/1404	Public Commercial	Public Specialized	Non-public	09/1403	12/1403
Assets (excluding below the line Items)	192,878.0	224,087.0	284,935.3	66,395.1	42,268.0	176,272.2	47.7	27.2
Foreign Assets	45,280.3	60,891.1	70,911.1	10,414.1	18,775.4	41,721.6	56.6	16.5
Notes and Coins	394.5	400.1	486.7	216.3	24.8	245.6	23.4	21.6
Deposits with the CBI	10,278.8	11,402.9	15,541.2	3,905.8	1,088.7	10,546.7	51.2	36.3
Claims on Public Sector	13,014.2	13,168.2	17,362.6	7,847.7	3,228.8	6,286.1	33.4	31.9
Claims on Non-public Sector	79,445.8	88,301.2	112,113.7	23,027.3	14,194.4	74,892.0	41.1	27.0
Other	44,464.4	49,923.5	68,520.0	20,983.9	4,955.9	42,580.2	54.1	37.2
Liabilities (excluding below the line Items)	192,878.0	224,087.0	284,935.3	66,395.1	42,268.0	176,272.2	47.7	27.2
Deposits of Non-public Sector	94,544.7	99,868.2	133,114.2	32,446.8	12,074.6	88,592.8	40.8	33.3
Debt to CBI	8,225.3	11,701.9	12,645.0	5,296.6	1,756.4	5,592.0	53.7	8.1
Deposits of Public Sector	733.9	867.9	1,209.5	550.9	472.1	186.5	64.8	39.4
Capital Account	4,165.3	6,904.6	10,136.1	4,002.4	1,002.5	5,131.2	143.3	46.8
Foreign Liabilities	37,906.0	49,083.3	56,850.9	8,759.6	16,250.7	31,840.6	50.0	15.8
Other	47,302.8	55,661.1	70,979.6	15,338.8	10,711.7	44,929.1	50.1	27.5

Source: Central Bank of Iran

At the end of the 9th month of 1404, the balance of extended facilities by banks and non-bank credit institutions registered IRR133,778.9 trillion, up 43.6 percent from the IRR93,157.7 trillion at the end of the same point in 1403. The balance of deposits also grew by 43.7 percent to IRR174,257.5 trillion in the same

period. Accordingly, the ratio of extended facilities to deposits less the legal reserves reached 84.2 percent at the end of the 9th month of 1404, down 0.4 percentage point from that of the same point in 1403. The balance of extended facilities and deposits of the banks at the end of the 9th month of 1404 are presented in Table 10.

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

	09/1403	09/1404	Percentage Change
Extended Facilities	93,157.7	133,778.9	43.6
Deposits	121,238.3	174,257.5	43.7
Deposits Less the Required Reserves	110,560.7	158,889.9	43.7
Ratio of Extended Facilities to Deposits Less the Required Reserves (percent)	84.6	84.2	-

Source: Central Bank of Iran

During the first 9 months of 1404, IRR74,494.0 trillion facilities has been extended to various sectors of the economy by the banking system, indicating 47.2 percent rise compared to the same period of its preceding year. Out of the total extended facilities in the period under discussion, 74.3 percent, equivalent to IRR55,380.5 trillion is attributed to the businesses (individuals and legal entities) and the remaining 25.7 percent at IRR19,113.5 trillion to the final consumers (households). Going over the extended facilities by various sectors of the economy

reveals that during the 9-month period under discussion, Industries and Mining sector had the highest share of 42.0 percent in total extended facilities to the businesses, followed by Services sector at 37.0 percent. Among the various types of extended facilities, in the same period, 82.0 percent of the extended facilities to businesses and 61.0 percent of the total extended facilities were attributed to the Working Capital. The extended facilities by the type of recipients in the first 9 months of 1404 are shown in Table 11.

Table 11. Extended Facilities by Type of Recipients in the First 9 Months of 1404 (IRR trillion-percent)

Sector of the Economy		Amount	Share in Businesses
Businesses	Agriculture	2,942.4	5.3
	Industries and Mining	23,269.0	42.0
	Housing and Construction	2,016.2	3.6
	Commerce	6,659.6	12.0
	Services	20,487.3	37.0
	Miscellaneous	6.0	0.0
All Sectors		55,380.5	74.3
Final Consumers (households)		19,113.5	25.7
Total		74,494.0	100.0

Source: Central Bank of Iran

8. FISCAL POLICY

8-1. Budget Law of 1405

The Budget Bill of 1405 (1405 Bill for short) that was delivered to the IRI Parliament in the early 1404Q4, was submitted to the Guardian Council after some amendments and was finally approved for promulgation in late 1404. Accordingly, the Sources and Uses of the Total Government Budget in the Budget Law of 1405 (1405 Law for short) stood 7.4 percent above the proposed figures of the 1405 Bill. The Total Government Budget itself, consists of Budget of State-owned Companies and General Government Budget. In comparison with 1405 Bill, in 1405 Law the Budget of State-owned Companies remained the same, hence the 18.0 percent rise in General Government Budget served as the only driver of the 7.4 percent rise in the Total Government Budget in 1405 Law. The sources of General Government Budget also consist of General Sources as well as Dedicated Revenues. The Dedicated Revenues that are collected by some governmental organizations are spent within the same organizations, i.e., they do not

come under the Treasury's control for reallocation. On the contrary, the General Sources that include General Revenues (mainly from tax and state-owned properties), Disposal of Non-financial Assets (mainly from oil exports and disposal of state-owned properties), and Disposal of Financial Assets (sales of debt securities, withdrawal from the National Development Fund, and disposal of state-owned companies) are directly in the hands of Treasury. The Treasury, on the other hand, spends these sources of budget to cover Current Expenditures (such as compensation of employees and payments to the pension funds), Acquisition of Non-financial Assets (development expenditures) and Acquisition of Financial Assets (settlement of unpaid obligations from previous years). In the 1405 Law, the General Sources and Dedicated Revenues, respectively, stand 20.3 percent and 1.9 percent above their corresponding figures in 1405 Bill. An overview of 1405 Law is presented in Table 12.

Table 12. An Overview of 1405 Budget Law (IRR trillion- percent)

	Sources					Uses					
	Law 1404	1405 Bill	Law 1405	1405 Law to Bill Percentage Change	1405 Law to 1404 Law Percentage Change	1404 Law	1405 Bill	1405 Law	1405 Law to Bill Percentage Change	1405 Law to 1404 Law Percentage Change	
General Revenues	24,464.6	34,014.6	39,509.9	16.2	61.5	Current Expenditures	33,558.6	40,174.0	48,097.0	19.7	43.3
Disposal of Non-financial Assets	9,300.0	2,751.0	2,758.0	0.3	-70.3	Acquisition of Non-financial Assets	6,006.0	6,006.0	8,186.6	36.3	36.3
Disposal of financial Assets	15,800.0	15,434.5	20,513.4	32.9	29.8	Acquisition of financial Assets	10,000.0	6,020.0	6,497.7	7.9	-35.0
General Sources	49,564.6	52,200.0	62,781.3	20.3	26.7	General Uses	49,564.6	52,200.0	62,781.3	20.3	26.7
Dedicated Revenues	4,280.0	7,340.0	7,477.6	1.9	74.7	From Dedicated Revenues	4,280.0	7,340.0	7,477.6	1.9	74.7
Sources of General Government Budget	53,844.6	59,540.0	70,258.8	18.0	30.5	Uses of General Government Budget	53,844.6	59,540.0	70,258.8	18.0	30.5
Sources of State-owned Companies	63,773.8	88,966.3	88,966.3	0.0	39.5	Uses of State-owned Companies	63,773.8	88,966.3	88,966.3	0.0	39.5
Sources of Total Government Budget	112,795.3	144,414.2	155,133.0	7.4	37.5	Uses of Total Government Budget	112,795.3	144,414.2	155,133.0	7.4	37.5

Source: Budget Bill of 1405 and Budget Laws of 1404 and 1405

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In the 1405 Law and Bill, the share of National Development Fund (NDF) in petrodollars is considered 51.0 percent, and just like in its preceding year, the government is permitted to borrow from the NDF. Accordingly, the Government is allowed to borrow 31.0 percentage points of the share of the NDF in petrodollars (3 percentage points above the allowance in the 1404 Law).

Given the assumptions used for estimation of oil revenues, the 51.0 percent share of the NDF in oil exports proceeds in the 1405 Law and Bill is estimated at EUR11.2 billion, equaling IRR9,715.4 trillion in the 1405 Bill and IRR15,942.8 trillion in the 1405 Law³. Hence, the 31 percentage points of Government borrowing from the NDF is estimated at EUR6.8

billion, equivalent to IRR5,900.0 trillion in the 1405 Bill and IRR9,678.9 trillion in the 1405 Law. The significant rise in the IRR-denominated borrowing from the NDF in the 1405 Law is rooted in the exchange rate unification that has resulted in using higher USD/IRR exchange rate (per EUR=IRR1,427.7 thousand and per USD=IRR1,229.4 thousand) for conversion of foreign proceeds into IRR. Based on the assumptions of the 1405 Law and Bill, exports of oil as well as gas condensates are considered at 1.045 mbpd at EUR46.5 per barrel. As for exports of natural gas, 16 billion cubic meters are assumed at EUR0.26 per cubic meter. The assumptions for estimation of Oil Revenues are presented in Table 13.

Table 13. Estimated Oil Revenues in 1405 Law and Bill

Assumptions	1404 Bill	1404 Law	1405 Bill	1405 Law	1405 Law to Bill Percentage Change	1405 Law to 1404 Law Percentage Change
Oil and Gas Condensates Exports (1000 barrels a day)	1,250.0	1,250.0	1,045.0	1,045.0	0.0	-16.4
Oil Price per Barrel (USD)	63.3	63.3	54.0	54.0	0.0	-14.7
Share of National Petroleum Company in Exports of Oil and Gas Condensates (percent)	14.5	14.5	14.5	15.0	3.4	3.4
Share of National Gas Company in Net Exports of Natural Gas (percent)	14.5	14.5	14.5	12.4	-14.5	-14.5
Share of NDF in Exports of Oil and Gas Condensates and Net Natural Gas Exports (percent)	48.0	48.0	51.0	51.0	0.0	6.3
Share of Government in Exports of Oil and Gas Condensates (percent)	37.5	37.5	34.5	34.0	-1.4	-9.3
Share of Government in Net Exports of Natural Gas (percent)	37.5	37.5	34.5	36.6	6.1	-2.4
USD/IRR Exchange Rate in the Budget (IRR1000)	385.0	411.8	285.0	906.2	218.0	120.1
Foreign Exchange Needed for Imports of Essential Goods at Preferential Rate (USD billion)	12.1	12.1	8.8	0.0	-100.0	-100.0
Net Exports of Natural Gas (USD billion)	5.3	5.3	4.8	4.8	0.0	-9.4
Total Revenues from Exports of Crude Oil and Gas Condensates (USD billion)	28.9	28.9	20.6	20.6	0.0	-28.7
Share of NDF in Total Revenues in Foreign Currencies (USD billion)	16.4	16.4	13.0	13.0	0.0	-21.0
Share of National Petroleum Company in Oil Exports and Domestic Sales of Feedstock (USD billion)	4.2	4.2	3.0	3.1	3.4	-26.4
Share of National Gas Company from Proceeds of Net Natural Gas Exports (USD billion)	0.8	0.8	0.7	0.6	-14.5	-25.6
Share of Government in Total Proceeds of Oil Exports (USD billion)	10.8	10.8	7.1	7.0	-1.4	-35.2
Share of Government in Total Proceeds from Net Exports of Gas (USD billion)	2.0	2.0	1.7	1.8	6.1	-12.2
Net Domestic Sales of Oil and Gas Condensates Including in the Mercantile Exchange (IRR trillion)	0.0	0.0	139.0	139.0	0.0	-
Total Oil Revenues (government share-IRR trillion)	5,090.0	5,395.0	2,633.8	8,077.0	206.7	49.7

Source: 1405 Bill and Law, 1404 Bill and Law and IRI Parliament Research Center

3. The EUR/IRR exchange rate is estimated 870.0 thousand in 1405 Bill and 1,427.7 thousand in 1405 Law

In the 1405 Bill, the share of Government in Oil Revenues (EUR7.6 billion equivalent to USD8.8 billion) was planned to be spent on imports of essential goods at a preferential exchange rate of IRR328 thousand per EUR (per USD=IRR285 thousand). However, during parliamentary review of the Bill, the Government's proposal for exchange rate unification was approved, causing the share of Government in Oil Revenues to rise to IRR8,077.0 trillion in the 1405 Law, up 206.7 percent from the proposed figure in the 1405 Bill. Note that as the Government intended to spend the difference in the Oil Revenues for direct cash subsidies to Iranian citizens in order to offset the impact of the exchange rate unification, that amount (estimated at IRR5,443.2 trillion) was included in the sources of the Targeted Subsidies Plan, which is off-budget. Also, as can be seen in Table 13, the EUR/IRR exchange rate used for conversion is 1,050 thousand (per USD=IRR906 thousand). All in all, the proposed figure of IRR2,633.8 trillion in the 1405 Bill remained unchanged in the 1405 Law, accounting for 4.2 percent of the sources of Government General Budget, 0.9 and 6.7 percentage points below the corresponding figures in the 1405 Bill and the 1404 Law, respectively.

Moreover, in the 1405 Law, IRR124.1 trillion was approved for Disposal of Government Properties and Disposal of Development Plans, 6.0 percent above the proposed figure in the 1405 Bill but far below the Budget Laws of previous years - 96.2 percent below that of 1404 Law. Given the weak realization ratio of this source of Government Budget in the first 8 months of 1404 at IRR 43.4 trillion, the reduction in the approved figure for this source in the 1405 Law could be referred to as an attempt for getting rid of overestimation of this source. All in all, the IRR2,758.0 trillion approved for Disposal of Non-financial Assets in the 1405 Law stood 0.3 percent above the proposed figure in the 1405 Bill, while 70.3 percent below the corresponding figure in the 1404 Law. The share of this source in General Sources of Budget registered 4.4 percent in the 1405 Law, 14.4 percentage points below that of the 1404 Law.

Acquisition of Non-financial Assets in the 1405 Law is 36.3 percent above that of the 1405 Bill. The share of this subgroup in General Uses in the 1405 Law registered 13.0 percent, respectively, 1.5 and 0.9 percentage points above those of the 1405 Bill and the 1404 Law. Therefore, Net Disposal of Non-financial Assets in the 1405 Law grew by 39.4 percent to IRR8,587.1 trillion compared to the proposed IRR6,159.4 trillion in the 1405 Bill. Note that contrary to its preceding years, in the 1405 Bill, Net Disposal of Non-financial Assets faced a deficit which was exacerbated in the 1405 Law as well.

The share of Tax Revenues (including customs duty) in General Sources that was proposed at 56.7 percent in the 1405 Bill fell to 53.7 percent in 1405 Law. Note that the approved figure for Tax Revenues in the 1405 Law stands 13.9 percent above the proposed figure in the 1405 Bill and the fall in its share in General Sources of the 1405 Law is attributed to the higher growth rates of other sources of Budget. In the 1405 Law, Tax Revenues stand 61.8 percent above the proposed figure in the 1405 Bill. Moreover, IRR33,726.8 trillion was approved for Tax Revenues, of which 45.3 percent belongs to Indirect Taxes (tax on goods and services and on imports) and the remaining 54.7 percent to Direct Taxes (corporate, income, and wealth taxes).

In the 1405 Law, IRR18,434.9 trillion is estimated to be obtained through Direct Taxes, indicating increases of 6.4 percent and 69.4 percent compared to the corresponding figures in the 1405 Bill and the 1404 Law, respectively. Among the components of Direct Taxes, Corporate Tax stood at IRR12,639.7 trillion in the 1405 Law to constitute 37.5 percent of total Tax Revenues. This component also grew by 6.8 percent compared to the proposed figure in the 1405 Bill and 56.1 percent compared to the approved figure of the 1404 Law. In the 1405 Law, IRR4,709.0 trillion was approved for Income Tax, up 5.6 percent and 47.6 percent, respectively, from the corresponding figures in the 1405 Bill and the 1404 Law. Moreover, Wealth Tax with a 3.2 percent share in Total Tax Revenues in the 1405 Law stands 4.9 percent and 98.9 percent above the corresponding figures in the 1405 Bill and the 1404 Law, respectively. The approved figure for this source of budget has experienced the highest expansion among components of Direct Taxes.

In the 1405 Law, IRR15,291.9 trillion was legislated for Indirect Taxes, up 24.4 percent and 69.8 percent, respectively, from the corresponding figures in the 1405 Bill and the 1404 Law. Among the components of Indirect Taxes, Tax on Goods and Services stood at IRR9,765.1 trillion, up 53.5 percent from the 1404 Law but down 2.1 percent from the 1405 Bill. As for Value-added Tax (VAT), the proposed 2-percentage point increase in its rate was rejected (the tax rate remained 10 percent) and IRR8,160.0 trillion was legislated for this source, up 19.7 percent from that of the 1405 Bill and 51.6 percent from that of the 1404 Law. Note that out of the 10 percent VAT rate, 6 percentage points (IRR8,160.0 trillion) is in hands of the Government, respectively, constituting 83.6 percent of Tax on Goods and Services and 24.2 percent of Total Tax Revenues. Moreover, IRR217.0 trillion was approved for Tax on Cigarette, up 49.8 percent from the proposed IRR144.9 trillion in the 1405 Law, accounting for 2.2 percent of Tax on Goods and Services.

Additionally, in the 1405 Law, IRR5,526.7 trillion was approved for Tax on Imports, 139.1 percent above that of the 1405 Bill, constituting 36.1 percent and 16.4 percent of Indirect Taxes and Total Tax Revenues, respectively. The 139.1 percent increase in Imports Tax in the 1405 Law is mainly attributable to a 253.6 percent expansion of Tax on Automotive Imports and addition of another IRR1,615.3 trillion from the Issuance of General Traffic Permits for free-zone vehicles through changing their license plates from free-zone to regular. These two sources together form 48.4 percent of Total Imports Tax.

Current Expenditures in the 1405 Law rose by 19.7 percent compared to the 1405 Bill to IRR48,097.0 trillion to form 76.6 percent of General Uses. Among the various subgroups of Current Expenditures, Subsidies constituted 7.0 percent of Current Expenditures at IRR3,377.5 trillion, up 90.3 percent from the corresponding figure of the 1405 Bill. Out of this figure, 84.4 percent (IRR2,850.8 trillion) is attributed to financing the deficit of Subsidies Reform Plan. In the 1405 Law, IRR3,335.7 trillion is considered for interest payments on Government Debt Securities, forming 6.9 percent of Current Expenditures. Accordingly, the Operating Balance Deficit of IRR6,159.4 trillion in the 1405 Bill rose by 39.4 percent to IRR8,587.1 trillion in the 1405 Law.

In line with the budgeting system, the imbalance of the Budget is supposed to be financed through the Disposal of Financial Assets in the 1405 Law. In that regard, the Issuance of Government Debt Securities in the 1405 Law is set at IRR10,300.0 trillion, indicating a 9.6 percent rise compared to the proposed figure in the 1405 Bill. In the 1405 Law, the share of Issuance of Government Debt

Securities in Total Disposal of Financial Assets is calculated at 50.2 percent and in General Sources at 16.4 percent - down 1.1 percentage points and up 0.1 percentage point from those of the 1404 Law, respectively. The receipts from the Disposal of the State-owned Companies in the 1405 Law are estimated at IRR500.6 trillion, up 397.6 percent from that of the 1405 Bill, but 76.7 percent below that of the 1404 Law - the 76.7 percent decline indicates an effort to eliminate overestimations in the Laws of preceding years. Moreover, IRR9,678.9 trillion - 31 percentage points of NDF's share in Petrodollars - is estimated to be withdrawn from the NDF by the Government in 1405, 64.0 percent above the proposed figure in the 1405 Bill. All in all, Disposal of Financial Assets in the 1405 Law expanded by 32.9 percent compared to the 1405 Bill and by 29.8 percent compared to the 1404 Law to IRR20,513.4 trillion with a 32.7 percent share in General Sources - 3.1 and 0.8 percentage points above those of the 1405 Bill and 1404 Law, respectively.

The proposed figure of IRR6,020.0 trillion for Acquisition of Financial Assets in the 1405 Bill was increased by 7.9 percent to IRR6,497.7 trillion in the 1405 Law, down 35.0 percent from its corresponding figure in the 1404 Law. Out of the total Acquisition of Financial Assets, IRR4,460.0 trillion is set aside for Principal Repayment of Government Debt Securities (previously issued), same as the proposed figure in the 1405 Bill but up 3.3 percent from that of the 1404 Law. In addition, IRR1,070 trillion is approved for the settlement of Unpaid Obligations from Previous Years. Accordingly, the Net Disposal of Financial Assets in the 1405 Law is estimated at IRR14,015.7 trillion, indicating a 48.9 percent increase compared to that of the 1405 Bill. Main figures of the 1405 Law are shown in Table 14.

Table 14. General Sources and Uses of Budget Law of 1405 (IRR trillion-percent)

	1405 Law	Share in General Sources in 1405 Law	1405 Law to 1405 Bill Percentage Change		1405 Law	Share in General Uses in 1405 Law	1405 Law to 1405 Bill Percentage Change
Revenues (General)	39,509.9	62.9	16.2	Expenditures (current)	40,810.0	76.6	19.7
Tax Revenues	33,726.8	53.7	13.9	Debt Securities Interest Expenses	3,335.7	5.3	-0.1
Proceeds from State-owned Properties	3,103.9	4.9	35.9	Subsidies	3,377.5	5.4	90.3
Proceeds from Sales of Goods and Services	834.5	1.3	0.2				
Proceeds from Crimes and Damage Fines and Miscellaneous	1,884.7	2.9	43.3				
Operating Balance					-8,587.1	-	39.4
Disposal of Non-financial Assets	2,758.0	4.4	0.3	Acquisition of Non-financial Assets	8,186.6	13.0	36.3
Proceeds from Crude Oil and Oil Products	2,633.8	4.2	0.0				
Proceeds from Disposal of Government Properties and Others	124.1	0.2	6.0				
Net Disposal of Non-financial Assets					-5,428.6	-	66.8
Disposal of Financial Assets	20,513.4	32.7	32.9	Acquisition of Financial Assets	6,497.7	10.3	7.9
Sales of Islamic Debt Securities	10,300.0	16.4	9.6	Related to Disposal of Stocks	50.5	0.1	0.0
Disposal of State-owned Companies	500.6	0.8	397.6	Principal Repayment of Islamic debt Securities	4,460.0	7.1	0.0
Withdrawal from NDF	9,678.9	15.4	64.0	Principal Repayment of Bank Loans	117.7	0.2	0.0
Other	33.9	0.1	0.0	Unpaid Obligations from Previous Years	1,070.7	1.7	-6.3
				Principal Repayment of Foreign Loans	248.1	0.4	0.0
				International Economic and Cultural Aids and Investments	550.7	0.9	78,571.4
Net Disposal of Financial Assets					14,015.7	-	48.9

Source: 1405 Law and Bill

8-2. Government Fiscal Performance

In the 1404 Law, IRR20,840.0 trillion was approved for Tax Revenues (including customs duty), of which 56.8 percent is attributed to Direct Tax (corporate tax, income tax, and wealth tax) and the remaining 43.2 percent to Indirect Tax (tax on goods and services and on imports). Accordingly, IRR13,893.3 trillion was considered for the first 8 months of 1404. According to the Iranian National Tax Administration (INTA) as well as the IRI Parliament Research Center, 79.2 percent of the approved figure for Tax Revenues was realized during the 8-month period under discussion. In the same period, 86.4 percent of the Direct Tax was realized. Among the components of Direct Tax, the Corporate Tax enjoyed the highest realization rate of 89.0 percent to register IRR4,807.0 trillion, 47.7 percent above that of the same period of 1403. Out of the actual Corporate Tax in the first 8 months of 1404, 86.2 percent (IRR4,146.0 trillion) is attributed to the Tax on Non-public Corporations. The

actual tax on Public Legal Entities registered IRR291.0 trillion, overshooting the target figure of 1404 Law by 16.6 percent and recording a 42.7 percent increase compared to the actual figure for the same period of 1403. This source of budget that enjoyed the highest realization rate among other subgroups, constituted 6.1 percent of the Corporate Tax during the period under discussion. In the first 8 months of 1404, 82.3 percent of the approved figure of Income Tax was realized at IRR1,751.0 trillion, indicating a 25.1 percent increase compared to the same period of 1403. Moreover, the actual Miscellaneous Income Tax registered IRR20.0 trillion (1.1 percent of the actual Income Tax), enjoying the highest realization rate of 494.0 percent among other components of Income Tax. The actual Tax on Properties formed 5.8 percent of Income Tax, equaling 94.7 percent of the approved figure in the 1404 Law in the 8-month period under review.

Recent Economic Developments in Iran

A Quarterly Report

The actual figure of IRR714.0 trillion for Tax on Private Sector employees accounted for 40.8 percent of the Income Tax with a realization rate of 93.1 percent, standing 28.6 percent above that of the same period of 1403. In the same period, 71.5 percent of the Tax on Public Sector Employees was realized at IRR310.0 trillion, constituting 17.7 percent of the Income Tax and 14.4 percent above the actual level of the same period of its preceding year. During the 8-month period under review, 74.2 percent of the approved figure for Tax on Professions was materialized, accounting for 34.6 percent of Income Tax and 21.0 percent above its actual level in the first 8 months of 1403.

In the first 8 months of 1404, 72.0 percent of the targeted Wealth Tax was realized at IRR262.0 trillion, 50.8 percent above the actual figure of the same period of 1403. In the same period, the Tax on Properties Transactions marked the highest realization ratio of 96.3 percent, followed by Tax on Goodwill Transfers at 88.6 percent, constituting 29.4 percent and 14.9 percent of the actual Wealth Tax, respectively, in the period under review. During the 8-month period under review, Tax on Goodwill Transfers stood 44.9 percent above that of the first 8 months of 1403. The actual Inheritance Tax grew by 36.4 percent compared to the first 8 months of 1403 to IRR25.0 trillion, equivalent

to 75.0 percent of the approved figure and accounting for 9.5 percent of the Wealth Tax. Furthermore, the actual Tax on Share Transfers registered IRR65.0 trillion in the same period, indicating a realization rate of 53.1 percent and an 82.6 percent increase compared to the actual figure of the first 8 months of 1403.

In the first 8 months of 1404, the actual Tax on Goods and Services stood at IRR3,500.0 trillion to cover 82.5 percent of the approved figure of the 1404 Law, 52.0 percent above the actual figure of the first 8 months of 1403. In the same period, the actual Value-added Tax (4 percentage points of the 10 percent tax rate) registered IRR1,830.0 trillion to realize 76.5 percent of its targeted figure, constituting 52.3 percent of the actual Tax on Goods and Services. As for Imports Tax, only 38.6 percent of the approved figure for the first 8 months of 1404 was realized at IRR680.0 trillion, 20.7 percent below the actual figure of the same period of 1403. Much of the fall in actual Imports Tax originates in the cease of automotive imports, which resulted in a 7 percent realization rate of this subdivision of Imports Tax, amounting to IRR79.7 trillion. Accordingly, in the first 8 months of 1404 the Imports Tax constituted 16.3 percent of Indirect Tax and 6.2 percent of Total Tax Revenues. Table 15 presents the figures associated with Tax Revenues in the first 8 months of 1404.

Table 15. Tax Revenues in the First 8 Months of 1404 (IRR trillion- percent)

	Realized in the First 8 Months of 1403	Legislated for the First 8 Months of 1404*	Realized in the First 8 Months of 1404	Point-to-point Percentage Change of the Realized	Realization Ratio in the First 8 Months of 1404	Share in Actual Tax Revenues in the First 8 Months of 1404
Tax Revenues	7,988.7	13,893.3	11,000.0	37.7	79.2	100.0
Direct Tax	4,828.9	7,890.9	6,820.0	41.2	86.4	62.0
Corporate Tax	3,254.9	5,399.2	4,807.0	47.7	89.0	43.7
Income Tax	1,400.2	2,127.6	1,715.0	25.1	82.3	15.9
Wealth Tax	173.8	364.1	262.0	50.8	72.0	2.4
Indirect Tax	3,159.9	6,002.4	4,180.0	32.3	69.6	38.0
Tax on Goods and Services	2,302.3	4,242.4	3,500.0	52.0	82.5	31.8
Imports Tax	857.6**	1,760.0	680.0	-20.7	38.6	6.2

Source: Budget Law of 1404 and the Iranian National Tax Administration

*The legislated figure for the first 8 months of 1404 is two-thirds of the legislated figure for the year 1404 as a whole.

**Estimated using the available data- actual figures of 1403H1 and the first 11 months of 1403.

In the 1404 Law, IRR8,100.0 trillion was legislated for the issuance of Government Debt Securities, up 218.1 percent from the corresponding figure in the 1403 Law at IRR254.6 trillion. However, in 1403 the actual Issuance of Government Debt Securities registered IRR5,196 trillion, far above the legislated figure in the 1403 Law. Accordingly, the approved figure of this source of budget in the 1404 Law stands 55.9 percent above the realized figure for 1403. In this regard, the CBI coupled with the Ministry of Economic Affairs and Finance started to hold weekly auctions of Government Debt Securities in both the money market and the capital market from late 1404Q1. By the end of 1404, 39 rounds of auctions were held and IRR7,650.0 trillion Government Debt Securities (with accumulated supply of IRR13,156.2 trillion) were issued. Out of this figure,

IRR1,993.1 trillion were demanded by banks and non-bank credit institutions, of which IRR1,943.5 trillion were confirmed by the Ministry of Economic Affairs and Finance. Moreover, IRR5,122.9 trillion Government Debt Securities were sold in the capital market. Accordingly, in 1404, the value of Government Debt Securities transactions in auctions stood at IRR7,066.4 trillion, 57.0 percent above the IRR4,499.7 trillion recorded in 1403. Note that out of the Government Debt Securities issued in 1404 (IRR7,650.0 trillion), 7.6 percent equivalent to IRR583.6 trillion ought to be deducted as the discount from the face value of those securities. Accordingly, in practice, the Government has raised IRR7,066.4 trillion through Issuing Debt Securities in 1404. In Table 16, the details of auctions of Government Debt Securities held by the CBI during 1404 are presented.

Table 16. Government Debt Securities Auctions Held by the CBI (IRR trillion-percent)

Month	1403					1404					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
	Supply	Banks Demand	Traded in Money Market	Traded in Capital Market	Total Traded	Supply	Banks Demand	Traded in Money Market	Traded in Capital Market	Total Traded			
02	1,048.6	11.9	10.9	10.0	20.9	0.0	0.0	0.0	0.0	0.0	-	-	-
03	1,665.2	348.1	348.1	75.4	423.5	750.0	402.1	402.1	0.0	402.1	15.5	-100.0	-5.1
04	792.9	9.8	9.8	261.9	271.7	1,785.4	565.2	565.2	174.2	739.4	5,667.3	-33.5	172.2
05	1,017.3	324.0	324.0	128.8	452.8	1,695.9	213.5	213.5	576.9	790.4	-34.1	347.8	74.6
06	807.4	70.9	70.9	231.6	302.5	1,325.6	22.8	18.8	425.1	443.9	-73.5	83.6	46.7
07	1,172.5	48.8	22.7	486.1	508.7	1,416.4	115.3	104.5	609.1	713.6	361.4	25.3	40.3
08	862.4	382.8	382.8	0.0	382.8	1,331.3	205.8	189.3	653.4	842.7	-50.5	-	120.1
09	295.9	110.6	110.6	172.9	283.5	1,178.9	34.2	21.4	731.7	753.1	-80.7	323.2	165.6
10	250.0	48.0	48.0	192.1	240.1	1,469.9	102.2	98.1	547.4	645.5	104.5	185.0	168.9
11	815.6	255.7	243.7	257.2	500.9	1,191.1	19.5	18.1	819.3	837.4	-92.6	218.5	67.2
12	1,593.6	528.7	485.7	626.6	1,112.3	1,011.7	312.9	312.9	586.2	899.1	-35.6	-6.4	-19.2
Total	10,321.4	2,139.1	2,057.1	2,442.6	4,499.7	13,156.2	1,993.1	1,943.5	5,122.9	7,066.4	-5.5	109.7	57.0

Source: Central Bank of Iran

In addition to auctions, the Government can also issue 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 for their claims. Given that in 1404 only IRR1,170.0 trillion of debt securities

were disposed of through the second method, during the period under review, IRR8,820.0 trillion Government Debt Securities have been issued in total, 70.3 percent above that of 1403. Note that due to the outbreak of USA-Israel war against Iran in late 1404, only one round of auction was held from the beginning of the War till the end of the year.

9. CAPITAL MARKET

9-1. Rate of Return

In 1404Q4, the Iranian capital market was grappling with various issues that were rooted in severe economic and political circumstances. On the 29th day of that quarter, the TSE Overall Index reached its historical high of 4.491 million. In 1404Q3, the Iranian capital market turned bullish as rising exchange rates boosted the profitability of many listed companies. Precisely speaking, as the pricing of the products of some key listed companies (especially export-oriented and basic industries) is based on the USD price, any rise in that price results in higher price of the products in IRR and accordingly more profitability of the listed companies, even when the level of production remains constant. An examination of the Iranian capital market indices reveals that the price-to-earnings ratio (P/E) fell to 4.80 and 4.99, respectively, in the last 2 months of 1404Q2 - the lowest values since 1396. This fall in the P/E ratio, which potentially heralds a bull market, made the Iranian capital market highly appealing to investors in 1404Q3 and the net inflow of private capital to the Stock market and Stock Funds registered IRR185 trillion during that quarter, unlike the severe outflows during 1404H1. All in all, the change in investors' behavior towards the capital market caused the TSE and OTC Overall Indices to expand by 53.5 percent and 37.7 percent, respectively, at the end of 1404Q3 compared to the end of its preceding quarter. Moreover, the Leveraged Funds yielded 99.8 percent during 1404Q3.

This bullish market continued into the first month of 1404Q4 and the TSE Overall Index rose to above 4 million in that month. Note that this expansion was mainly rooted in the remarkable rise in the official exchange rates that caused the income of the export-oriented listed companies to climb. Hence, the daily average value of retail transactions of the Stock market reached record of IRR231 trillion, the highest value during the year 1404. Due to the period of unrest that intensified from the 18th day of 1404Q4 coupled with internet blackout and rise in the likelihood of outbreak of another war, the TSE Overall Index started to fall and closed the second month of 1404Q4 with

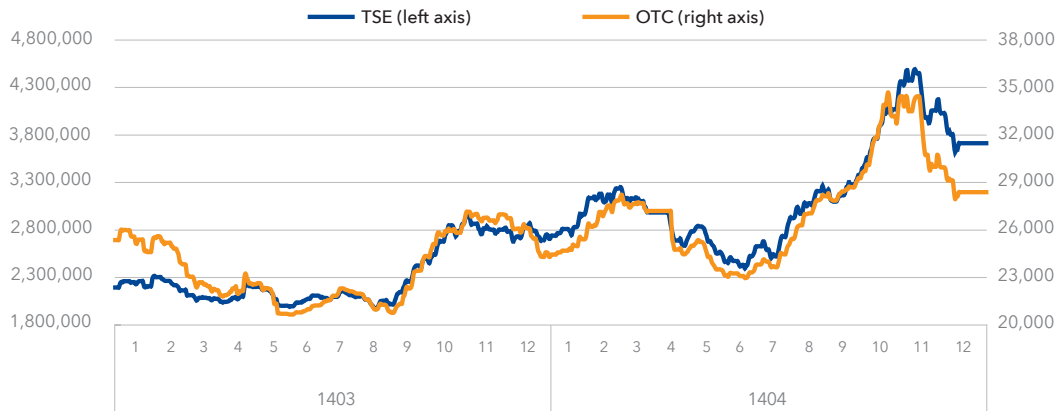
15 percent monthly contraction. The political circumstances were such severe that the TSE Overall Index experienced its highest weekly contraction of 10.5 percent in the 5th week of 1404Q4 from mid-1399Q2. The failure of the new rounds of nuclear talks in mid-1404Q4 also fueled the uncertainty in the Iranian capital market. A historical review of the Iranian capital market reveals that in such states of the market, the investors react more to political news than the fundamental variables, i.e., the contradictory news regarding nuclear talks caused the investors to act more prudently. For instance, the average value of retail transactions contracted by 51.0 percent at the end of the second month of 1404Q2 compared to the end of its preceding month and also IRR235 trillion of private capital outflow took place. Accordingly, among various types of investments, the TSE was the worst in terms of rate of return. The return rate of the Government Debt Securities could be also referred to as another driver of the Iranian capital market developments in 1404Q4. This rate that was around 34 percent in the beginning of 1404, rose to above 40 percent in the second month of 1404Q4, signaling upward inflationary expectations, given its low of 14 percent in the last month of 1399Q1. Moreover, as Government Debt Securities are known as risk-free asset, their rate of return serves as a benchmark for investors preferences. In other words, higher return of that risk-free asset makes investment in the stock market costly as the investors demand higher return in proportion to higher risks that they take.

The second attack of USA-Israel on Iran that was ignited on Feb 28, 2026 exerted a considerable risk on the Iranian capital market that caused that market to complete closure. However, after a couple of days, the transactions in Fixed-income Mutual Funds as well as Mercantile Funds were resumed. The TSE and OTC Overall Indices, eventually closed the year 1404 with respective monthly contractions of 4.7 percent and 12.9 percent, while annual expansions of 37.0 percent and 16.8 percent.

Accordingly, the Iranian capital market yielded lower returns than other investment types and even below the CPI inflation rate in the period under review. Note that in order to avoid negative returns, the capital market remained closed in the remainder of the year 1404. Given

the consequences of the War and damaged infrastructure of the country, sell walls in the stock market are very likely to form once the market reopens in 1405. The daily developments of TSE and OTC Overall Indices in 1403 and 1404 are shown in Graph 8.

Graph 8. TSE and OTC Overall Indices



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

In the year ended the last day of 1404Q4, among the various types of investments shown in Table 17, 18-Karat Gold ranked first with 123.7 percent rate of return in terms of IRR. From a quarterly viewpoint, during 1404Q4 the Gold Funds (weighted average) enjoyed the highest return rate of 34.3 percent. Consequently, as usual, gold has served as the safest and most appealing destination for retail investors

during uncertainty eras. All in all, during 1404Q4, the TSE and OTC have yielded less than other investment types. Yet, in annual terms, in the year ended the last day of 1404Q4, the aforementioned markets incurred negative real rates of return. Accordingly, unlike the market boom in 1404Q3, over a one-year horizon (1404 as a whole) the investors in the capital market have incurred capital loss in real terms.

Table 17. Quarterly and Annual Returns of Various Investment Types (in IRR) at the End of 1404Q4 (percent)

	Quarterly Return (End of 1404Q4 to End of 1404Q3)	Annual Return (End of 1404Q4 to End of 1403Q4)
Gold Funds (weighted average)	34.3	121.1
Gold Coin	33.8	97.9
18-Karat Gold	29.5	123.7
Consumer Price Index (CPI)	24.6	71.8
USD in the Free market	21.4	62.9
Fixed Income Funds (weighted average)	7.9	33.9
TSE Overall Index	-4.7	37.0
OTC Overall Index	-12.9	16.8

Source: <http://new.tse.ir>; Statistical Center of Iran; Financial Information Processing of Iran; Gold, Coin, and Currency Information Network; Donye-e-eqtasad economic daily

9-2. OTC Market Capitalization and Value of Transactions

On the basis of the OTC statistics, on the last day of 1404, the OTC market capitalization stood at IRR36,605 trillion, up 28.0 percent from that of the end of 1403, while 2.8 percent below that of the last day of its preceding quarter. The value of OTC transactions in 1404Q4 registered IRR134,509 trillion and despite the market closure in the final days of the year, stood 12.3 percent above the average of the first 3 quarters of 1404. From an annual perspective, the total value

of OTC transactions grew by 95.2 percent in 1404 compared to 1403. The debt market constituted 32.6 percent of the OTC market capitalization at the end of 1404 and 98.8 percent of the value of the OTC transactions. This notable 98.8 percent share, however, is attributed to the implementation of monetary policy by the CBI and the banks in conjunction with the appealing rate of return of Government Debt Securities in comparison with the stock market.

10. OTHER DEVELOPMENTS

The global economy faced an unprecedented energy shock due to the closure of the Strait of Hormuz, shortly after the outbreak of the USA-Israel war against Iran on Feb 28, 2026. On the basis of the US Energy Information Administration (EIA), 20.9 million barrels of oil on average were transported through the Strait per day, equaling about 20 percent of the global consumption of oil liquids and 25 percent of the global maritime oil trade. Hence, the closure of the Strait suddenly disrupted a large portion of the energy supply, causing global oil prices to surpass USD100 per barrel.

The oil supply crisis due to the Strait closure could not be addressed easily as the available pipelines in the region are not capable of transferring enough oil to cover the supply deficit. Technically speaking, Saudi Arabia and UAE together are capable of transferring 4.7 million barrel a day through their pipelines to exports destinations, far below the 20.9 million barrels of the pre-war era. Meantime, the Iranian economy experienced an exceptional situation: while oil exports of the Arab states of the Persian Gulf ceased, Iran was exporting its oil effortlessly and in larger volumes compared to the pre-war era. The impact of the closure of Strait of Hormuz on oil-importing countries is highly disproportionate, with the largest Asian economies suffering the most. The EIA estimates that by 2025H1, approximately 89 percent of the transported crude oil and gas condensates from Strait of Hormuz was destined for Asian markets. China, India, Japan, and South Korea as the main destinations accounted for 74 percent of the total exported oil and gas condensates to the Asian markets. In contrast, the US oil imports through the Strait registered 0.4 mbpd this time period, equivalent to 7.0 percent of the country's crude oil and gas condensates imports and only 2.0 percent of its oil liquids consumption. Yet, although the US has been less affected by the physical shortage of oil, it has been severely affected by the price shock through global inflation caused by price spikes and disruptions in the supply chains of its Asian trading partners. This crisis was not limited to the oil market, but also affected the global natural gas market. In 2025H1, 11.4 billion cubic

feet of liquefied natural gas (LNG) passed through the Strait of Hormuz, accounting for more than 20 percent of global natural gas trade. This huge volume of natural gas - mainly exported from Qatar - was trapped in the Persian Gulf during the USA-Israel war against Iran and could not be transported to energy-hungry markets. Given that approximately one-third of this natural gas was destined for the Chinese market, the simultaneous shortage of oil and natural gas exacerbated the energy crisis in Asia.

Even though Iran benefited from the closure of the Strait of Hormuz during the War, it suffered from considerable damage as well. During the War, Israel in collaboration with the USA caused serious damage to infrastructures including petrochemical plants, refineries, large steel complexes, energy-related industrial centers, transportation infrastructure, ports, and fuel networks. Given the significant share of the aforementioned sectors in the Iranian economy, an unprecedented shock would be exerted on the real sector of the country's economy. Physical damage to these industries - which bear a major portion of the country's non-oil export burden and foreign exchange supply - implies a halt in production in downstream chains and a sharp drop in revenues for the public and private sectors.

The devastation in these industries will create an urgent need for reconstruction and working capital. Note that since the damaged industries have lost their ability to self-finance, additional pressure will be placed on the country's banking system. Precisely speaking, this new demand for facilities would be added to the significant volume of previously extended facilities that would probably not be repaid on time. Accordingly, the banks would be left with no choice but to borrow from the CBI, resulting in a rapid increase in CBI Claims on Banks. In addition, further Government Debt to the CBI for financing the War is very likely. All in all, these developments expose Iran's economy to much more severe inflation than in the past. However, the ultimate consequences of this economic crisis depend directly on the outcome of the War and the political outlook that follows.

In the first scenario, it is assumed that the War ends without any kind of collective agreement between Iran, the USA and Israel. Under such conditions, Iran's economy is faced with a huge volume of destroyed strategic industries and companies - some of which were established decades ago and even before the 1979 revolution. Hence, their reconstruction requires significant investments. Since no broad agreement is reached in this scenario and sanctions remain in place, attracting foreign investment and technologies is not likely, and as a result, the financial burden of rebuilding the industries will inevitably fall on the banking system, resulting in further borrowing from the CBI and subsequently more money creation, rampant inflation, and imbalanced banks.

Destruction of the revenue-generating infrastructure of large steel and petrochemical companies renders them incapable of repaying their loan installments. This causes the non-performing loans and doubtful receivables of banks to increase sharply, freezing a notable portion of the banks' assets. Since collaterals taken by the banks also lose their liquidity during wartime and the subsequent recession, banks cannot cover their losses by seizing them. Given the loan default of large debtors, banks would firstly flood the interbank market to finance their liquidity needs and respond to depositors' needs. This demand will severely inflame interbank interest rates. Ultimately, the banks would be left with no choice but to borrow directly from the CBI to avoid shutdown. This process would

weaken the banking health indicators such as the capital adequacy ratio to the lowest possible level, making banks into inflation-creating machines. All in all, the outcomes of this pessimistic scenario would include historic jumps in exchange rates and remarkably large GDP contractions. In the second scenario, a completely different outlook for the Iranian economy is envisaged. If the War concludes with a comprehensive political and diplomatic agreement, the path will be paved for lifting of economic sanctions. In this case, the lifting of financial, trade, and oil sanctions would allow the Iranian economy to reconnect to the global banking network and international markets, resulting in access to foreign financial resources, direct investment from other countries, and the release of blocked assets. In this optimistic scenario, there would be no need for borrowing from the CBI, as the inflow of foreign proceeds from oil exports and foreign investments allows policymakers to finance reconstruction projects, moderate inflation expectations, and stabilize the exchange rate within a reasonable range. Ultimately, by bringing the steel and petrochemical industries back into production, GDP expansions would be achievable in the medium term.

Other than these scenarios that are probably extreme cases, other scenarios might exist whose likelihood is uncertain. This uncertainty, along with unpredictability, is itself one of the greatest challenges that the Iranian economy is currently dealing with.

KEY POINTS

- The USA-Israel war against Iran that started on Feb 28, 2026 changed the balance of power in the Middle East and casted doubt on the future ecopolitical relations between Iran and the Arab states of the Persian Gulf, especially the UAE. Meantime, UAE may lose part of its share in financial interactions with Iran in favor of Turkey given the moderate stance of Turkey towards the War.
- On the basis of the SCI report, the GDP growth rate in the first 9 months of 1404 is estimated 1.0 percent, mainly thanks to the expansion of "Industries and Mining" as well as "Services". In the same period, "Agriculture" with 3.0 percent contraction served as a factor of decrease in GDP growth rate.
- In Jan and Feb 2026, (roughly corresponding to the 10th and 11th months of 1404) Iran's oil exports averaged 1.5 million and 2.2 million barrels a day, respectively, up 16.8 percent and 29.0 percent above those of the same months in 2025. The average daily oil production of Iran registered 3.2 mbpd in Feb 2026 (roughly corresponding to 11th month of 1404), indicating 4.4 percent monthly contraction. In Mar 2026, the global oil prices hiked up to USD118 per barrel due to closure of Hormuz Strait, preparing ground for higher oil revenues for Iran.
- The unemployment rate of the population aged 15 and above reached 7.8 percent in 1404Q3, indicating 0.6 percentage point rise from the same quarter of its preceding year. In the same quarter, the unemployment rate of the highly-educated population improved by 0.4 percentage point to register 10.7 percent, causing the 39.2 percent share of this group in total unemployed population in 1403Q3 to fall by 3.9 percentage points in 1404Q3.
- The upward path of the CPI inflation rates steepened in 1404Q4 and the annual and point-to-point CPI inflation rates, respectively, closed the year 1404 at 50.6 percent and 71.8 percent. Among the major groups of the consumption basket of goods and services, in the last 2 months of 1404Q4, "Foods and Beverages" experienced 3-digit inflation rates, translating to considerable social welfare loss, especially among low-income groups.
- In 1404H1, the BOP registered USD1.010 billion, below the USD1.513 billion in 1403H1. During 1404H1, the Current Account surplus rose by 7.2 percent to USD11.6 billion, mainly due to the fall in Non-oil Balance deficit to USD11.9 billion. Moreover, the net deficit of the Capital Account rose to USD14.9 billion from USD12.4 billion. As for errors and omissions, this BOP element rose by 37.7 percent to USD4.301 billion in 1404H1, signaling more ambiguity in BOP reporting than before.
- In 1404Q4, the Iranian FX market was highly volatile due to various political circumstances. The USD price in the free market rose by 21.0 percent between the first and last day of that quarter, while on average, stood 35.3 percent above that of 1404Q3 and up 79.5 percent from that of 1403Q4. Given the insufficient foreign reserves, the so-called exchange rate unification policy again failed.
- The accommodative approach of CBI towards banks regarding making loans in the aftermath of the 12-Day War is referred to as the major driver of the rise in M2 monthly growth rate in 1404 which is very likely to maintain in the post second -War era in a larger extent. The M2 monthly growth rate averaged 3.2 percent in the first 9 months of 1404, above that of the same period of 1403. The upward path of M0 in 1404Q3 is also expected to have continued in the remainder of the year 1404 and 1405Q1 due to the increased likelihood of the rise in CBI Claims on banks as well as the public sector as consequences of the second War.
- In 1405 Budget Law, IRR155,133 trillion is approved for The Total Budget of Government, 7.4 percent above the proposed figure of 1405 Budget Bill. Nevertheless, the approved figure for General Sources (Uses) experienced the highest rise of 20.3 percent from that of the Bill. Accordingly, the Operating Balance Deficit reached IRR8,587 trillion, indicating that much of the Current Expenditures could not be covered via General Revenues.

- In the first 8 months of 1404, 79.2 percent of the targeted Tax Revenues (including customs duty) was realized at IRR11,000 trillion, of which 38.0 percent was attributed to Indirect Tax and the remaining 62.0 percent to Direct Tax.
- In 1404, the Government issued IRR7,650 trillion Debt Securities and given the discount in their face value, in fact IRR7,066 trillion was financed through selling those securities through the auctions held by the CBI.
- Contrary to other asset markets, in 1404Q4 the Iranian capital market yielded lower returns, 4.7 percent and 12.9 percent contractions, respectively, in TSE and OTC Overall Indices. Moreover, the notable rise in the rate of return of Government Debt

Securities, damaged infrastructures and decrease in the liquidity of the Iranian capital market altogether, might result in capital outflow from the market and further loss.

- The closure of the Strait of Hormuz in the early months of 2026 caused one of the biggest energy supply shocks in decades - the Strait that before the crisis carried about 20.9 million barrels of oil per day (nearly 20 percent of global consumption and about a quarter of seaborne oil trade) as well as 11.4 billion cubic feet of liquefied natural gas (LNG). The severe restriction of alternative routes, which have a capacity of only about 4.7 mbpd, caused oil prices to jump to more than USD100 per barrel and triggered an energy crisis, especially in Asian economies, as about 89.0 percent of the oil passing through the Strait of Hormuz was exported to Asia.



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