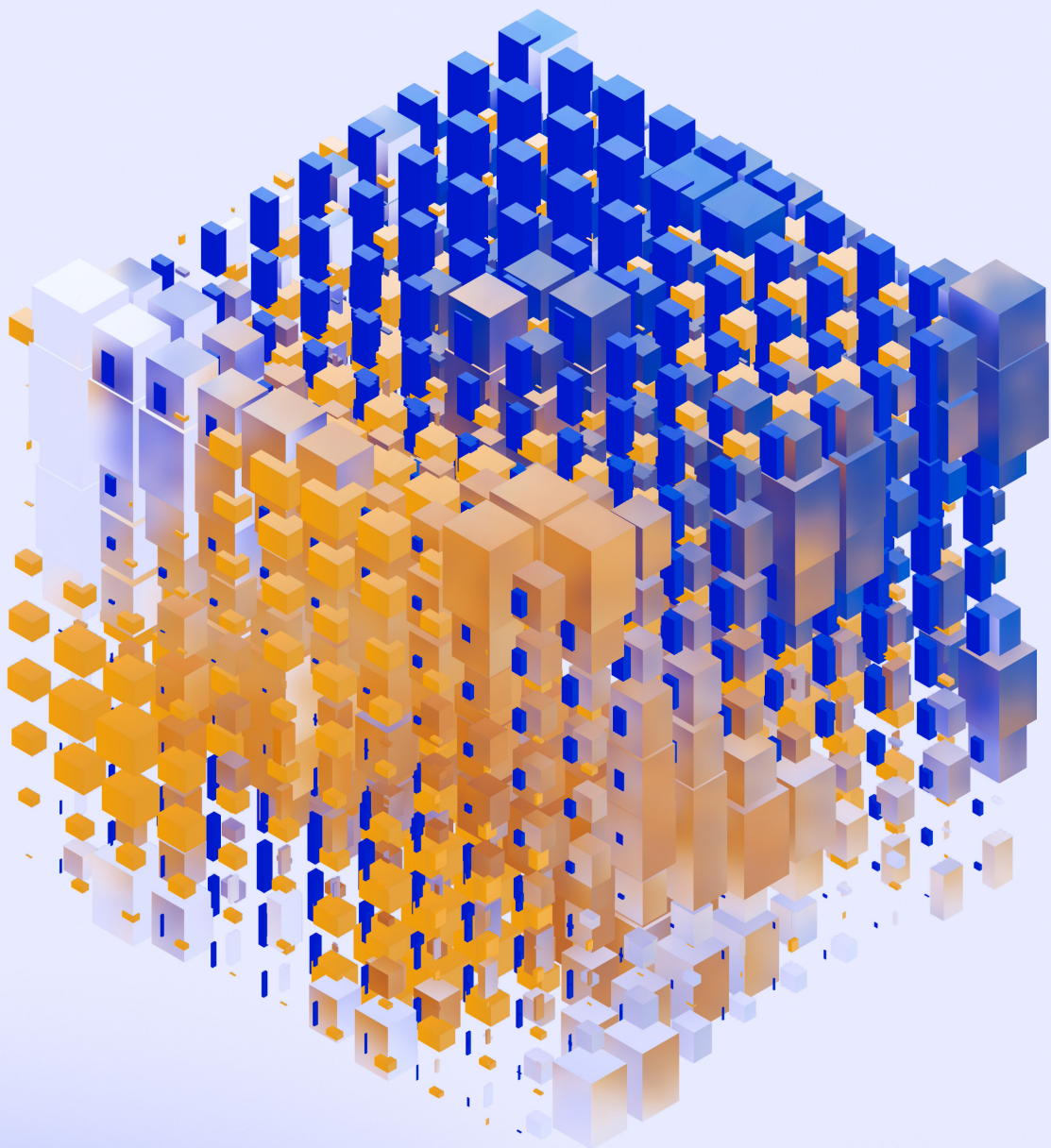




ANNUAL SURVEY OF **THE IRANIAN ECONOMY**

1402 (2023/24)



بانک خاورمیانه
Middle East Bank



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Annual Survey of the Iranian Economy 1402 (2023/24)

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Note:

- In this Report the growth rate of a variable means the percentage change of that variable during the period under review, or at the point under discussion, compared to the similar period or point the preceding year. As such, "the growth rate of oil revenues in the first quarter of 1402" indicates the percentage change in oil revenues between the first quarter of 1401 and the first quarter of 1402.
- Iran follows the Persian Calendar, a solar calendar in which years start on the first day of spring and end on the last day of winter. The four quarters of the year correspond exactly to the four seasons. This report covers the year 1402 that started on March 21, 2023, and ends on March 20, 2024. The first quarter of 1402, Spring of 1402, roughly corresponds to the Second quarter of 2023 in the Gregorian Calendar.
- The following table provides an easy reference while reading this Report.
Spring 1402 = 03/21/2023 - 06/21/2023
Summer 1402 = 06/22/2023 - 09/22/2023
Fall 1402 = 09/23/2023 - 12/21/2023
Winter 1402 = 12/22/2023 - 03/19/2024

EXECUTIVE SUMMARY

The Iranian economy has continually experienced positive growth rates from the year 1399 onwards, offsetting the GDP contractions during the 1390s. In 1402, the GDP at constant 1395 prices stood 18.2 percent above that in 1390. Taking into consideration the data on GDP in the early and late years of the 12-year period from 1390 to 1402, the average annual GDP growth rate is calculated 1.4 percent. It is worth to mention that during the period under review, the population of Iran grew by 10 million, therefore the real GDP per capita (at constant 1395 prices) in the same 12-year period has grown by 4 percent only.

On the basis of the preliminary estimates of the Central Bank of Iran (CBI), the GDP registered IRR139,243 trillion in 1402 at current prices, indicating 4.5 percent economic growth rate at constant 1395 prices. The Services, Oil and Gas, and Industries and Mining sectors contributed to the GDP growth rate of 1402, by 2.2, 1.2, and 1.1 percentage points, respectively, while the Agriculture sector was absent in that regard. Among the major sectors of the economy, the Oil and Gas has experienced the highest expansion of 14.7 percent in 1402 at constant prices. This sector had also experienced considerable growth rates of about 10 percent from 1399 to 1401. Although no official data was issued about loosening of the Iran sanctions, the unofficial sources suggested that from the second half of 1399 (hereafter referred to as 1399H2) that the new US Administration took office, the oil exports of Iran has surged. In 1402, the Agriculture sector also grew but by 0.2 percent only.

An examination of the GDP from the expenditure side indicated that the downward trend of the Private Final Consumption Expenditures at constant prices has reversed course from 1400 onwards and has grown by 4.1 percent in 1402. On the contrary, the Government Final Consumption Expenditures contracted by 1.7 percent in 1402 at constant prices. In line with the expansion of the Oil sector, the Gross Fixed Capital Formation grew by 7.2 percent in 1402, however, the level of investment in Iran at constant prices in 1402 is far below that in the early 1390s.

On the basis of OPEC reports from the secondary sources, the Iranian crude oil production that was hovering around 3.8 million barrels per day (mbpd) in the first half of 2018, started to diminish in the second half of that year and in the aftermath of the imposition of new US sanctions plummeted to 1.9 mbpd till the second half of 2020. Accordingly, after the new US sanctions were imposed, the oil production of

Iran dropped to a level below the Iran's oil exports in the JCPOA¹ era. The oil production of Iran gradually started to increase after the inauguration of the new US President and in the late 1402 (corresponding to March 2024) surged to 3.2 mbpd. The price of heavy crude oil of Iran that had collapsed to US17 a barrel in the early 1399 due to the COVID-19 pandemic, gradually increased in the late 1400, especially following Russia invasion of Ukraine and averaged USD99.9 a barrel throughout 2022. In line with the fall in global oil prices, the price of Iran's heavy crude oil averaged USD82.4 a barrel in 2023, 17.5 percent below that of 2022. The price of Iran's crude oil registered USD83.5 in the last month of 1402.

On the basis of the Statistical Center of Iran (SCI), the unemployment rate fell by 0.9 percentage point in 1402 compared to 1401, registering 8.1 percent. The participation rate also grew by 0.4 percentage point from 1401 and reached 41.3 percent in 1402. Other labor market indices including employment ratio (number of employed to the total working age population) and the unemployment rate of population with higher education showed improvement in 1402.

The Government General Budget in the Budget Law of 1402 was approved IRR22,634 trillion, showing 48.2 percent rise compared to that of 1401 Budget Law. Moreover, the Budget of State-owned Companies, Banks, and Profit Institutions affiliated to the Government was legislated IRR28,839 trillion in the Budget Law of 1402, up 29.2 percent from that in the Budget Law of 1401. It is estimated that in 1402, IRR21,040 trillion of Government General Sources and Uses have been realized, far close to the legislated figure of the Budget Law of the corresponding year. In the same period, General Revenues (tax revenues, customs revenues, and other general revenues of the Government) registered IRR10,877.8 trillion, indicating that 103.2 percent of the legislated figure in the Budget

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

Law is realized. Given the 107.0 percent realization of Government Current Expenditures at IRR16,150.0 trillion in the same period, the Operating Balance Deficit in 1402 reached IRR5,272.2 trillion. Moreover, the Disposal of Non-financial Assets grew by 25.1 percent and from IRR4,193.7 trillion in 1401 rose to IRR5,264.2 trillion in 1402, equivalent to 71.6 percent of the approved figure in the Budget Law of 1402. The Acquisition of Non-financial Assets (development expenditures), on the other hand realized 79.2 percent of the legislated figure of the Budget Law of 1402 at IRR2,970.0 trillion. Hence, the Net Disposal of Non-financial Assets had a surplus of IRR2,276.2 trillion in 1402.

The actual Disposal of Financial Assets in 1402 stood 66.1 percent above the approved figure at IRR4,916.0 trillion, out of which 58.3 percent is related to the issuance of Government Debt Securities. On the other hand, Acquisition of Financial Assets in the same year registered IRR1,920.0 trillion, of which 88.0 percent is attributed to the principal repayment of the matured Government Debt Securities. Therefore, the Net Disposal of Financial Assets in 1402 reached IRR2,996.0 trillion, equaling 14.2 percent of the General Sources and Uses in practice. In order to finance the Government General Budget through issuance of Government Debt Securities, the CBI held 33 rounds of auctions in collaboration with the Ministry of Economic Affairs and Finance in 1402. The accumulated supplied Government Debt Securities registered IRR5,683.1 trillion, of which IRR412.8 trillion was demanded by banks and non-bank credit institutions and the Ministry of Economic Affairs and Finance approved IRR341.4 trillion of that. Moreover, IRR1,209.8 trillion of supplied Government Debt Securities in auctions was sold in the capital market. Accordingly, in 1402 the traded Government Debt Securities through auctions reached IRR1,551.1 trillion, 50.5 percent above that in 1401. On the other hand, according to the Ministry of Economic Affairs and Finance, IRR901.1 trillion Government Debt Securities was purchased by banks and non-bank credit institutions in 1402 that is far different from the figures reported by the CBI in that regard. This difference indicated that the banks have purchased IRR559.6 trillion Government debt Securities indirectly from the capital market rather than the money market, accounting for 58.1 percent of the total Government Debt Securities purchased in 1402.

As for the Balance of Payments, the Current Account Surplus dropped to USD10.3 billion in 1402, 27.5 percent below the USD14.2 billion of 1401, while the Capital Account Deficit

grew by 54.2 percent to USD23.2 billion in the same period. Despite the notable rise in the Capital Account Deficit in 1402, the foreign reserves of the country experienced USD1.9 billion rise as the errors and omissions tripled in the period under review.

The price of the US Dollar in the Iranian free market opened the first trading day of 1402 at IRR515 thousand and in about one month rose to IRR552 thousand, however it did not last long and the USD/IRR exchange rate fell to 470 thousand at the end of spring 1402. The free-market USD/IRR exchange rate did not experience much change in summer and fall 1402 and eventually closed fall 1402 at 499.8 thousand. In winter 1402 as in winter 1401, the Iranian foreign exchange market faced an upward shock and at the end of 1402 the USD appreciated by 28 percent against IRR compared to the end of 1401. All in all, the free-market USD/IRR exchange rate in 1402 was not as volatile as in 1401. Note that the War in Gaza Strip that was ignited in 1402H2 was also referred to as an international factor that contributed to the volatility of the Iranian foreign exchange market.

The liquidity closed the year 1402 at IRR78,774.5 trillion. The annual growth rate of this monetary aggregate that had registered 39.0 percent in 1400, followed a downward path to reach 31.1 percent at the end of 1401 and 24.3 at the end of 1402. The fall in the annual growth rate of the liquidity is attributable to the CBI macroprudential policy, implemented from 1400. The monthly developments of liquidity reveals that this monetary aggregate has grown by 1.8 percent on average a month, below the monthly cap for the growth rate of banks' assets. Regarding the extended facilities, IRR56,460.3 trillion facilities has been extended in 1402, above the IRR11,193.1 trillion of 1401, indicating that this variable has grown by 24.7 percent which complies with the decreed growth rate of banks' assets. An examination of the liquidity by its components reveals that short-term deposits, interest-free saving deposits, and sight deposits constituted 53.4 percent of the liquidity at the end of 1402, down 4 percentage points from that in the same point of 1401. The figure 53.4 percent which is remarkably large, conveys that the depositors have been reluctant to invest their funds in long-term deposits and their decision making has been on a short-term basis.

The monetary base reached IRR10,906.3 trillion at the end of 1402, indicating 27.6 percent expansion from the end of 1401 which is far below the annual growth rate of 42.9 percent at the end of 1401. Also, the higher growth rate of

monetary base than that of the liquidity has resulted in the 2.6 percent drop in the M2 money multiplier in 1402 compared to 1401 (from 7.41 to 7.22). Moreover, the CBI revised the components of the monetary base aiming for enhancement of accuracy and quality of the data in that regard.

A historical examination of the developments of Consumer Price Index (CPI) inflation rate suggests that the Iranian economy has suffered from Chronic Inflation during the past half a century. The data on the CPI inflation rate was previously issued by both the CBI and the SCI, but from 1401 the SCI was the only issuing authority of the CPI inflation rate and the data issued by the CBI is released by unofficial sources. On the basis of the SCI, the annual CPI inflation rate (1400=100) followed a different trend from the beginning of 1402 compared to 1401 and closed the year at 40.7 percent. On the basis of some unofficial sources, the annual CPI inflation rate of 1402 registered 52.3 percent based on the CBI, far above the corresponding rate reported by the SCI for the same year.

The Tehran Stock Exchange (TSE) overall index and equally weighted index grew by 12.0 percent and 26.9 percent, respectively, during 1402. The TSE market capitalization rose by 5.6 percent to IRR79,408 trillion at the end of 1402 compared to the end of 1401, of which 95.9 percent was attributed to the stock market. Furthermore, the total value of TSE transactions in 1402 expanded by 42.4 percent from 1401, consistent with the annual inflation rate. The value of shares transactions, exchange-traded funds, debt securities, and finally derivatives climbed by 32.5 percent, 66.8 percent, 14.3 percent, and 248.2 percent, respectively, throughout 1402. The TSE listed companies financed IRR2,869.3 trillion in 1402, up 5.1 percent from that of 1401. Out of the financed amount, 87.0 percent was attributed to raising capital

(excluding asset revaluation), and 0.5 percent to the Initial Public Offering (IPO) only. In the Over the Counter (OTC), on the other hand, IRR3,758.6 trillion was financed during 1402, indicating 52.0 percent rise from 1401. Out of this amount, 65.0 percent belonged to underwriting (including Government Murabaha Securities) and 19.5 percent to the Islamic Treasury Bonds. Unlike the TSE listed companies, raising capital (excluding asset revaluation) with 12.8 percent had the lowest share in financing through OTC in 1402, preceded by IPO with 2.6 percent share in total. During 1402, four newly listed companies carried out IPO in the TSE and 16 in the OTC. All in all, in 1402 the capital market accounted for 12.6 percent of the total finance in the Iranian economy and the money market for the remaining 87.4 percent, translating to dominant role of the latter in the Iranian economy.

Some international institutions assess the economic freedom of the countries annually - Fraser Institute and Heritage Foundation are as such. The latest report of Fraser Institute issued in 2023 investigated economic freedom of 165 countries in 2021 and descending by one place, Iran ranked as 160th. Among the countries in that survey, only Yemen, Sudan, Syria, Zimbabwe, and Venezuela were worse than Iran. Furthermore, in the Heritage Foundation report of 2024, Iran stood at 169th place among 176 countries under survey, just like its place in 2023, followed by Eritrea, Brunei, Zimbabwe, Sudan, Venezuela, Cuba, and North Korea. In addition to the international institutions, Iran Chamber of Commerce, Industries, Mines & Agriculture also evaluates the business environment in Iran. According to the survey held by this domestic organization, the National Index of Business Environment registered 6.04 in winter 1402, translating to better business environment compared to 6.11 in winter 1401. The index lies between 0 to 10 and the value of 10 is translated to the worst state of business environment.

1. REAL SECTOR

The Iranian economy surprisingly registered a remarkable 4.5 percent growth rate in 1402 in presence of the US economic sanctions, increasing budget deficit, highly-volatile foreign exchange market, uncertainty in various sectors, imbalance banks, vague regulations, and government interventions in the markets. Precisely speaking, from 1399 onwards the Iranian economy has continuously registered positive growth rates, hence the GDP contraction of the 1390s has been offset and caused the GDP of 1402 at constant 1395 prices to stand 18.2 percent above that of 1390. Taking into consideration the GDP statistics in 1390 and 1402, the annual average GDP growth rate is calculated 1.4 percent in the 12-year period under discussion. Note that 10 million has been also added to the population of Iran from 1390 to 1402, hence the real GDP per capita -at constant 1395 prices - has expanded by 4 percent only.

The preliminary estimates of the CBI indicate that in 1402, the nominal GDP reached IRR139,243 trillion, translating to 4.5 percent economic growth rate at constant 1395 prices. The 0.8 percentage point share of Oil sector in the GDP growth rates of 1400 and 1401, rose to 1.2 percentage points in 1402, hence a quarter of the 4.5 percent GDP growth rate has been obtained thanks to the 14.7 percent expansion of that sector in the same year. Furthermore,

the non-oil GDP growth rate for the same year registered 3.6 percent. Although no official data is issued regarding loosening of US sanctions on Iran, on the basis of some unofficial sources, from the mid-1399 onwards and in conjunction with the new US Administration, the Iranian oil exports has remarkably risen. Table 1 presents the details of GDP growth rate in recent years by various sectors of the economy.

Table 1. Growth Rates of GDP by Its Sectors at Constant 1395 Prices with Their Share in GDP at Current Prices (percent)

	1402	1401	1400	1399	1398	1397	Share in GDP Growth Rate in 1402 (percentage point)	Share in Nominal GDP in 1402
Agriculture	0.2	1.1	-2.6	3.2	9.1	-2.3	0.0	13.2
Oil and Gas	14.7	10.0	10.1	9.6	-36.2	-18.4	1.2	8.5
Industries and Mining	4.5	6.5	1.1	7.3	1.0	-1.8	1.1	28.7
Services	3.8	2.7	6.5	2.2	-0.3	0.1	2.2	49.6
Non-oil GDP (at basic prices)	3.6	3.5	3.9	3.6	1.1	-0.7	-	91.5
GDP (at basic prices)	4.5	4.0	4.4	4.1	-2.9	-3.0	4.5	100.0

Source: Central Bank of Iran

An examination of the GDP from demand side reveals that the downward path of the Private Final Consumption Expenditures at constant prices has stopped from 1400 onwards and has registered 8.7 percent and 4.1 percent rises, respectively in 1401 and 1402. On the contrary, the Government Final Consumption Expenditures at constant prices that had dropped by 3.6 percent in 1401, contracted further by 1.7 percent in 1402. After a continuous decline in

investment in Iran in 1390s, in the years 1401 and 1402, the Gross Fixed Capital Formation expanded by 6.7 percent and 7.2 percent, respectively, albeit the amounts of investments at constant prices in 1402 are still below those in the early years of 1390s. The Gross Fixed Capital Formation expanded by 7.9 percent in Machinery and by 7.1 percent in Construction in 1402. The GDP growth rate from the demand side by its components is shown in Table 2.

Table 2. Growth Rates of GDP from demand Side and Its Components at Constant 1395 Prices with Their Share in GDP at Current Prices (percent)

	1402	1401	1400	1399	1398	1397	Share in Nominal GDP in 1402
Private Consumption	4.1	8.7	3.9	0.5	-4.7	-1.8	50.3
Public Consumption	-1.7	-3.6	8.3	-0.9	-5.6	-2.0	12.9
Gross Fixed Capital Formation	7.2	6.7	0.0	3.2	-6.5	-15.8	26.8
Machinery	7.9	15.4	12.5	3.5	-13.2	-21.2	12.0
Construction	7.1	1.2	-7.1	3.8	-2.1	-11.4	14.4
Other	-0.5	-0.4	5.4	-9.6	-14.5	-25.1	0.5
Exports of Goods and Services	17.1	8.2	5.2	-12.8	-20.6	-0.4	24.2
Imports of Goods and Services	3.0	7.5	24.1	-29.7	-31.6	-27.2	28.0
GDP at Market Prices	5.0	3.8	4.7	3.3	-3.1	-1.8	100.0

Source: Central Bank of Iran

1-1. Agriculture

According to the national accounts of Iran, the Agriculture sector encompasses Farming, Forestry, Hunting, Animal Husbandry, Aviculture, and Fishery activities. However, in the preliminary report of the CBI on the developments of the real sector of the economy, all subsectors of Agriculture sector were not investigated and only annual growth rates of 7.5 percent, 3.9 percent, and 4.5 percent were reported for Farming products, Horticultural products, and Livestock products in the year 1402, respectively. Note that the aforementioned positive growth rates of Agriculture subsectors are not consistent with the negligible growth rate of that sector as a whole, and neither with the SCI report in the same regard. Note that the subgroup of Fishery forms 5 percent of Agriculture sector only and also accounts for a negligible portion of the GDP. So, the 2.6 percent contraction of Fishery in 1402 at constant prices has not much affected the growth rate of Agriculture sector as a whole. Therefore, the 2.1 percent contraction

of the subgroup of Agriculture, Hunting, and Forestry at constant prices has been the major driver of the 2.2 percent contraction of Agriculture sector. The SCI reported positive growth rate for Agriculture sector for winter 1402, however this expansion could not offset the contraction of the sector in its three preceding quarters. On the contrary, the CBI reported positive but negligible growth rates for the same sector in all quarters of 1402. On the basis of the Ministry of Agriculture-Jahad, the exports of agricultural products in 1402 registered USD6.2 billion, indicating 19.4 percent rise from 1401 and also 8.3 percent expansion in weight. The top five agricultural exported items in terms of value in 1402 were pistachio, apple, dates, tomato, and powdered milk. It seems that exchange rate policy of the CBI aiming for stabilizing the price of essential goods has contributed to rise in the exports of the agricultural products, despite the negative or negligible growth rates of Agriculture sector.

1-2. Industries and Mining

On the basis of the CBI, the Industries and Mining sector formed 28.7 percent of the GDP in 1402, respectively, 0.3, 3.2, and 4.6 percentage points below its share in GDP of the years 1401, 1400, and 1399. The sector itself is divided into distinct subsectors of "Manufacturing", "Mining", "Electricity, Gas, Steam and Air Conditioning Supply", "Water supply; Sewerage, Waste management and Remediation Activities" and "Construction", that expanded by 4.4 percent, 4.4 percent, 2.4 percent, 2.1 percent, and 7.1 percent in the year 1402, respectively. The Manufacturing subsector has continually expanded from fall 1400 onwards, with its growth rate in 1402 below that of 1401. The growth rate reported by the SCI for the same subsector in 1402 is 5.6 percentage points below that in 1401.

As for the subsector of Mining, the CBI report suggested 4.4 percent growth rate, while in the SCI report the growth rate for the corresponding subsector - denominated as other mines except oil and natural gas - was 1.5 percent. However, the data issued by both authorities indicate expansion for the aforementioned subsector in 1402 compared to its preceding year. In the subsector of Construction (including residential and non-residential

buildings, road construction, dam building, etc.), the CBI reported a remarkable 7.1 percent expansion in 1402, showing a shift in the supply side of that subsector after a period of recession - in line with the SCI report. The CBI report suggests that the value of private investment in urban constructions has expanded by 46.2 percent at current prices in 1402, equivalent to a 7.8 percent expansion at constant prices. Among the components of the national accounts, the subsector of Electricity, Gas, Steam and Air Conditioning Supply has been continually growing in the last two decades even in the recession era, emanating from the population growth and demand for gas and electricity. The continuous expansion of the subsector of Water supply; Sewerage, Waste management and Remediation Activities is also attributable to the same result. The two aforementioned subsectors have experienced 2.4 percent and 2.1 percent expansion in 1402, respectively. Accordingly, the Industries and Mining sector expanded by 4.5 percent in 1402, down 2.0 percentage points from that of 1401, but constituting 1.1 percentage points of the 4.5 percent GDP growth rate of 1402. The developments of the Industries and Mining sector is illustrated in Table 3 in detail.

Table 3. Growth Rates of Industries and Mining Subsectors at Constant 1395 Prices (percent)

	1402	1401	1400	1399	1398	1397
Industries and Mining	4.5	6.5	1.1	7.3	1.0	-1.8
Mining	4.4	2.8	-0.4	14.4	8.1	-5.6
Manufacturing	4.4	9.5	3.3	7.2	0.4	-3.2
Electricity, Gas, Steam and Air Conditioning Supply	2.4	2.4	3.1	5.9	3.5	2.7
Water Supply; Sewerage, Waste Management and Remediation Activities	2.1	3.3	5.2	2.6	3.9	0.4
Construction	7.1	1.2	-6.9	7.2	-0.6	-0.2

Source: Central Bank of Iran

The CBI data suggests 3.8 percent expansion in the Industrial Production Index (consisting of large manufacturing enterprises with 100 and more employees) in 1402. Among the 6 major industries including "Food Products", "Chemicals and Chemical Products", "Pharmaceuticals, Medicinal Chemical and Botanical Products", "Other Non-metallic Mineral Products", "Basic Metals" and "Motor Vehicles, Trailers and Semi-trailers", only the first two industries contracted by 5.7 percent and 2.1 percent, respectively, while the others experienced positive growth rates in the period under review. As in

1401, the highest growth rate in the Industrial Production Index in 1402 belonged to Motor Vehicles, Trailers and Semi-trailers at 10.6 percent. It is worth to mention that the six aforementioned industries account for 84 percent of value-added of the large manufacturing enterprises of the country. Moreover, on the basis of Iran Chamber of Commerce, Industries, Mines & Agriculture, the seasonally-adjusted Purchasing Manager's Index (PMI) in the manufacturing subsector has averaged 52.1 in 1402, below the average figure of 52.8 in 1401. Note that the PMI is analyzed on monthly basis and the values above

50 translate to monthly improvement, whereas values below 50 mean that the state of production has worsened compared to its preceding month. The seasonally-adjusted PMI for manufacturing subsector in 1402 solely dropped below 50 in 2 out of 12 months of 1402, i.e., in the last month of summer and in the last month of fall. Hence, the PMI developments show that the manufacturing subsector has been continually improving during 1402. The PMI is the weighted average of five major survey areas including Production, New Orders, Supplier Deliveries Time, Inventory Levels, and Employment.

According to the National Iranian Petrochemical Company, the production of petrochemicals rose by 7 percent to 74.3 million tons in 1402 from 1401. The petrochemical industry ranked as the first source of foreign exchange proceeds - excluding the Oil sector - followed by the Steel Industry. The total production of crude steel, semi-finished steel (billet, bloom, and slab) and steel products grew by about 4 percent in 1402 compared to 1401. In contrast to the negligible growth rate of steel products, the production of semi-finished steel, sponge iron, and iron ore pellets grew by 5.5 percent, 5.3 percent, and 4.1 percent, respectively, in 1402.

■ Oil

The Iranian Oil Industry with a pivotal role in the Iranian economy in the past half a century has encountered various challenges in recent years. The last severe shock was exerted to the country's Oil sector in the early 1397 and in the aftermath of the implementation of the new US sanctions, resulting in collapse in the Iranian oil exports. The limitations on imports of oil from Iran was implemented gradually and step by step to let the buyers of Iran's crude oil find new oil supplier, hence in the early stages of the implementation of the sanctions some countries enjoyed temporary exemption from the new US sanctions. Accordingly, Iran's production and exports of crude oil gradually decreased and consequently the Oil sector lost part of its share in the GDP. After the new US Democrat Administration took office, due to the air of optimism regarding resumption of nuclear deal, the production and exports of Iran's crude oil gradually increased.

On the basis of the CBI, the value-added of the Oil sector at current prices in 1402 constituted 8.5 percent of the total value-added of the economy, 3.3 percentage points below that in 1401 but still above the 6.3 percent, 3.7

percent, and 7.0 percent shares in 1398, 1399, and 1400, respectively. Note that prior to the implementation of the new US sanctions, the share of Oil sector in GDP registered 13.4 percent in 1395, 14.5 percent in 1396, and 13.5 percent in 1397.

Due to the extraordinary situation of Iran's Oil sector, no official data was released regarding production and exports of crude oil in recent years. Hence, the most reliable sources of data are the OPEC reports from the secondary sources. On the basis of the statistics from the secondary sources, the domestic crude oil production that was hovering around 3.8 million barrels per day (mbpd) in the first half of 2018, severely dropped in the second half of that year due to the new US sanctions and reached 1.9 mbpd in the second half of 2020. Hence, the oil production of Iran even dropped to below the oil exports during the JCPOA era as a result of the new US sanctions. In 1396, Iran's exports of crude oil averaged 2.3 mbpd. The COVID-19 pandemic, on the other hand was a factor of decrease in Iran's oil production, but after lifting the COVID-19 limitations and also the inauguration of the new US President, Iran's crude oil production started to rise and in Mar 2024 (roughly corresponding to the last month of 1402) registered a considerable record of 3.2 mbpd - far close to the daily oil production prior to the unilateral withdrawal of US from the JCPOA. Iran's crude oil production averaged 2.6 mbpd in 2022 and 2.9 mbpd in 2023.

The data on Iran's oil exports has been considered confidential in recent years. However, the estimates of the International Monetary Fund (IMF) suggests that Iran's crude oil exports in 2023 has averaged 1.4 mbpd which is up 55.0 percent from that of 2022 - still below the 20-year average of 1.7 mbpd from 2000 to 2020.

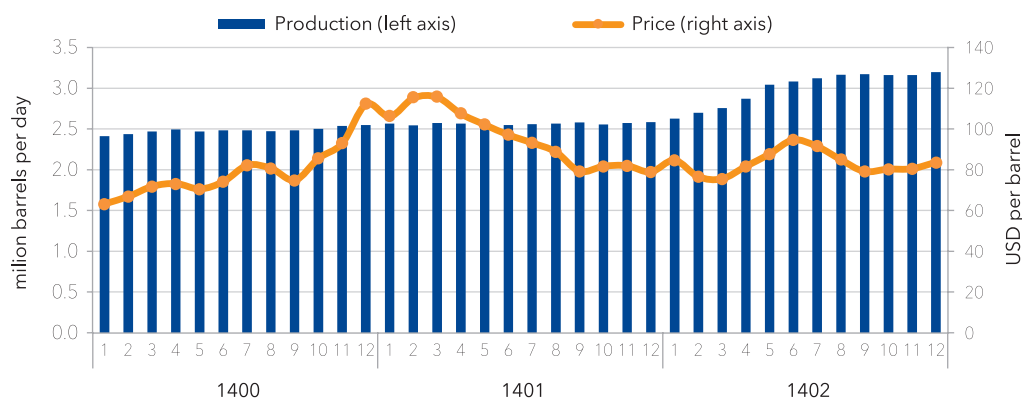
Reuters News Agency usually issues estimate of Iran's oil exports on the basis of Kpler statistics - an online data platform. Accordingly, Iran's crude oil exports in Feb 2020 (roughly corresponding to the 11th month of 1398) dropped to 140 thousand barrels per day, even far below the exports level during Iran-Iraq war. This drop continued for months, especially during the COVID-19 pandemic and the fall in global demand of oil, but Iran's crude oil exports again started to rise gradually and finally reached 1.1 mbpd in Dec 2022. The oil exports of Iran rose further to reach 1.61 mbpd in Mar 2024, the highest daily exports after the 1.68 bmpd in May 2023 (roughly corresponding to the 2nd month of 1402) from 2018 onwards. China as

the major buyer of Iran's crude oil enjoyed remarkable price discounts, however the method of payments of oil purchases by this country to Iran seems vague.

The price of Iran's crude oil registered USD68.8 a barrel in the first month of 1398 and from the third to the tenth month of that year was fluctuating between USD61 to USD64. However, from the eleventh month of 1398 the price of Iran's crude oil fell severely and in the early 1399 and following the COVID-19 pandemic reached USD17 a

barrel. The price of Iran's heavy crude oil gradually rose in the following months and grew further in the aftermath of Russian invasion of Ukraine. According to the OPEC, the price of Iran's crude oil in 2022 rose to USD99.9 a barrel on average, but again fell by 17.5 percent on average to USD82.4 a barrel in 2023. The price of Iran's crude oil in the last month of 1402 (roughly corresponding to Mar 2024) averaged USD83.5 a barrel. Graph 1 depicts the price and production of Iran's crude oil from 1400 to 1402.

Graph 1. Average Daily Crude Oil Production and Average Price of Iran's Heavy Crude Oil



Source: OPEC monthly reports from secondary sources

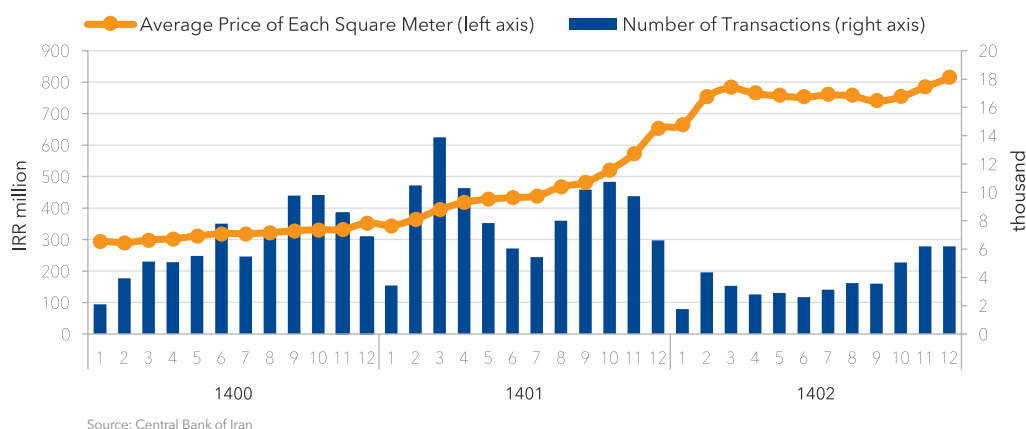
Note: OPEC statistics are reported based on Gregorian Calendar years and their conversion to Persian Calendar years are only approximate.

1-3. Housing

On the basis of the CBI statistics, the average price of a square meter of the residential units traded in Tehran city via real estate agencies registered IRR814.4 million in the last month of 1402, up 24.8 percent from the IRR652.4 million in the same month of 1401. The annual growth rate of a square meter of residential units in Tehran city in 1401 was 85.8 percent, far above the 24.8 percent annual growth rate of 1402. In the last month of 1402, among the 22 municipal zones of Tehran city, the highest price of a square meter of residential units belonged to zone 1 at IRR1,506.8 million and the lowest to zone 18 at IRR432.2 million. Accordingly, the gap between the highest and lowest prices at the end of 1402 registered 248.6 percent, 44.3 percentage points below that at the end of 1401. The

monthly number of transactions that had averaged 8,552 in 1401, severely fell by 55.7 percent to 3,793 in 1402. Hence, the price of residential units in more expensive zones of Tehran city has suffered more from the recession in the housing market than the cheaper ones. In 1402, the number of transactions in the housing market of Tehran city registered its low from 1391 onwards. On the basis of the CBI, the number of transactions in Tehran city housing market in 1402 registered 45.5 thousand which stands remarkably below the average of 134.6 thousand from 1391 to 1401. Graph 2 depicts the developments of the price and number of transactions in the housing market from 1400 to 1402.

Graph 2. Number of Housing Transactions and Average Monthly Price of a Square Meter of Residential Units in Tehran City



Source: Central Bank of Iran

An examination of the number of traded residential units by the age of the buildings in 1402 reveals that out of 45,510 traded units, the units aged up to 5 years had the highest share of 29.0 percent in total transactions. Despite losing its share by 4.5 percentage points compared to 1400, the units aged up to 5 years normally have the highest share in total number of transactions given the construction and

sales of the new buildings. The share of old buildings on the other hand has risen in 1402 compared to 1400, i.e., number of traded residential units aged 20 years and above rose to 22.3 percent of total in 1402 from 13.7 percent in 1400. The number of transactions in Tehran city by age of the buildings from 1400 to 1402 is shown in Table 4.

Table 4. Traded Residential Units in Tehran City by Age of the Buildings

Building Age (year)	Number of Transactions			1402 to 1401 Percentage Change	Share in the Total Transactions (percent)		
	1402	1401	1400		1402	1401	1400
Up to 5	13,213	30,986	25,841	-57.4	29.0	30.2	33.5
6 to 10	7,640	17,417	16,276	-56.1	16.8	17.0	21.1
11 to 15	8,033	16,252	10,968	-50.6	17.7	15.8	14.2
16 to 20	6,480	16,643	13,564	-61.1	14.2	16.2	17.6
20 and Above	10,144	21,320	10,573	-52.4	22.3	20.8	13.7
Total	45,510	102,618	77,222	-55.7	100.0	100.0	100.0

Source: Central Bank of Iran

1-4. Services

The Services sector as the largest sector of the Iranian economy that constitutes about half of the GDP, expanded by 3.8 percent in 1402 at constant prices compared to 1401. Although the growth rate of the Services sector in 1402 is higher than its 2.7 percent growth rate in 1401, it is

still below its remarkable 6.5 percent growth rate of 1400. The value-added of the Services sector in 1402 at constant prices is up 15.6 percent from that in 1397, indicating annual average growth rate of 2.9 percent from 1397 to 1402. Note that the five-year period under discussion

coincided with the COVID-19 pandemic that had the most adverse and severe effect on the Services sector. Among its subsectors, “Professional, Scientific, and Technical Activities”, “Administrative and Support Service Activities”, “Public Administration and Defence”, and the “Financial and Insurance Activities” have contracted by 7.7 percent, 6.4 percent, 3.5 percent, and 0.7 percent, respectively, in 1402. Note that the “Administrative and Support Service

Activities” has continually contracted in the past seven years. Other subsectors of the Services have all expanded in 1402, among those “Information and Communication” had the highest growth rate of 22.0 percent - in line with its 13.1 percent and 10.1 percent growth rates in 1400 and 1401, respectively. The growth rates of the subsectors of Services are presented in Table 5.

Table 5. Growth Rates of Services Subsectors at Constant 1395 Prices (percent)

	1402	1401	1400	1399	1398	1397
Services	3.8	2.7	6.5	2.2	-0.3	0.1
Wholesale & Retail Trade; Repair of Motor Vehicles/cycles	2.8	7.3	3.7	4.3	-3.2	-5.0
Transportation and Storage	7.2	9.9	6.9	-1.7	3.1	-1.4
Accommodation and Food Service Activities	11.5	22.8	28.2	-40.5	-18.4	-1.3
Information and Communication	22.0	10.1	13.1	34.1	19.1	35.2
Financial and Insurance Activities	-0.7	5.9	-2.4	8.3	7.8	2.2
Real Estate Activities	0.0	2.2	1.1	3.2	1.2	4.0
Professional, Scientific and Technical Activities	-7.7	8.4	15.8	-15.7	-17.9	-1.4
Administrative and Support Service Activities	-6.4	-10.7	-2.0	-3.5	-13.9	-11.9
Public Administration and Defence; Compulsory Social Security	-3.5	-11.1	10.7	-2.0	-4.0	-10.0
Education	8.1	-11.6	14.2	-6.3	5.8	11.3
Human Health and Social Work Activities	6.3	0.5	15.4	-0.2	-7.1	-1.2
Arts, Entertainment and Recreation	2.3	-1.8	14.6	0.4	-15.5	17.8

Source: Central Bank of Iran

2. LABOR MARKET

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

In 1402 and compared to its preceding year, 751.9 thousand individuals were added to the working age population, out of whom 44.4 percent were males with population of 333.6 thousand and the remaining 418.2 thousand were females with 55.6 percent share in total. In the same year, active population expanded by 573.5 thousand individuals, constituting 76.3 percent of the total population added to the working age population. Among the 573.5 individuals, 314.5 thousand were male (equivalent to 54.8 percent of the total added active population aged 15 and above) and the remaining were female. Accordingly, 41.3 percent of the working age population were active in 1402, indicating 0.4 percentage point increase from 1401. Regardless of the rise in participation rate in 1402, its low level in comparison with the rest of the countries has become an inseparable part of the Iranian economy. The low rate of participation rate is mainly driven by the female population, in a sense that out of 32.3 million females aged 15 and above, only 4.6 million were active in 1402, while 15.0 percent of them have been unemployed. For comparison purposes, the unemployment rate of males registered 6.6 percent in the same year. The female active population expanded in 1401 and 1402 after a long time, while in their preceding years, female population at working age were continually increasing but their active population were decreasing. In 1397, about 5.4 million of females were able and willing to work, however in 1400, that population fell to 4.2 million. Following an upward path, in 1401 the female active population rose to 4.3 million

and in 1402 to 4.6 million. However, from the 14 percent female active population it is grasped that the labor market has not prepared a desirable ground for female population, along with the other deficiencies in that regard.

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

Additionally, 25.6 percent of the population aged 15 to 24, has neither been employed nor student in 1402, indicating 1.3 percentage points drop from 1401. The total population aged 15 to 24 was estimated 11.0 million, of which 2.5 million were

active only. Among the active population in the same group, 540.2 thousand were unemployed, translating to 21.2 percent unemployment rate.

In 1402, close to 24.5 million of population aged 15 and above were employed, up 774 thousand from 1401. Out of this population, 14.4 percent were enrolled in Agriculture sector, 33.7 percent in Manufacturing, and 51.9 percent in

the Services sector. Part of this population, however, has been underemployed, meaning that they have worked less than 44 hours a week due to some economic issues, despite their willingness to work more. The underemployment constituted about 2.0 million of the employed population with 8.2 percent share in 1402, down 1.3 percentage points from 1401. Major Labor market indices in 1401 and 1402 are presented in Table 6.

Table 6. Major Labor Market Indices by Gender for the Population Aged 15 and Above

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

Source: Statistical Center of Iran

3. FISCAL POLICY

Budgeting as a policy instrument plays a dominant role in national economy and is of high importance in the Iranian economy given the large size of the Government. In addition to the projection of revenues and expenditures and their effects on macroeconomic variables, the method of financing budget imbalances in response to external shocks is also a matter of concern.

3-1. Budget Law and Budget Bill of 1402

In the Budget Law of 1402, IRR22,634 trillion was legislated for the Government General Budget, 48.2 percent up from that of the Budget Law of 1401. Moreover, IRR28,839 trillion was legislated for Budget of State-owned Companies, Banks, and Profit Institutions affiliated to the Government

in 1402 Budget Law, indicating 29.2 percent rise compared to the Budget Law of 1401. Hence, the Total Government Budget in 1402 Budget Law reached IRR49,947 trillion, up 36.7 percent from that of the 1401 Budget Law. An overview of the Budget Law of 1402 is presented in Table 7.

Table 7. Main Subdivisions of 1402 Budget Law (IRR trillion- percent)

Description	1402 Budget Law	1402 Budget Bill	1401 Budget Law	1402 Budget Law to 1402 Budget Bill Percentage Change	1402 Budget Law to 1401 Budget Law Percentage Change
Total Government Budget	49,947.1	51,090.1	36,532.0	-2.2	36.7
General Budget	22,634.9	21,640.0	15,273.7	4.6	48.2
General Sources	20,823.3	19,840.0	13,941.3	5.0	49.4
Dedicated Revenues	1,811.6	1,800.0	1,332.4	0.6	36.0
Budget of State-owned Companies, Banks and Profit Institutions Affiliated to Government	28,839.1	30,977.0	22,314.1	-6.9	29.2

Source: Budget Laws of 1401 and 1402 and Budget Bill of 1402

■ Government General Budget

The Government General Budget itself consists of General Sources (General Uses) and Dedicated Revenues (Uses from Dedicated Revenues). The Dedicated Revenues that are gained via the public organizations are spent within the same organizations, i.e., these sorts of revenues are not directed to the Treasury to be reallocated to other sectors. Therefore, only the General Sources are directly in hands of the Government and the Treasury which itself consists of three components of General Revenues (such as tax revenues and receipts from government properties), Disposal of Non-financial Assets (mainly oil exports and disposal of government properties), and Disposal of Financial Assets (mainly sales of debt securities, disposal of

state-owned companies, and withdrawal from the National Development Fund). The Government spends these revenues for current expenditures (mainly compensation of employees and pension funds), Acquisition of Non-financial Assets (development expenditures), and Acquisition of Financial Assets (settlement of unpaid obligations from previous years). Due to the air of optimism regarding higher Oil Revenues, in the Budget Law of 1402, the share of Oil Revenues in General Sources was considered 30.0 percent. In fact, only in 1399 this share was remarkably cut to about 10 percent and in the Budget Laws of 1400 and 1401 again rose to 27.3 percent and 35.2 percent, respectively. The details of General Sources and Uses of 1402 Budget Law are presented in Table 8.

Table 8. General Sources and Uses in 1402 Budget Law and Budget Bill (IRR trillion-percent)

Sources	1402 Budget		1401 Budget Law	1402 Budget Law to 1401 Budget Law Percentage Change	Share in General Sources of 1402 Budget Law	Uses	1402 Budget		1401 Budget Law	1402 Budget Law to 1401 Budget Law Percentage Change	Share in General Uses of 1402 Budget Law
	Law	Bill					Law	Bill			
Revenues (general)	10,540.8	9,781.9	6,996.0	50.7	50.6	Expenditures (current)	15,088.4	14,543.0	9,990.1	51.0	72.5
Tax	8,944.5	8,262.9	5,617.0	59.2	43.0	Compensation of Employees	-	4,050.6	2,999.4	-	-
From State-owned Properties	1,045.4	960.2	874.7	19.5	5.0	Use of Goods and Services	-	817.5	657.3	-	-
From Sales of Goods and Services	260.1	265.8	186.1	39.7	1.2	Cost of Properties	-	0.3	434.6	-	-
From Crime and Damage Fines	80.4	80.4	86.5	-7.1	0.4	Subsidies	-	212.8	81.1	-	-
Other	210.4	212.6	231.7	-9.2	1.0	Grants	-	241.5	382.2	-	-
						Social Welfare	-	5,860.2	3,249.1	-	-
						Other	-	3,360.1	2,186.4	-	-
Operating Balance							-4,547.6	-4,761.1	-2,994.1	51.9	-21.8
Disposal of Non-financial Assets	7,322.5	7,118.1	5,177.5	41.4	35.2	Acquisition of Non-financial Assets (development expenditures)	3,750.0	3,279.2	2,601.2	44.2	18.0
Receipts from Crude Oil and Oil Products	6,238.1	6,038.1	4,911.5	27.0	30.0	Construction	-	2,069.8	1,823.2	-	-
Receipts from Sales or Disposal of Properties	1,084.4	1,080.0	261.0	315.5	5.2	Machinery and Equipment	-	636.5	343.7	-	-
Receipts from Disposal of Development Plans	0.0	0.0	5.0	-	0.0	Other Fixed Assets	-	3.2	1.8	-	-
						Inventory Use	-	0.0	0.0	-	-
						Precious Items	-	0.2	0.1	-	-
						Land	-	94.6	191.9	-	-
						Other Non-produced Assets	-	474.9	240.4	-	-
Net Disposal of Non-financial Assets							3,572.5	3,838.9	2,576.3	38.7	17.2
Disposal of Financial Assets	2,960.0	2,940.0	1,767.9	67.4	14.2	Acquisition of Financial Assets	1,984.9	2,017.8	1,350.1	47.0	9.5
Sales of Islamic Debt Securities	1,870.0	1,850.0	1,030.0	81.6	9.0	Related to Disposal of Stocks	37.8	37.8	26.9	40.6	0.2
Use of Foreign Loans	0.0	0.0	0.5	-	0.0	Repayment of Islamic Debt Securities Principals	1,712.2	1,735.1	1,182.5	44.8	8.2
Receiving Loan Principals	18.5	18.5	15.6	18.6	0.1	Repayment of Bank Loans Principals	13.2	13.2	3.2	308.6	0.1
Disposal of State-owned Companies	1,060.0	1,060.0	710.0	49.3	5.1	Unpaid Obligations from Previous Years	40.1	50.1	4.8	733.3	0.2
Last Year Payments Return	11.5	11.5	10.8	6.5	0.1	Repayment of Foreign Loans Principals	181.6	181.6	132.7	36.9	0.9
Net Disposal of Financial Assets							975.1	922.2	417.8	133.4	4.7
General Sources	20,823.3	19,840.0	13,941.3	49.4	100.0	General uses	20,823.3	19,840.0	13,941.3	49.4	100.0

Source: 1401 and 1402 Budget Laws, 1402 Budget Bill

In the Budget Bill of 1402, the Tax Revenues accounted for 41.6 percent of the General Sources, 3.3 percent and 1.3 percent above those in the 1401 Budget Bill and 1401 Budget Law, respectively. Generally speaking, the Tax Revenues proposed in the Budget Bill of 1402 was 47.1 percent up from the legislated figure in the Budget Law of 1401. Among the components of Corporate Tax in the Budget Law of 1402, Tax on Non-public Legal Entities

accounted for 87.0 percent of the Corporate Tax, up 128.0 percent from that in the Budget Law of 1401. In 1401, about 148 percent of the legislated figure for Tax on Non-public Legal Entities was realized and the proposed figure in 1402 Budget Bill for the same source was 54.0 percent above its actual level in 1401. The Tax on State-owned Companies in the Budget Bill of 1402 stood 172.9 percent and 96.9 percent above the figure in 1401 Budget Law and the realized figure

in 1401, respectively. Moreover, as for the Income Tax, the subdivision of Tax on Professions constituted 35.9 percent of the Total Income Tax in 1402 Budget Bill and stood 22.0 percent above the legislated figure in Budget Law of 1401 and 51.8 percent above the actual amount in 1401. The Tax on Salary of Private Sector and Public Sector Employees, respectively, formed 25.4 percent and 32.5 percent of the Total Income Tax in the Budget Bill of 1402 and up 26.1 percent and 67.6 percent from those in Budget Law of 1401. In the Budget Bill of 1402, Wealth Tax as a major component of the Tax Revenues was increased by 19.6 percent while the Tax on Share Transfers was decreased by 12.1 percent compared to the Budget Law of 1401, conveying that the Government has expected the capital market to be bearish in 1402. The Tax on Transfer of Goodwill in the Budget Bill of 1402 was 143.4 percent above the legislated figure of 1401 Budget Law and 40.2 percent of the realized figure during the year 1401. The proposed amount for total Tax on Imports and Tax on Imports of Other Goods as a subset of that (which formed 69.4 percent of the main group) in the Budget Bill of 1402 were 17.8 percent and 6.9 percent above that in the Budget law of 1401, respectively. However, the Tax on Automotive Imports considerably rose by 66.3 percent in the Budget Bill of 1402 compared to the Budget Law of 1401. The tax rate on Imports of Essential Goods and Pharmaceuticals was decreased to 1 percent from 4 percent in the Budget Bill of 1402. Note that the decrease in tax rate on imports included medical equipment and consumables as well as Agricultural and Livestock inputs in addition to the essential goods and pharmaceuticals. However, it seems that the expansion of Imports Tax from 1401 onwards rooted in the USD/IRR exchange rate used for conversion of taxes, i.e., in the years 1399 and 1400 the official USD/IRR exchange rate of 42 thousand was the base of conversions, while the rate increased from 1401 onwards.

Among the components of the Current Expenditures, in the Budget Bill of 1402 the Compensation of Employees rose by 35.0 percent to IRR4,050.6 trillion compared to the Budget Law of 1401, accounting for 27.9 percent of the Current Expenditures. The Social Welfare (including Various Insurance Schemes of the Government Employees, Transfers to Government Employees, as well as the Grants), in the Budget Bill of 1402, stood 80.4 percent above that in the Budget Law of 1401 and accounted for the highest share of 40.3 percent in the Current Expenditures among

the 7 subsets of this group. All in all, in the Budget Bill of 1402, Current Expenditures with 73.3 percent share in General Uses expanded by 45.6 percent compared to the Budget Law of 1401. Hence, the Operating Balance Deficit in the Budget Bill of 1402 stood 59.0 percent above that in the Budget Law of 1401 to reach IRR4,761.1 trillion, indicating that a considerable portion of Current Expenditures are financed via sources other than General Revenues. Note that in the Budget Bill of 1402, IRR3,146.1 trillion of Miscellaneous Uses were estimated, of which 55.0 percent were included in the Current Expenditures. The Temporary Uses account for IRR1,411.2 trillion, equivalent to 44.9 percent of the Miscellaneous Uses, of which, IRR620.9 trillion was in Current Expenditures and the remaining in Development Expenditures. About 74.2 percent of the Temporary Uses include Compensation of Newly-retirees (IRR320.0 trillion), implementation of Family and Youth Protection Law (IRR65.0 trillion), Debt Settlement Regarding Electricity Subsidy (IRR30.0 trillion), Holding Elections (IRR15 trillion) and Payments to the Islamic Republic of Iran Broadcasting (IRR30.4 trillion). In the Miscellaneous Uses, the Cost of Issuance of Domestic Securities and Using Foreign Loans are estimated IRR520 trillion, indicating 5.5 percent rise from the Budget Law of 1401.

Furthermore, in Budget Bill of 1402 the Proceeds from Exports of Oil and Natural Gas Condensates and Net Exports of Natural Gas were 25.5 percent above the corresponding figures in the Budget Law of 1401, and it was decided that this sort of revenues be converted to Rials at the USD/IRR exchange rate of 285 thousand. In addition, the Proceeds from Sales of Feedstock to the Domestic Petrochemical Producers that were excluded from Oil Revenues in General Sources in the Budget Laws of 1399 and 1400, were again included in that source in the Budget Law and Budget Bill of 1401, but implicitly. This maintained in the Budget Bill of 1402, i.e., assuming sale of 145 thousand barrels per day at USD71.3 (95 percent FOB), the Proceeds from Sales of Feedstock to Domestic Petrochemical Producers was estimated USD3.8 billion, equaling to IRR1,074.7 trillion should the USD/IRR exchange rate for conversion rate be 285 thousand. Hence, the 85.5 percent share of Government in those Proceeds equaled IRR918.9 trillion. The assumptions used for calculation of Oil Revenues in USD and IRR are presented in Table 9.

Table 9. Proceeds from Oil, Gas Condensates and Natural Gas

Assumptions	1402 Law	1402 Bill	1401 Law	1401 Bill	1402 Law to 1402 Bill Percentage Change	1402 Law to 1401 Law Percentage Change
Oil and Gas Condensates Exports (1000 barrels a day)	1,280.7	1,214.4	1,400.0	1,200.0	5.5	-8.5
Sales of Feedstock to Domestic Petrochemical Companies (1000 barrels a day)	145.0	145.0	145.0	145.0	0.0	0.0
Oil Price per Barrel (USD)	75.0	75.0	70.0	60.0	0.0	7.1
Price of Gas Condensates per Barrel to Be Sold to Domestic Petrochemical Companies (USD)	71.3	71.3	66.5	57.0	0.0	7.1
Share of National Iranian Oil Company (NIOC) in Exports of Oil and Gas Condensates (percent)	14.5	14.5	14.5	14.5	-	-
Share of National Iranian Gas Company (NIGC) in Net Exports of Natural Gas (percent)	14.5	14.5	14.5	14.5	-	-
Share of NDF in Exports of Oil and Gas Condensates and Net Natural Gas Exports (percent)	42.0	40.0	40.0	40.0	-	-
Government Share in Exports of Oil and Gas Condensates (percent)	43.5	45.5	45.5	45.5	-	-
Government Share in Sales of Feedstock to Domestic Petrochemical Companies (percent)	85.5	85.5	85.5	85.5	-	-
Government Share in Net Exports of Natural Gas (percent)	43.5	45.5	45.5	45.5	-	-
Share of NIOC in Sales of Gas Condensates to Domestic Petrochemical Companies (percent)	14.5	14.5	14.5	14.5	-	-
Average USD/IRR Exchange Rate in the Budget (IRR1000 per USD)	285.0	285.0	230.0	230.0	0.0	23.9
Net Exports of Natural Gas (IRR trillion)	6.2	6.2	3.6	3.6	0.0	74.1
Total Revenues from Exports of Crude Oil and Gas Condensates (IRR trillion)	35.1	33.2	35.8	26.3	5.5	-2.0
Total Revenues from Sales of Feedstock to Domestic Petrochemical Companies (IRR trillion)	3.8	3.8	3.5	3.0	0.0	7.1
Share of NDF in Total Revenues in Foreign Currencies (USD billion)	17.3	15.8	15.7	11.9	9.8	10.2
Share of NIOC in Oil Exports and Domestic Sales of Feedstock (USD billion)	5.6	5.4	5.7	4.2	4.9	-1.2
Share of NIGC in Natural Gas Net Exports (USD billion)	0.9	0.9	0.5	0.5	0.0	74.1
Government Share in Total Proceeds of Oil and Gas Condensates Exports (USD billion)	15.3	15.1	16.3	12.0	0.8	-6.3
Government Share in Total Proceeds of Net Exports of Natural Gas (USD billion)	2.7	2.8	1.6	1.6	-4.4	66.4
Government Share in Sales of Feedstock to Domestic Petrochemical Companies (USD billion)	3.2	3.2	3.0	2.6	0.0	7.1
Share of Government in Proceeds from Exports of Crude Oil and Gas Condensates (IRR trillion)	4,346.6	4,311.0	3,743.3	2,750.2	0.8	16.1
Government Share in Proceeds from Net Exports of Natural Gas (IRR trillion)	772.7	808.2	374.6	374.6	-4.4	106.2
Share of Government in Proceeds from Sales of Gas Condensates to Domestic Petrochemical Companies (IRR trillion)	918.9	918.9	692.1	593.2	0.0	32.8
Proceeds of Sales of Vacuum Bottom (Bitumen-IRR trillion)	200.0	0.0	0.0	0.0	-	-
Total Government Oil Revenues (IRR trillion)	6,238.1	6,038.1	4,810.1	3,718.1	3.3	29.7

Source: Budget Law and Budget Bill of 1402; Budget Law of 1401; Research Center of the IRI Parliament; unofficial sources; research calculations

In the Budget Bill of 1402, the proposed share of National Development Fund (NDF) was 40 percent of the Petrodollars. Given the assumptions, the NDF share equals USD15.8 billion in the Budget Bill of 1402, up 0.3 percent and 32.2 percent from that in the Budget Law and Budget Bill of 1401, respectively.

The share of Government in Oil Revenues (exports of oil, gas condensates, net exports of natural gas as well as 85.5 percent share in sales of feedstock to domestic petrochemical producers) was proposed IRR6,038.1 trillion, accounting for 30.4 percent of the Government General Sources of the Budget Bill of 1402 and up 62.4 percent from that in the Budget Bill of 1401. Furthermore, in Disposal of Non-

financial Assets, due to the fall in Oil Revenues and in order to finance the Uses of Budget, IRR1,080 trillion was proposed for the sales of Government Properties, 313.8 percent above the legislated figure of the Budget Law of 1401. However, from the weak realization ratio of this source relative to the legislated figure of the Law of 1401, it is grasped that the proposed figure in the Budget Bill of 1402 in that regard is overestimated. All in all, the Disposal of Non-financial Assets in the Budget Bill of 1402 stood, respectively, 37.5 percent and 74.3 percent above that in the Budget Law and Budget Bill of 1401 to register IRR7,118.1 trillion and equivalent to 35.9 percent of the Government General Sources.

The Acquisition of Non-financial Assets proposed in the

Budget Bill of 1402 indicated 26.0 percent rise compared the corresponding figure in the Budget Law of 1401 and constituted 16.5 percent of the General Uses. Hence, the Net Disposal of Non-financial Assets registered IRR3,838.9 trillion in the Budget Bill of 1402, i.e., part of the Current Expenditures were planned to be financed via Disposal of Non-financial Assets.

In the Budget Bill of 1402 and in line with the budgeting system of Iran, part of the budget deficit was planned to be financed through Disposal of Financial Assets. Accordingly, issuance of IRR1,850.0 trillion of Government Debt Securities was considered in the Budget Bill of 1402, standing 79.6 percent above the legislated figure of 1401 Budget Law. In the Budget Bill of 1402, the Disposal of State-owned Companies stood 49.3 percent above the corresponding figure in the Budget Law of 1401. All in all, the IRR2,904.0 trillion of Disposal of Financial Assets in the Budget Bill of 1402 indicated 66.3 percent rise compared to the Budget Law of 1401 and constituted 14.8 percent of the Government General Uses, up 2.1 percentage points from its share in the Budget Law of 1401.

The Acquisition of Financial Assets in the Budget Bill of 1402 rose by 49.5 percent compared to that in the Budget Law of 1401, registering IRR2,017.8 trillion. This rise rooted in the Principal Repayment of Matured Securities in the aftermath of the increase in issuance of Government Debt Securities since 1393. The Principal Repayment in the Budget Bill of 1402 amounted to IRR1,735.1 trillion, equivalent to 86.0 percent of the Acquisition of Financial Assets. Hence, the Net Disposal of Financial Assets in the Budget Bill of 1402 was estimated IRR922.2 trillion.

The Budget Bill of 1402 that was promptly delivered to the IRI Parliament was eventually passed by that authority and got the confirmation of the Guardian Council as the Budget Law of 1402 on the last working day of 1401. The Sources and Uses of the Total Government Budget stood 2.2 percent below the proposed figure of the Budget Bill of 1402. In contrast, the proposed IRR19,840.0 trillion for General Sources and Uses of Government was increased to IRR20,823.3 trillion in the Budget Law of 1402. The General Revenues rose by 7.8 percent in the Budget Law of 1402 to IRR10,540.8 trillion compared to proposed figure in the Bill, mainly due to the IRR681.6 trillion (8.2 percent) rise in the Tax Revenues. Note that the legislated figure for Direct Taxes remained almost the same as the proposed one. The Income Tax even fell by 5.7 percent in the Budget Law of 1402 compared to the Budget

Bill of 1402. On the other hand, the Value-added Tax as a subgroup of the Tax on Goods and Services which itself is a component of the Indirect Taxes, increased by 18.7 percent to IRR1,884.4 trillion in the Budget Law of 1402 and caused the Tax Revenues to increase in the Budget Law. Addition of another source to the Indirect Taxes titled "Tax on the Performance of the Exporters of Raw and Semi-raw Materials" at IRR60 trillion was another driver of the rise in Tax Revenues in the Budget Law of 1402. Accordingly, the Tax on Goods and Services was increased by 22.5 percent in 1402 Budget Law compared to the proposed figure in the Bill to register IRR3,040.0 trillion. In addition, the legislated figure for Imports Tax showed 15.2 percent rise from the proposed figure due to the 4.0 percent rise in the Tax on Imports of Other Goods and 27.6 percent rise in the Tax of Automotive Imports. As for the Uses of Budget, the approved figure for the Current Expenditures in 1402 Budget Law stood IRR545.4 trillion (3.8 percent) above the proposed figure of the Bill, constituting 72.5 percent of the General Uses of the Budget Law of 1402. Hence, the Operating Balance Deficit in the Budget Bill of 1402 at IRR4,761.1 trillion was decreased by 4.5 percent to IRR4,547.6 trillion in the Budget Law of 1402.

Among the components of the Disposal of Non-financial Assets, the share of NDF in Petrodollars in the Budget Law of 1402 was increased by 2 percentage points to 42 percent compared to the 40 percent share in the Budget Bill, however the estimated Oil Revenues did not change. Therefore, it seems that the Oil Exports of the country in the Budget Law of 1402 was considered 1.3 mbpd and above the 1.2 mbpd of the 1402 Budget Bill to offset the fall in the Government share in Proceeds from Oil Exports (due to the 2 percentage points rise in NDF share). On the other hand, the proceeds from Sales of Vacuum Bottom to Domestic Petrochemical producers that was previously off-budget, was included in the Oil Revenues in the Budget Law of 1402, causing this source of Budget to rise by 3.3 percent to IRR6,238.1 trillion compared to the Budget Bill of 1402 and constituting 30.0 percent of the General Sources of 1402 Budget Law. The acquisition of Non-financial Assets in the Budget Law of 1402 was approved at IRR3,750.0 trillion, up 14.4 percent from the IRR3,279.2 trillion on the Budget Bill of 1402. Hence, the Net Disposal of Non-financial Assets in the Budget Law of 1402 registered IRR3,572.5 trillion and 6.9 percent below that of the Budget Bill of 1402.

In the Budget Law of 1402, IRR2,960.0 trillion was approved for the Disposal of Financial Assets to form 14.2 percent of the General Uses, showing 0.7 percent rise compared to that of

the Budget Bill of 1402. Besides, the issuance of Government Debt Securities was legislated at IRR1,870.0 trillion, up 1.1 percent from the proposed figure in the Budget Bill of 1402. Regarding the Acquisition of Financial Assets, the proposed IRR2,017.8 trillion in the Budget Bill was decreased by 1.6

percent to IRR1,984.9 trillion in the Budget Law of 1402. Therefore, the Net disposal of Financial Assets in the Budget Law of 1402 registered IRR975.1 trillion, down 5.7 percent from that of 1402 Budget Bill.

3-2. Government Fiscal Performance

While preparing this Report, only the data on Tax Revenues and Issuance of Government Debt Securities were officially issued and the data on realization of Government Budget figures in 1402 were obtained from unofficial sources. Accordingly, the Government General Sources and Uses in 1402 have realized 101 percent of the legislated figure in the Budget Law of 1402 at IRR21,040 trillion.

The General Revenues of Government (tax revenues, imports tax, and other) in 1402 overshot the legislated figure of the Budget Law by 3.2 percent to reach IRR10,877.8 trillion. The actual Government General Expenditures on the other had reached IRR16,150.0 trillion in the same period (107.0 percent of the legislated) and caused the Operating Balance Deficit to register IRR5,272.2 trillion. It is noteworthy that the data on other Government Revenues was available for the first seven months of 1402, hence the 97.7 percent realization ratio in that period has been used to estimate other Government Revenues for the year 1402 as a whole.

The disposal of Non-financial Assets realized 71.6 percent of its approved figure in the Budget Law in 1402 to reach 5,246.2 trillion, indicating 25.1 rise compared to the IRR4,1937 trillion actual amount of 1401. In order to estimate the Sales of Government Properties for 1402 as a whole, the 6.3 percent realization rate of this sources of Budget in the first seven month of 1402 has been used. In 1402, 79.2 percent of the legislated Acquisition of Non-financial Assets (development expenditures) was materialized at IRR2,970.0 trillion. Subsequently, the Net Disposal of Non-financial Assets in 1402 had a surplus of IRR2,276.2 trillion which covers part of the Operating Balance Deficit.

The Net Disposal of Financial Assets has played a key role in financing Operating Balance Deficit in 1402 like its preceding years with 166.1 percent realization rate of legislated figure in Budget Law at IRR4,916.0 trillion. Accordingly, on the basis of the statistics of Government Debt Securities Auctions held by the CBI, in addition to the considerable issuance of Islamic Treasury Bonds and IRR300.0 trillion Government Debt Securities to settle Government Debts to Tavanir¹, it is estimated that IRR2,864 trillion of the Budget Deficit has been financed through Issuance of Government Debt Securities in 1402, equivalent to 153.2 percent of its corresponding figure of Budget Law. Since the Government Treasury Bonds are zero-coupon², a 30 percent discount rate has been used for calculation of finance through this method. Besides, according to the Privatization Organization, the actual Disposal of State-owned companies in 1402 covered 29.0 percent of its approved Budget figure. Since only the data on Budget performance in issuance of Government Debt Securities and Disposal of State-owned Companies during 1402 were available, taking into consideration the actual General Sources and Uses of 1402 on the basis of IRI Parliament Research Center, the estimated spending from sources including NDF, Receiving Loan Principals, Foreign Loans, and Last Year Payments Returns equals IRR1,744 trillion. Given the small approved figure for the last three sources, it seems that NDF has been the main source of Government spending among those four sources. It should be noted that even though the Government Borrowing from the NFD share in Petrodollars had been banned in the Budget Law of 1402, in the first seven months of 1402 IRR250 trillion was borrowed from the NDF to cover Government Current Expenditures. On the basis of the IRI Parliament Research Center, the Government permit for another 20 percent

1. Iran Power Generation Transmission and Distribution Company

2. A zero-coupon bond is an investment in debt that does not pay interest but instead trades at a deep discount.

borrowing from NDF share in Oil Revenues in 1402 led to withdrawal of IRR1,464 trillion of NDF funds in the late months of 1402. Accordingly, the Government has probably withdrawn IRR1,714 trillion from the NDF funds, equaling about 8.1 percent of the General Uses of the Budget of 1402 and included in other components of the Disposal of Financial Assets. The Acquisition of Financial Assets in

1402 reached IRR1,920.0 trillion, of which 88.0 percent was attributed to the Principal Repayment of Government Debt Securities. Therefore, the Net Disposal of Financial Assets in 1402 registered IRR2,996.0 trillion, constituting 14.2 percent of the actual Government General Sources and Uses. Table 10 presents the Fiscal Performance of Government in 1402.

Table 10. Government Fiscal Performance in 1402 (IRR trillion-percent)

	Realized in 1402	1402 Budget Law	1402 Budget Bill	Realization Ratio of 1402	Share of Components in Realized 1402 General Sources and Uses
General Revenues	10,877.8	10,540.8	9,781.9	103.2	51.7
Tax Revenues	9,317.8	8,944.5	8,262.9	104.2	44.3
Other Revenues	1,560.0	1,596.3	1,519.0	97.7	7.4
Expenses (current)	16,150.0	15,088.4	14,543.0	107.0	76.8
Operating Balance	-5,272.2	-4,547.6	-4,761.1	115.9	-
Disposal of Non-financial Assets	5,246.2	7,322.5	7,118.1	71.6	24.9
Receipts from Crude Oil and Oil Products	5,177.6	6,238.1	6,038.1	83.0	24.6
Disposal of Properties and Development Plans	68.6	1,084.4	1,080.0	6.3	0.3
Acquisition of Non-financial Assets (development expenditures)	2,970.0	3,750.0	3,279.2	79.2	14.1
Net Disposal of Non-financial Assets	2,276.2	3,572.5	3,838.9	63.7	-
Disposal of Financial Assets	4,916.0	2,960.0	2,940.0	166.1	23.4
Sales of Islamic Debt Securities	2,864.1	1,870.0	1,850.0	153.2	13.6
Disposal of State-owned Companies	307.5	1,060.0	1,060.0	29.0	1.5
Others (use of National Development Fund, last year's payment return, principal of loans receipt and use of foreign loans)	1,744.4	30.0	30.0	5,814.5	8.3
Acquisition of Financial Assets	1,920.0	1,984.9	2,017.8	96.7	9.1
Net Disposal of Financial Assets	2,996.0	975.1	922.2	307.2	-
Total General Sources and Uses	21,040.0	20,823.3	19,840.0	101.0	100.0

Source: Budget Law and Budget Bill of 1402; Kayhan Daily; Ministry of Economic Affairs and Finance; Iranian National Tax Administration; IRI Parliament Research Center

As for the Tax Revenues, in the Budget Law of 1402, IRR8,944.5 trillion was approved, of which 50.3 percent was attributed to the Indirect Tax (tax on goods and services and on imports) and 49.7 percent to Direct Tax (corporate tax, income tax and wealth tax). On the basis of Iranian National Tax Administration (INTA) as well as some unofficial sources, 104.2 percent of the legislated Tax Revenues has been materialized in 1402. Regarding Direct Tax, the realization rate was 109.6 percent in the same period.

An examination of the components of Direct Taxes reveals that the Income Tax had the highest realization rate of 124.9 percent in 1402. Moreover, Tax on Professions that formed 36.3 percent of the actual Tax Revenues in 1402 overshot its corresponding figure in the Budget Law by 26.3 percent. The actual Corporate Tax stood 7.8 percent above the approved figure of Budget Law in 1402. During 1402, actual Tax on the State-owned Companies accounted for 8.0 percent of

the Corporate Tax with the realization rate of 122.9 percent. In the same period, 100.5 percent of the Tax on Non-public corporations was realized, constituting 81.1 percent of the realized Corporate Tax. Wealth Tax had the weakest realization rate of 76.8 percent among the components of Direct Taxes in 1402. Among the components of Wealth Tax, 109.2 percent of the Tax on Transfer of Shares was materialized to register IRR99.0 trillion. In contrast, Tax on Vacant Houses was the weakest component of the Wealth Tax and realized only 0.3 percent of the legislated figure in 1402.

In 1402, 98.8 percent of the legislated figure for Indirect Taxes was realized at IRR4,443 trillion, indicating 87.3 percent rise compared to 1401. Out of the actual Indirect Taxes, 72.8 percent belonged to Tax on Goods and Services and 27.2 percent to Tax on Imports. The Tax on Goods and Services overshot its approved figure in the Budget Law by 3.6 percent to register IRR3,233.0 trillion, up 82.0 percent from

that of 1401 and constituting 34.7 percent of Tax Revenues in Total. In addition, the Value-added Tax that accounted for 64.8 percent of actual Tax on Goods and Services in 1402, realized 111.2 percent of the legislated figure for that source in the Budget Law. On the other hand, even though

the actual Tax on Imports grew by 103.0 percent compared to 1401, it had the lowest realization ratio of 83.2 percent among major components of the Tax Revenues. Table 11 presents the Government Performance in Tax Revenues.

Table 11. Performance of Tax Revenues (IRR trillion-percent)

	Realized in 1402	1402 Budget Law	Realized in 1401	1402 to 1401 Change in Realization	1402 Realization Rate	Share of Components in Realized Tax Revenues in 1402
Tax Revenues	9,317.8	8,944.5	5,313.6	75.4	104.2	100.0
Direct Tax	4,874.8	4,449.6	2,941.0	65.8	109.6	52.3
Corporate Tax	3,164.4	2,936.6	1,898.4	66.7	107.8	34.0
Income Tax	1,424.1	1,140.1	849.7	67.6	124.9	15.3
Wealth Tax	286.3	372.9	192.9	48.4	76.8	3.1
Indirect Tax	4,443.0	4,494.9	2,372.6	87.3	98.8	47.7
On Goods and Services	3,233.0	3,040.0	1,776.6	82.0	106.3	34.7
On Imports	1,210.0	1,454.9	596.0	103.0	83.2	13.0

Source: 1402 Budget Law; Iranian National Tax Administration; Islamic Republic News Agency (IRNA)

The Issuance of Government Debt Securities in the Budget Law of 1402 was legislated IRR1,870.0, up 81.6 percent from the corresponding figure of 1401. In the year 1401, IRR2,105.7 trillion Government Debt Securities was issued in practice, standing about 13 percent above the legislated figure of 1402 Budget Law. Subsequently, the CBI in cooperation with the Ministry of Economic Affairs and Finance started to hold the weekly auctions of Government Debt Securities in Money Market and Capital Market from mid-summer of 1402.

The CBI data on the auctions of the Debt Securities reveals that 33 rounds of auctions have been held in 1402 with accumulated supply of IRR5,683.1 trillion of Murabaha Securities, out of which IRR412.8 trillion was demanded by banks and non-bank credit institutions but only IRR341.4 of that demand was approved by the Ministry of Economic Affairs and Finance.

During 1402, IRR1,209.8 trillion of auctioned Government Debt Securities were sold in the Capital Market. Accordingly, in 1402 the traded Government Debt Securities through auctions reached IRR1,551.1 trillion, up 50.5 percent from that of 1401. On the basis of the Ministry of Economic Affairs and Finance, IRR901.0 trillion of Government Debt Securities has been purchased by banks and non-bank credit institutions in 1402 that is totally distinct from the reported figure of the CBI. A comparison between the reported figures of the aforementioned authorities reveals that the banks and non-bank credit institutions have purchased IRR559.6 trillion in the Capital Market, not directly through the auctions in the Money Market. Hence, the share of banks and non-bank credit institutions in purchase of Government Debt Securities registered 58.1 percent in 1402. Table 12 illustrates the details of the auctions of Government Debt Securities held by the CBI during 1401 and 1402.

Table 12. Government Debt Securities Auctions Held by the CBI (IRR trillion-percent)

Month	1402					1401					Growth Rate of Traded in Money Market	Growth Rate of Traded in Capital Market	Growth Rate of Total Traded
	Supply	Demand by Banks	Traded in Money Market	Traded in Capital Market	Total Traded	Supply	Demand by Banks	Traded in Money Market	Traded in Capital Market	Total Traded			
03	0.0	0.0	0.0	0.0	0.0	592.8	121.1	54.0	77.2	131.2	0.0	0.0	0.0
04	0.0	0.0	0.0	0.0	0.0	496.2	19.5	19.5	54.8	74.3	0.0	0.0	0.0
05	874.2	256.5	148.4	58.5	206.9	337.3	40.7	40.7	33.9	74.6	264.7	72.7	177.5
06	628.9	0.0	0.0	164.3	164.3	314.8	63.5	59.6	61.1	120.7	-	168.9	36.1
07	753.6	9.0	9.0	51.3	60.3	263.4	0.0	0.0	4.6	4.6	-	1,017.2	1,213.5
08	816.4	1.0	1.0	287.0	287.9	258.9	0.5	0.5	86.5	87.0	94.0	231.6	230.8
09	578.3	19.1	0.0	126.4	126.4	322.4	43.5	37.8	0.0	37.8	-100.0	-	234.6
10	519.7	35.7	34.5	151.8	186.3	251.6	15.7	15.7	0.0	15.7	119.6	-	1,086.6
11	454.0	0.0	0.0	65.9	65.9	198.0	3.8	3.8	0.0	3.8	-100.0	-	1,625.4
12	1,058.1	91.6	148.5	304.6	453.1	591.0	29.4	23.7	457.3	481.0	526.5	-33.4	-5.8
Total	5,683.1	412.8	341.4	1,209.8	1,551.1	3,626.4	337.7	255.3	775.4	1,030.7	33.7	56.0	50.5

Source: Central Bank of Iran, weekly reports of government debt securities auctions

In addition to the auctions, the Government also issues debt securities through two other distinct methods: First, selling Murabaha Debt Securities in the capital market via an underwriter, and second, providing government creditors with Islamic Treasury Bonds in exchange of its debts. During 1402, IRR60.0 trillion Murabaha Debt Securities was sold via underwriting and in conjunction with the auctions, caused the total sold Murabaha Debt Securities to rise by 34.7 percent to IRR1,611.1 trillion compared to 1401.

In addition, IRR1,810.0 Government Treasury Bonds was issued in 1402, indicating 98.9 percent rise from 1401, however the amount used for debt settlement to Government creditors as well as the unallocated amount are not released. IRR300.0 trillion of the aforementioned figure has been issued aiming for settlement of Government debt to Tavanir for the subsidy on price of electricity. If the Government Treasury Bonds have been sold up, out of the IRR3,513.2 trillion Issuance of Government Debt Securities, IRR3,421 trillion should have been sold. However, considering discounts on prices, in fact the Budget finance via this method has been below the amount sold.

From mid-summer of 1400 onwards, the data on the debt market transactions (sum of the primary and the secondary markets) by its market players (Government, CBI, banks, Funds, etc.) has been issued by the Over the Counter (OTC). Accordingly, from mid-summer 1400 to the end of 1402, the net accumulated purchase of Government Debt Securities by the CBI and the Funds registered IRR1,845.6 trillion and IRR2,283.5 trillion, respectively. Note that as the CBI is prohibited from purchase of such securities in the primary market (IPO), the net purchase of this authority is attributed to the secondary market only.

The banks that were mainly suppliers of the government debt securities from mid-summer 1400 to the end of that year (negative net accumulated purchase of IRR556.3 trillion in the primary and secondary markets), shifted to the demand side in 1401 to register net purchase of IRR1,213.6 trillion of government debt securities from the primary and secondary markets. This trend maintained in 1402 and the net purchase of government debt securities by banks reached IRR240.0 trillion through primary and secondary markets. Accordingly, the net accumulated purchase of government debt securities by the banks from mid-summer 1400 to the end of 1402 was estimated about IRR896 trillion.

3-3. Privatization

The Iranian Privatization Organization started the Disposal of State-owned Companies from 1380, and till the end of 1402, out of total Privatization, 47.0 percent took place through Tehran Stock Exchange (TSE), 4.8 percent through Over the Counter (OTC), 48.2 percent through auctions, and 0.02 percent through negotiations. Also, 56.9 percent of the total Privatization were disposed in exchange of settlement of government debt to its creditors, indicating that this part of the Privatization has not taken place through market mechanisms. In this period, the "Justice" shares accounted

for 3.8 percent of the total Privatization. Table 13 presents the performance of the Iranian Privatization Organization by type of disposals from 1380 to 1402 at current prices. The inappropriate way of direct transfer for debt settlements that had been terminated from 1396 to 1398 and no company had been disposed through this way in that period, was again revived from 1399 to 1402 and accounted for 61.5 percent, 100.0 percent, 50.9 percent, and 99.2 percent of the total Privatization in 1399, 1400, 1401, and 1402, respectively.

Table 13. Performance of the Iranian Privatization Organization by Various Types (at current prices-IRR trillion)

	1402	1401	1400	1399	1398	1397	1396	1395	1394	1380-1393
Sales of Shares or Assets to the Public	5.2	1,426.3	0.0	471.8	32.2	3.7	10.7	29.9	26.2	755.0
Settlement of Debts (direct transfer)	629.9	1,480.5	823.9	753.6	0.0	0.0	0.0	19.0	1.2	289.2
Justice Shares (direct transfer)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	266.4
Total Sales Value	635.1	2,906.8	823.9	1,225.3	32.2	3.7	10.7	48.9	27.3	1,310.6
Percent of Total Disposals	9.0	41.4	11.7	17.4	0.5	0.1	0.2	0.7	0.4	18.7

Source: Iranian Privatization Organization, annual performance statistics on the value of disposition of shares and assets of companies qualified for being disposed (at current prices)

No data on realization of disposal of shares and disposable assets at constant 1395 prices were issued in 1402, however, it could be estimated that 1.4 percent of total disposals has taken place in 1402 at constant prices. Moreover, from the beginning of disposals to the end of 1402, about 49.6 percent of the disposals was to the Public, 29.5 percent was carried out for Settlement of Debt to Creditors, and 20.9 percent was by Justice shares,

at constant prices. Table 14 exhibits the performance of the Iranian Privatization Organization by various disposal types from 1380 to 1402 at constant 1395 prices, based on the SCI's consumer price index. Although, considering the consumer price index per se is not the best option for calculating the performance of Privatization at constant prices, it is the only available option.

Table 14. Privatization by Disposal Type (at constant 1395 prices-IRR trillion)

	1402	1401	1400	1399	1398	1397	1396	1395	1394	1380-1393
Sales of Shares or Assets to the Public	0.5	222.8	0.0	157.8	15.9	2.6	9.8	29.9	28.5	1,919.1
Settlement of Debt (direct transfer)	64.6	231.2	188.5	252.1	0.0	0.0	0.0	19.0	1.3	662.7
Justice Shares (direct transfer)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,007.8
Total Sales Value	65.2	454.0	188.5	409.9	15.9	2.6	9.8	48.9	29.8	3,589.6
Percent of Total Disposals	1.4	9.4	3.9	8.5	0.3	0.1	0.2	1.0	0.6	74.6

Source: Iranian Privatization Organization, annual performance statistics on the value of disposition of shares and assets of companies qualified for being disposed (at current prices); SCI, consumer price index; Research calculations

During 1402, about 39.9 percent of the disposals took place in TSE and 60.1 percent in auctions, hence no disposal was carried out in OTC or via negotiation. Tables

15 and 16 illustrate performance of the Iranian Privatization Organization by market type at current prices and also at constant 1395 prices, respectively.

Table 15. Privatization by Market Type (at current prices-IRR trillion)

	1402	1401	1400	1399	1398	1397	1396	1395	1394	1380-1393	Share in Total in 1402
TSE	253.2	1,426.3	9.5	760.2	2.3	0.1	1.1	12.7	21.7	812.8	39.9
OTC	0.1	0.0	0.0	129.3	29.9	0.2	0.0	0.5	3.0	170.7	0.0
Negotiation	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	1.4	0.0
Auction	381.8	1,480.50	814.4	335.8	0.0	3.2	9.6	35.7	2.6	325.6	60.1
Total Sales Value	635.1	2,906.8	823.9	1,225.3	32.2	3.7	10.7	48.9	27.3	1,310.6	100.0

Source: Iranian Privatization Organization, disposition statistics; SCI, consumer price index; Research calculations

Table 16. Privatization by Market Type (at constant 1395 prices-IRR trillion)

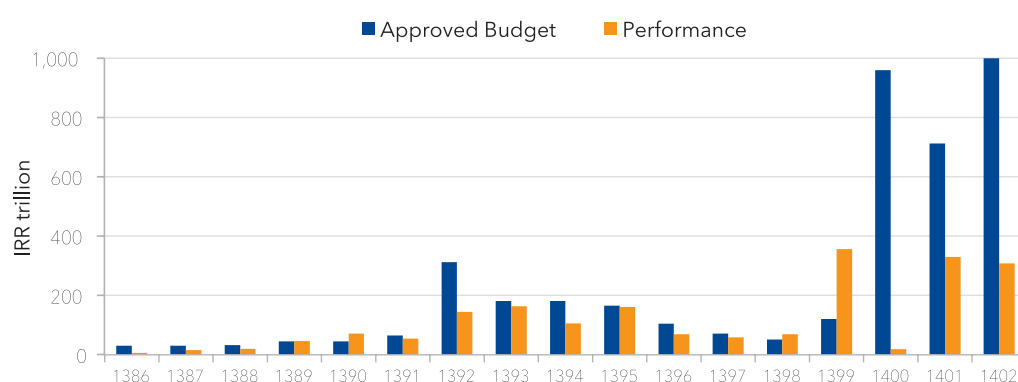
	1402	1401	1400	1399	1398	1397	1396	1395	1394	1380-1393	Share in Total in 1402
TSE	26.0	222.8	2.2	254.3	1.1	0.1	1.0	12.7	23.6	2,439.6	39.9
OTC	0.0	0.0	0.0	43.3	14.7	0.1	0.0	0.5	3.2	401.4	0.0
Negotiation	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	4.5	0.0
Auction	39.2	231.2	186.4	112.3	0.0	2.2	8.8	35.7	2.9	744.1	60.1
Total Sales Value	65.2	454.0	188.5	409.9	15.9	2.6	9.8	48.9	29.8	3,589.6	100.0

Source: Iranian Privatization Organization, disposition statistics; SCI, consumer price index; Research calculations

According to the Iranian Privatization Organization report, IRR307.6 trillion of Privatization revenues was deposited with the Treasury in 1402, indicating about 6.8 percent rise compared to 1401. Out of that amount, IRR273.6 trillion was deposited in the Public Revenues Account of the Treasury and the rest belonged to the Special Accounts

of the Treasury. Note that during 1402, IRR3.8 trillion of payments of Iranian Privatization Organization to the Treasury took place via Debt Settlement. A Comparison between the legislated and realized figure of Privatization in terms of Disposal of Shares and Companies is depicted in Graph 3.

Graph 3. Government Performance in Privatization



Source: Iranian Privatization Organization (IPO), Realization of the Budget Objectives of the Disposal of Shares and Companies by the IPO

3-4. National Development Fund

The National Development Fund (NDF) was established in 1389, aimed to own a portion of revenues from oil, gas, natural gas condensates as well as revenues from oil products, and allocate it to sustainable and productive investments and also preserving part of those revenues for future generations. In that regard, the share of NDF in Oil Exports Revenues was determined 20 percent in the Budget Law of 1389 and in line with the Sixth Development Plan, it was decided that 2 percentage points be added to that share annually. In the NDF's Article of Association, the Uses of the funds are specified and any withdrawal from the NDF funds by the Government is strictly prohibited, while in contrast in the Government Budget Laws, borrowing from the NDF has been allowed. Unlike its preceding years, in the Budget Bill of 1402 no withdrawal from the NDF was considered, hence the proposed share for NDF in Oil Exports Proceeds was 40 percent and estimated to be USD15.8 billion on the basis of the assumptions for the estimation of the Budget Bill figures. After the appraisal of the proposed Budget Bill of 1402 by the corresponding authorities, eventually the NDF share was increased to 42 percent in the Budget Law of 1402. Accordingly, the NDF share in the Oil Exports Proceeds was escalated by USD1.5 billion to USD17.3 billion. However, on the basis of the IRI Parliament Research Center, to finance part of the budget deficit, the Government was allowed to withdraw 20 percentage points of the NDF share in Petrodollars in 1402 which is estimated to be IRR1,714 billion.

On the basis of the report of the NDF, from the beginning of its establishment to the end of the 10th month of 1402, the total inflow to the Fund has been USD160.8 billion, of which 93.7 percent (USD150.6 billion) was attributed to the Oil Exports Proceeds. During the same period, the Uses of NDF amounted to USD132.1 billion, of which 86.4 percent (USD114.2 billion) was allocated to public and non-public plans as facilities. About 74.5 percent of those facilities - USD85.1 billion - were extended to various public plans and the remaining USD29.1 billion to the non-public

ones. Moreover, USD11.2 billion has been added to the NDF Uses titled "Return from Sources to the Budget". Only USD9.6 billion of the total Fund Uses have been reimbursed during the period under review. Accordingly, the balance of the Currency Reserve Accounts of the NDF was estimated IRR27.1 billion at the end of this period, of which 76.0 percent equivalent to USD20.6 billion was considered as the Manageable Balance of the NDF funds and the remaining USD6.5 billion as the balance of NDF liabilities. Accordingly, much of the NDF funds were spent for the public sector instead of productive plans in the private and non-public sectors.

From the establishment of the NDF to the end of the 10th month of 1402, USD30.5 billion has been allocated to financing foreign currency-oriented plans. Besides, part of the NDF funds in foreign currencies were deposited in some selected banks to be allocated to the oil, gas, petrochemicals, industries, and mining activities through facilities based on the assignments of the government budget laws. In this regard, USD6.0 billion has been deposited in those banks during the period under review.

The NDF has also extended some facilities in IRR according to some Laws, i.e., prior to the year 1394 the IRR210.0 trillion facilities were extended directly to plans and projects via some banks, but from 1394 onwards, the NDF deposited the funds at selected banks and those banks were responsible for allocating them. In that regard, till the end of the 10th month of 1402 the NDF deposited IRR850.0 trillion at selected banks aiming for financing 116,755 projects. In addition, IRR105.0 trillion for protecting rural employment has been considered by the NDF.

On the basis of the latest Sovereign Wealth Fund Institute ranking, with one place improvement the NDF ranked 16th among 100 sovereign wealth funds worldwide with USD162 billion assets, 8.0 percent above the USD150 billion in the previous ranking.

3-5. Targeted Subsidies Plan

In the Budget Law of 1402 and for six consecutive years, the details of the Sources and Uses of the Subsidies Reform Plan have been presented in a table that is more

comprehensive than preceding years. In fact, share of National Iranian Oil Company in Proceeds from Sales and Exports of Oil Products, Cost of Distribution and

Sales of Energy Carriers, and Imports of Oil Products and Electricity are financed via Proceeds from Sales of Oil Products, Natural Gas, Electricity, and Water. Moreover, the Organization of Targeted Subsidies uses the remaining funds for Cash and Non-cash Subsidies to Households,

Decreasing Absolute Poverty, Health Promotion, Subsidy on Bread, and Guaranteed Purchase of Wheat. The Sources and Uses of the Subsidies Reform Plan in the Budget Law of 1402 are presented in Table 17.

Table 17. Targeted Subsidies Plan Sources and Uses in 1402 Budget Law (IRR trillion)

Sources				Uses				
Description	1402 Budget Law	1401 Budget Law	1402 to 1401 Growth Rate in Law	Corresponding Sector	Description	1402 Budget Law	1401 Budget Law	1402 to 1401 Growth Rate in Law
Domestic Sales of Oil Products	926.8	774.0	19.7	Treasury	VAT on Oil Products	121.1	98.6	22.8
Export of Oil Products	2,918.5	2,602.0	12.2		VAT on Natural Gas	364.2	216.6	68.2
Domestic Sales of Natural Gas	2,753.1	851.0	223.5	Total Treasury		485.3	315.2	54.0
Export of LPG	-	70.0	-	National Iranian Gas Company	Cost of Production, Distribution and Sales of Natural Gas	243.8	200.0	21.9
Modification of Natural Gas Price (as fuel)	-	944.0	-		Road Transport Cost of Oil Products	188.0	95.0	97.9
Overdue Claims and Other Incomes	-	258.0	-	National Iranian Oil Products Refining and Distribution Company	Charges for Transportation, Storage, and Distribution of Oil Products	202.0	133.0	51.8
Rise in the Oil Products Exports Prices	-	606.0	-		Securing and Smartening CNG Stations	-	3.7	-100.0
Domestic Sales and Export of Ethane, Propane, LPG and Sulfur - National Iranian Gas Company	-	260.0	-	National Iranian Oil Company	14.5 Percent Share of National Iranian Oil Company from Oil Products	348.5	329.0	5.9
					Total Cost of Production, Distribution and Transportation		982.3	760.7
				Supporting Production in Energy Sector	Reimbursement of Commitments of Gas Projects and Energy Consumption Optimization	110.0	120.0	-8.3
					Commitments of Energy Saving in Power Plants	30.0	30.0	0.0
					Supporting Development and Maintenance of Production Capacity, Transfer, and Distribution of Oil Products (tax free)	140.0	95.1	47.2
				Total support of Production in Energy Sector		280.0	245.1	14.2
				Other	Exempting Schools from Paying Gas, Electricity, and Water Bills	0.5	0.6	-16.7
					Charges for Development of LPG Stations and Standardization of Cars	-	20.0	-100.0
					New Investments Projects of National Iranian Gas Company	-	260.0	-100.0
					2 Percent of the Price of Fuel Delivered to Aircrafts	0.4	-	-
				Total Other		0.85	280.60	-99.7
				Total		1,748.4	1,601.6	9.2
				Uses of Organization of Targeted Subsidies	Paying Cash and Non-cash Subsidies to Households and Livelihood Assistance	4,400.0	3,058.0	43.9
					Other	450.0	1,705.4	-73.6
				Total Uses of Organization of Targeted Subsidies		4,850.0	4,763.4	1.8
Total Sources	6,598.4	6,365.0	3.7	Total Uses		6,598.4	6,365.0	3.7

Source: Budget Laws of 1401 and 1402

In the Budget Law of 1402, the Total Sources of the Subsidies Reform Plan - mainly from the Sales of Energy Carriers - was estimated IRR6,598.4 trillion, 3.7 percent up from that of the Budget Law of 1401. Among the components of the Sources of the Plan, Proceeds from Domestic Sales and Exports of Oil Products grew by 19.7 percent and 12.2 percent, respectively, compared to the Budget Law of 1401. In addition, the Proceeds from the Domestic Sales of Natural Gas was increased by 223.5 percent to IRR2,753.1 trillion in the Budget Law of 1402 compared to the Budget Law of 1401. This 223.5 percent rise in this source could be attributed to the aggregation of the its components including Exports of LPG, Natural Gas (as Fuel) Price Modification, Exports of Ethane and Sulfur, and as such that were eliminated from the tables of the Budget Law of 1402. The Proceeds from Sales of Feedstock to the domestic petrochemical producers that were transferred to the Sources of the Subsidies Reform Plan in 1399 and 1400 from the Total Oil Revenues in General Sources, were again included in the General Sources of the Budget Laws of 1401 and 1402 and excluded from the Sources of the Subsidies Reform Plan implicitly. In the Budget Law of 1402 like its 2 preceding years, the Sources

and Uses of Electricity and Water to the subscribers have been omitted from the Sources and Uses of the Subsidies Reform Plan.

According to the Budget Law of 1402, the Sources of the Subsidies Reform Plan are supposed to be spent for 2 sorts of Uses. The first group of Uses is associated with the Treasury, National Iranian Oil Products Refining and Distribution Company, National Iranian Oil Company, National Iranian Gas Company, Supporting Production in Energy Sector, and etc. Share of such Uses that are classified as off-plan, rose by 1.3 percentage points in Budget Law of 1402 compared to the Budget Law of 1401. The second group of Uses directly deals with the objectives of the Plan and its share in Total Uses in 1402 fell to 73.5 percent from the 74.8 percent of the Budget Law of 1401. As for the second group, in the Budget Law of 1402, Cash and Non-cash Subsidies to Households and Livelihood Assistance, Subsidies on Essential Goods, Bread, and Medicine grew by 43.9 percent compared to the Budget Law of 1401, accounting for 90.7 percent of the second group of Uses and 66.7 percent of the Total Uses of the Subsidies Reform Plan.

4. BALANCE OF PAYMENTS

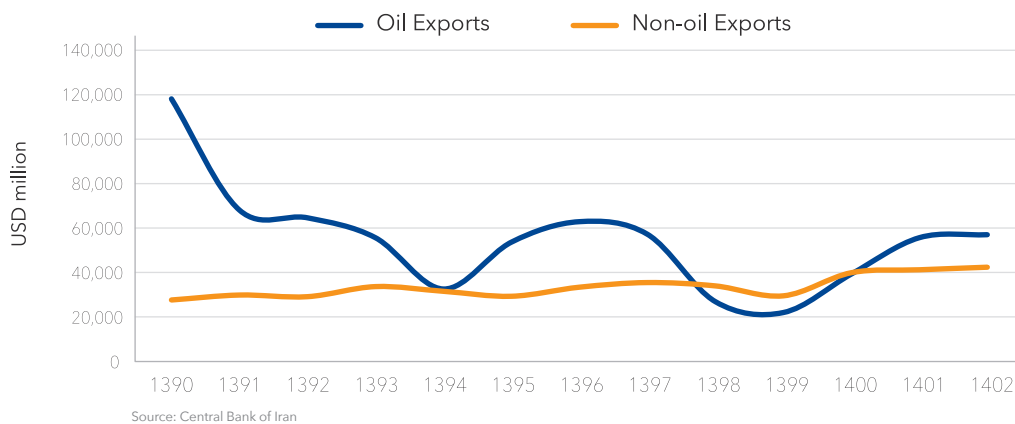
According to the preliminary estimates of the CBI, the balance of payments that consists of the Current Account, Net Capital Account, and Errors and Omissions registered a surplus of USD1.9 billion in 1402, far below the USD4.0 billion surplus in 1401. An examination of the components of the balance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

The value of Iran’s trade of goods as a whole (sum of the value of imports and exports) in 1402 stood 3.0 percent above that in 1401. The goods exports value of Iran in 1402 grew by 2.8 percent compared to 1401 to register USD100.4 billion. As for oil exports, its value in 1402 was 2.5 percent up from that in its preceding year. From 1390 to 1394, the imposition of economic sanctions on Iran caused the oil exports revenues to plummet, reaching USD31.8 billion in 1394 from USD119.1 billion in 1390. However, in the aftermath of the JCPOA in 1394, the downward trend of Iran’s oil exports reversed course and in three years, the value of Iranian oil exports climbed to USD57.0 billion in 1397. As a result of the unilateral withdrawal of the USA from the JCPOA in 1397 that consequently resulted in reimposition of the economic sanctions against Iran, the value of the Iranian oil exports diminished to USD21.0 billion in 1399, however the COVID-19 pandemic and the

fall in global oil prices ought to be considered as other drivers of the fall in oil exports revenues in that year. From 1400 to 1402, Iran’s oil exports experienced a remarkable growth, registering USD56.8 billion in 1402. All in all, lifting the COVID-19 limitations, the effects of Russia invasion of Ukraine and the tensions in the Middle East on oil prices, and finally loosening of implementation of economic sanctions on Iran were the contributors to the rise in value of Iran’s oil exports from 1400 to 1402.

During 1390 to 1402, Iran’s non-oil exports was not that volatile and had an upward trend in general. The value of Iran’s non-oil exports rose to USD43.6 billion in 1402, up 3.2 percent from the USD42.2 billion in 1401. The value of oil and non-oil exports of Iran between 1390 and 1402 are shown in Graph 4.

Graph 4. Value of Oil and Non-oil Exports of Iran



The goods imports that valued USD75.4 billion in 1401, grew by 3.3 percent to USD77.9 billion in 1402. In addition, the oil and gas imports¹ of Iran totaled USD1.2 billion in 1402, far above the USD228 million in 1401, probably due to the imports of gasoline. Consequently, the oil trade balance surplus expanded by 0.7 percent, while non-oil trade balance deficit rose by 0.6 percent to register USD33.1 billion in 1402. The oil trade balance of Iran permanently has a surplus, as the exports of oil and gas always stands significantly above the imports of oil

products and gas (which is negligible). Besides, the share of oil exports in total exports of the country fell by 0.1 percentage point to 56.6 percent in 1402.

The Services Account deficit that registered USD6.7 billion in 1401, surged by 66.5 percent to USD11.1 billion in 1402. The Income Account² deficit on the other hand fell to USD1.0 billion in 1402 from USD1.1 billion in 1401. Details of the balance of payments are shown in Table 18.

Table 18. Balance of Payments in 1401 and 1402 (USD billion)

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

Source: Central Bank of Iran
*Preliminary estimates

4-1. Imports and Exports of Goods

On the basis of the Islamic Republic of Iran Customs Administration (IRICA), Iran's customs exports in 1402 registered 138.4 million tons in weight and USD50.1 billion in value, while the corresponding figures for the imports for the same year registered 39.6 million tons and USD66.9 billion. Accordingly, the trade balance deficit rose to USD16.8 billion in 1402 from the USD6.2 billion of 1401 which is attributed to the 10.9 percent (USD6.6 billion) rise in value of imports and fall in value of exports due to the fall in global prices of Iran's major exports items in 1402. According to the Trade Promotion Organization of Iran, in 1402 about 47.125 million tons of petrochemicals valued at USD18.656 billion was exported, indicating 11.3

percent and 28.5 percent fall, respectively, in weight and in value. Precisely speaking, the average value of a ton of exported petrochemicals has dropped from USD491 in 1401 to USD396 in 1402.

During 1402, the goods exports of the country expanded by 11.4 percent in weight, while contracted by 7.3 percent in value. Hence, the average price of exported goods per ton declined to USD362 in 1402 compared to USD435 in its preceding year. Regarding the goods imports, in 1402 it expanded both in weight and in value by 5.9 percent and 10.9 percent, respectively. Therefore, the average price of imported goods per ton rose to USD1,691 in 1402 from

1. Including customs and non-customs imports of oil products, natural gas, natural gas condensates and liquids

2. Mainly including compensation of workers and revenues and expenditures from Investments.

USD1,614 in 1401. Subsequently, the average price of a ton of imported goods was four times that of the exported goods in 1402, emanating in exports of semi-raw or low value-added goods. In addition, the CBI foreign exchange policy has also tempted the merchants to over invoice their imports and under invoice their exports. It is noteworthy that the highly-concentrated exports destinations have served as a hinderance to the development of value-added products exports and has also deprived the country from benefiting from trade with various parties, translating to export proceeds vulnerability to economic and political developments of the trade counterparts.

On the basis of the statistics issued by the IRICA, cattle feed corn, cellular phone, and gold bullion were the top three imported items of the country in 1402 with the values of USD3.783 billion, USD2.906 billion, and USD1.936 billion, respectively. The major driver of the 100 percent rise in the imports of gold bullion rooted in the Circular enunciated in summer 1402 based on which the exporters

were allowed to fulfill their exports commitments through imports of gold to the country - in exchange of transferring their foreign proceeds to the country. In 1402, USD7.598 million auto parts were imported to the country, up 31.9 percent from that in its preceding year due to the rise in the number of automotive assembly plants of Chinese vehicles in Iran. Among the top ten imported items, the highest fall in value belonged to wheat at 50.4 percent, to rice at 42.6 percent, and to soybean at 24.3 percent.

As for the exports, liquified natural gas valued at USD3.090 billion, liquified propane at USD3.062 billion, and bitumen at USD2.197 billion were the top three customs exported items in 1402. Among the top ten exported items, the highest fall in value belonged to liquified natural gas at 59.1 percent, to urea at 32.0 percent, and to liquified propane at 19.2 percent, mainly due to the fall in their global prices and also the price discounts. Table 19 presents the data on Iranian customs trade in 1401 and 1402.

Table 19. Customs Trade in 1401 and 1402

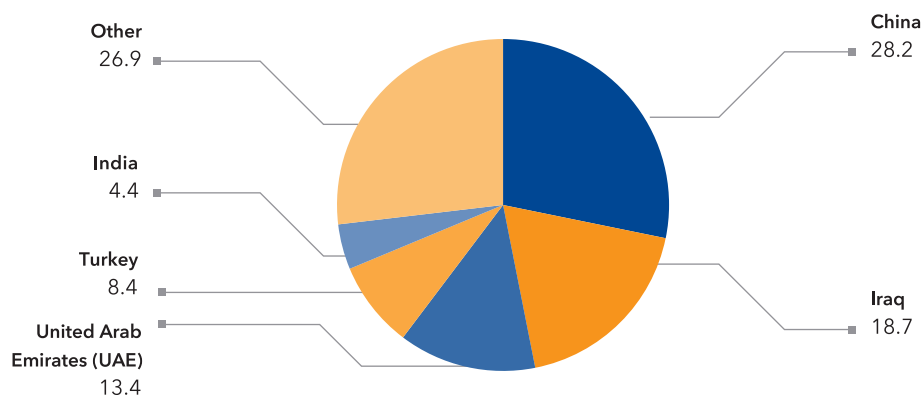
	1402			1401			Percentage Change	
	Weight (1000 tons)	Value (USD million)	Value to Wight Ratio (USD per ton)	Weight (1000 tons)	Value (USD million)	Value to Wight Ratio (USD per ton)	Weight	Value
Exports	138,376	50,120	362	124,245	54,086	435	11.4	-7.3
Imports	39,556	66,883	1,691	37,358	60,309	1,614	5.9	10.9
Customs Trade Balance	98,820	-16,763	-	86,887	-6,223	-	13.7	169.4

Source: Islamic Republic of Iran Customs Administration

As in 1401, China, Iraq, UAE, Turkey, and India were the top five exports destinations of Iran in 1402, constituting 73.1 percent of the value of total customs exports of Iran. In 1402, the customs exports to China registered USD14.2 billion with 28.2 percent share in total, followed by Iraq valued at USD9.4 billion with 18.7 percent share, UAE at

USD6.7 billion with 13.4 percent share, Turkey at USD4.2 billion with 8.4 percent share, and India at USD2.2 billion with 4.4 percent share in total customs exports. Graph 5 illustrates the top five customs exports destinations of Iran in 1402.

Graph 5. Main Customs Exports Destinations of Iran in 1402 (percent)

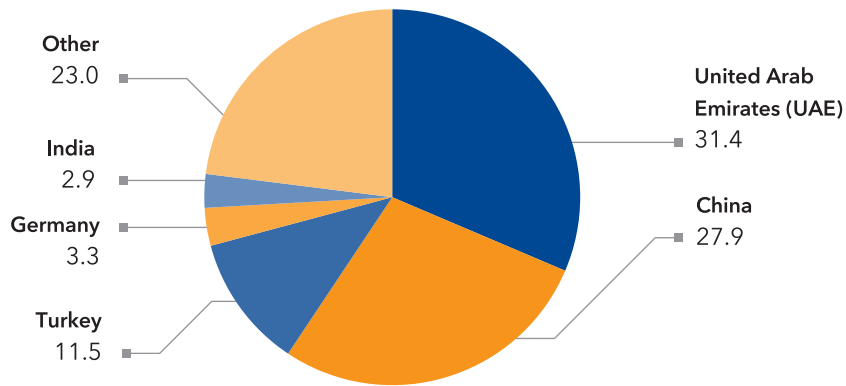


Source: Islamic Republic of Iran Customs Administration

During 1402, UAE ranked as the first source of Iran’s Imports at USD21.0 billion with share of 31.4 percent in total value of Iran’s customs imports, followed by China at USD18.7 billion with 27.9 percent share, Turkey at USD7.7 billion with 11.5 percent share, Germany at USD2.2 billion

with 3.3 percent share, and India at USD1.9 billion with 2.9 percent share in total value of Iran’s customs imports. The top five sources of Iran’s imports constitute 77.0 percent of the value of customs imports of the country. Graph 6 depicts Iran’s major sources of Imports.

Graph 6. Main Customs Sources of Imports of Iran in 1402 (percent)

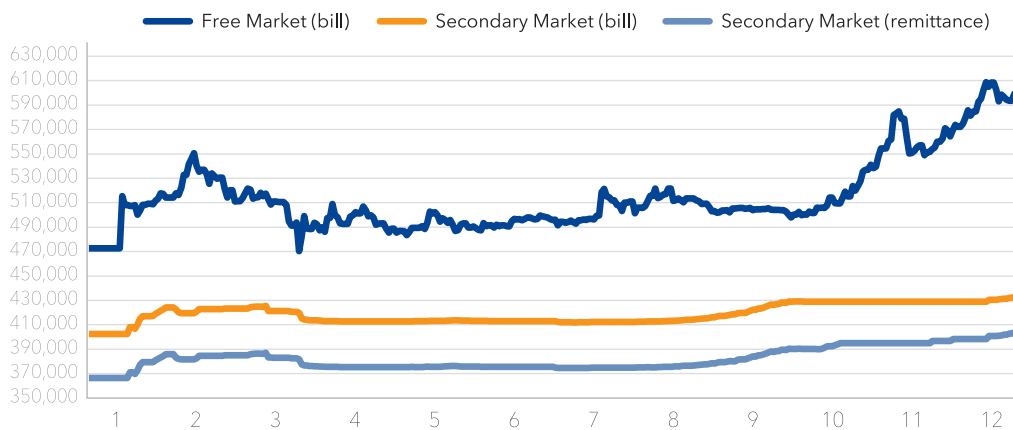


Source: Islamic Republic of Iran Customs Administration

5. FOREIGN EXCHANGE MARKET

The price of a US Dollar against the Iranian Rials in the domestic free market opened the first working day of 1402 at IRR515 thousand and escalated to the high of IRR551 thousand on the 11th day of the second month of spring. However, the depreciation of IRR against USD did not last long and the USD/IRR exchange rate dropped to 470 thousand in the late spring of 1402. From that point onwards, the USD slightly appreciated against IRR and eventually closed fall 1402 at IRR499.8 thousand. Similar to winter 1401, in the last quarter of 1402, the Iranian foreign exchange market experienced an upward price shock, causing the USD/IRR exchange rate to stand up 28 percent on the last day of 1402 from that of the end of 1401. All in all, the USD/IRR exchange rate was less volatile throughout 1402 than its preceding year. The developments of USD/IRR exchange rates in the free market and the secondary market are depicted in Graph 7.

Graph 7. USD/IRR Exchange Rates in Various Markets During 1402



Source: Gold, Coin, and Currency Information Network

The foreign exchange market took a less volatile path in the first three quarters of 1402 than the same period of 1401. Releasing part of Iran's funds via the International Monetary Fund (IMF) and part of funds in Luxemburg and Iraq as well as the negotiations for unfreezing the funds with Turkey and Japan are referred to as the contributors to the low volatility of the Iranian foreign exchange market in the first three quartets of 1402. In addition, the limited monthly liquidity growth thanks to the CBI macroprudential policy was a factor of stabilization of the foreign exchange market in the time span under discussion. All in all, the rise in petrodollars in conjunction with the exercises of the market maker were the dominant

factors of the stability in the domestic market for foreign exchanges. During the first 11 months of 1402, despite the sales of petrodollars (oil exports proceeds and the NDF funds) to the CBI, the foreign assets of this monetary authority that were expected to expand, diminished by about IRR1,720 trillion, indicating an extensive supply of foreign reserves by the CBI. Unlike the first three quarters of 1402, the foreign exchange market faced an upward price shock in winter 1402 similar to winter 1401. As for international circumstances, the war in Gaza Strip that was ignited in the last quarter of 1402 was a factor of intensification of the Iranian Rials depreciation in the same quarter. The USD price in winter 1402 averaged IRR554.4

thousand, indicating 28.7 percent rise from winter 1401. In annual terms, the average USD/IRR exchange rate in the free market registered IRR515.0 thousand, standing

49.9 percent above that of 1401. Table 20 compares the nominal USD/IRR bill exchange rates in 1401 and 1402.

Table 20. Nominal USD/IRR Bill Exchange Rates in 1401 and 1402

	Average	Maximum	Minimum	Standard Deviation	Coefficient of Variation
Spring 1401	289,977	330,000	262,300	18,938	0.07
Summer 1401	311,388	327,500	296,100	9,417	0.03
Fall 1401	345,789	388,320	316,660	19,195	0.06
Winter 1401	430,816	525,000	387,590	28,565	0.07
1401	343,536	525,000	262,300	57,068	0.17
Spring 1402	507,098	550,510	469,830	20,163	0.04
Summer 1402	493,654	508,610	483,100	5,045	0.01
Fall 1402	506,254	521,500	492,410	6,954	0.01
Winter 1402	554,401	609,200	499,490	34,305	0.06
1402	514,999	609,200	496,830	30,633	0.06

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

The USD/IRR bill exchange rate in the secondary market¹ did not experience remarkable changes during 1402 in comparison with its corresponding rate in the free market, hence the gap between the two rates widened. This gap that had touched the high of 24.3 percent in the second month of spring 1402, reversed course and was lying between 19 to 21 percent during summer and fall of 1402. Due to the upward exchange rate shock in winter 1402 in the free market and the stability of the USD/IRR bill exchange rate in the secondary market, the gap between

the USD/IRR bill exchange rate of the two markets reached the high of 41.9 percent in the middle of the last month of 1402, translating to higher sources of economic rent. The gap between the USD/IRR remittance rate in the secondary market and the USD/IRR bill exchange rate in the free market behaved the same and registered 52.8 percent on the same date, recording the widest gap during the year 1402. Meanwhile, for imports of some essential goods, the USD was allocated at IRR285 thousand which deviated more than 100 percent from the free market rate.

1. The market where foreign currencies are supplied for official imports of goods and services at rates below the free market rates. Precisely speaking, in order to observe the CBI regulation, the exporters are required to supply their foreign proceeds in that market.

6. MONETARY POLICY

6-1. Monetary Aggregates

The Liquidity (M2) closed the year 1402 at IRR78,774.5 trillion, indicating 24.3 percent rise from the end of 1401, in accordance with the latest CBI data. The annual growth rate of M2 that had reached 39.0 percent at the end of 1400, kept on falling and registered 31.1 percent at the end of 1401 and closed the year 1402 by further 6.8 percentage points decrease. The slower pace of the M2 growth could be attributed to the macroprudential policy of the CBI implemented since 1400, based on which the banks were subject to put a cap on their monthly growth rate of their assets - 2 percent for the commercial banks and 2.5 percent for the specialized banks. The monthly

developments of M2 reveals that this major monetary aggregate has expanded by 1.8 percent on average per month during the year 1402, below the decreed monthly growth cap. The monetary base (M0) also grew at a slower pace of 27.6 percent at the end of 1402, below the 42.9 percent at the end of 1401 to reach IRR10,906.3 trillion. Accordingly, the M2 money multiplier that had registered 7.41 at the end of 1401 fell to 7.22 at the end of 1402. In addition, the CBI also revised the categorization of the components of the monetary base aiming for higher quality data in that regard¹. Table 21 depicts the developments of M2 by its components in 1402.

Table 21. Developments of Liquidity with Its Components (IRR trillion-percent)

	End of Period Balance		End of Period Annual Growth Rate		Share in Liquidity at The End of	
	1402	1401	1402	1401	1402	1401
Liquidity (M2)	78,774.5	63,376.8	24.3	31.1	100.0	100.0
Money (M1)	19,146.4	16,296.9	17.5	65.2	24.3	25.7
Notes and Coins with the Public	1,468.8	1,226.1	19.8	41.9	1.9	1.9
Sight Deposits	17,677.7	15,070.8	17.3	67.4	22.4	23.8
Checks (net)	522.6	201.1	159.9	98.5	0.7	0.3
Quasi-money	59,628.1	47,079.9	26.7	22.4	75.7	74.3
Interest-free* Saving Deposit	7,603.5	5,497.3	38.3	68.5	9.6	8.7
Short Term	16,865.4	15,931.3	5.9	16.8	21.4	25.1
One-year	14,508.7	14,739.5	-1.6	37.9	18.4	23.3
Two-year	4,183.5	6,868.3	-39.1	-28.5	5.3	10.8
Three-year	14,382.9	2,346.8	512.9	-	18.3	3.7
Four-year	3.6	3.6	0.0	-2.7	0.0	0.0
Five-year	65.2	63.7	2.4	3.7	0.1	0.1
Miscellaneous Deposits	2,015.3	1,629.4	23.7	35.0	2.6	2.6

Source: Central Bank of Iran

* Known as Gharz-al-hasanah Saving Deposit in CBI books.

The M2 statistics reveal that the three-year deposits constituted 18.3 percent of this monetary aggregate at the end of 1402, showing 14.6 percentage points rise from the end of 1401. The higher interest rate of three-year deposits than the two-year ones and the arbitrary prematurity withdrawal penalty waiver granted by banks to the depositors resulted

in a remarkable rise in the balance of three-year deposits at the end of 1402 from the end of 1401 in expense of 40 percent fall in the two-year deposits. However, the share of short-term deposits, interest-free saving deposits, and sight deposits in total accounted for 53.4 percent of the liquidity - about 4 percentage points below that at the end of 1401 -

1. The revision is based on Monetary and Financial Statistics Manual and Compilation Guide, International Monetary Fund, 2016.

indicating that the depositors were reluctant to invest their funds in long-term deposits and their decision making has been on short-term basis.

An examination of M2 by its components, money (M1) and quasi-money, reveals that money had expanded by 17.5 percent at the end of 1402 compared to the end of 1401. The quasi-money, on the other hand grew by 26.7 percent during the same period. The M1 that accounted for 26.0 percent of M2 in the first month of 1402 closed the year 1402 at 24.0 percent share. The rise in the share of quasi-money in M2 and its higher growth rate than M1 could be attributed to two factors. First, limited issuance of certificates of deposits with 30 percent interest rates following the CBI circular in that regard in winter 1402, and second, arbitrary offering of interest rates higher than the official ones on long-term deposits by some banks.

The CBI decided to revise the USD/IRR exchange rate used for conversion of its foreign assets (liabilities) to IRR from the last month of 1402 onwards. Moreover, the categorization of the monetary base components by the Monetary Authority became updated based on the 2016 Manual of IMF. For instance, it is recommended that CBI Net Foreign Claims on the Public Sector be excluded from the CBI Net Foreign Assets, and in exchange be included in the CBI Net Claims on the Public Sector. The IMF membership fee is as such. Regarding the quality of the assets, the country's access to its foreign assets matters, i.e., the frozen assets seem to be excluded from the Net CBI Foreign Assets and are classified under the Net Other CBI assets.

The CBI also revised the M0 categorization for some years prior to 1402, with the aggregate figures remaining unchanged.¹ The M0 annual growth rate that had registered 42.9 percent at the end of 1401 plummeted to 27.6 percent at the end of 1402, indicating 15.3 percentage points decrease. On the basis of the revised sources of the monetary base, the CBI Net Foreign Assets skyrocketed by 513 percent in 1402, accounting for 181.5 percentage points of the 27.6

percent annual growth rate of M0 in the same year. Note that the rise in this component is rooted in the change of the USD/IRR exchange rate for conversion of assets to IRR. Precisely speaking, the USD/IRR exchange rate used for conversion of the foreign assets has been that of the secondary market at the end of 1402 at 405 thousand - far above the official rate of 42 thousand. Hence, by converting their values to USD with the corresponding rates, the CBI Net Foreign Assets in USD in 1402 has even dropped by 36 percent, equivalent to USD26 billion. So, it is grasped that in 1402, part of the CBI Net Foreign Assets has been sold by the market maker in an effort to control the foreign exchange market and to rein in the growth rate of the monetary base. In order to offset the monetary effects of the rise in the CBI Net Foreign Assets (in IRR due to exchange rate update), the CBI Net Other Assets has decreased by an amount equivalent to the rise in the CBI Net Foreign Assets. Therefore, the CBI Net Other Assets in 1402 has served as a factor of decrease in the monetary base with negative 199.1 percentage points share in the annual growth rate of that monetary aggregate, albeit 106.4 percent rise in the balance of CBI Open Market Operations in 1402 as a subgroup of the CBI Net Other Assets has an increasing role in M0 growth rate.

With reference to the rearrangement of M0 component, in fact the CBI Net Claims on Banks has been the major contributor to the annual growth of monetary base in 1402, with 44.5 percentage points share, due to the rise in banks' overdraft from CBI. So, given the doubled balance of Open Market Operations - expansionary monetary policy of the CBI - in 1402, the severe imbalance of the Iranian banking system is crystal clear.

The CBI Net Claims on the Public Sector with share of 0.7 percentage point in the annual growth rate of M0 served as another factor of increase in the monetary base in 1402 as the Government deposits has grown by a slower pace than the its debts to the CBI in the period under review. Table 22 presents the developments of M0 from 1400 to 1402.

1. The CBI Net Foreign Assets at the end of 1401 registered IRR6,824.3 trillion (approximately USD162 billion with 42 thousand IRR per USD) based on the previous categorization of monetary base and was revised to IRR3,024.9 trillion (approximately USD72 billion with 42 thousand IRR per USD) based on the new categorization of the monetary base, indicating 55.0 percent fall (IRR3,799.4 trillion, equivalent to USD90 billion) in this component of monetary base. In the same vein, the Net Other Assets of CBI at the end of 1401 was revised to positive IRR3,459.6 trillion based on the new categorization of monetary base from the negative IRR151.0 trillion, indicating IRR3,610.6 trillion change.

Table 22. Revised Monetary Base Sources from 1400 to 1402

	End of Period Balance (IRR trillion)			Growth (percent)		Share in Growth (percentage point)	
	1402	1401	1400	1402 to 1401	1401 to 1400	1402 to 1401	1401 to 1400
Monetary Base (M0)	10,906.3	8,548.0	5,981.1	27.6	42.9	27.6	42.9
Net Foreign Assets	18,537.1	3,024.9	3,093.1	512.8	-2.2	181.5	-1.1
CBI Claims on Public Sector (net)	-1,786.8	-1,848.9	-572.8	3.4	-222.8	0.7	-21.3
CBI Claims on Public Sector	4,742.8	3,293.2	2,359.8	44.0	39.6	17.0	15.6
Public Sector Deposits with the CBI	6,529.6	5,142.1	2,932.6	27.0	75.3	-16.3	-36.9
CBI Claims on Banks	7,713.5	3,912.4	1,463.4	97.2	167.4	44.5	40.9
Other Assets (net)	-13,557.7	3,459.6	1,997.4	-491.9	73.2	-199.1	24.4
Balance of Open Market Operations	2,040.0	988.4	1,012.9	106.4	-2.4	12.3	-0.4

Source: Central Bank of Iran

6-2. Sources and Uses of Banks

The aggregated balance sheet of the banks and non-bank credit institutions suggests that their assets (liabilities) excluding below the line items, at the end of 1402 have grown by 28.0 percent from the end of 1401. On the assets side, Other Assets, Non-public Debt, and Deposits with the CBI had, respectively, the highest growth rates of 33.0,

30.6, and 29.7 percent during 1402. On the liabilities side, Debt to the CBI, Other Liabilities, and Deposits of Public Sector grew by 97.2, 34.2, and 24.4 percent during 1402, respectively, registering the highest growth rates. Table 23 presents a summary of the assets and liabilities of the banks and non-bank credit institutions in 1402.

Table 23. Assets and Liabilities of the Banks and Non-bank Credit Institutions (IRR trillion)

	Balance at the End of		Share of Banks and Non-bank Credit Institutions at the End of 1402			Percentage Change of 1402 to 1401
	1402	1401	Public Commercial	Public Specialized	Non-public	
Assets (excluding below the line items)	142,022.3	110,930.6	32,974.6	20,231.6	88,816.1	28.0
Foreign Assets	23,854.1	20,336.4	2,852.1	5,444.8	15,557.2	17.3
Notes and Coins	191.9	193.8	63.4	20.2	108.3	-1.0
Deposits with the CBI	9,245.6	7,128.1	2,365.1	580.2	6,300.3	29.7
Claims on Public Sector	9,749.4	7,931.8	4,500.8	1,708.1	3,540.5	22.9
Claims on Non-public Sector	66,509.0	50,934.4	13,789.3	9,288.7	43,431.0	30.6
Others Assets	32,472.3	24,406.1	9,403.9	3,189.6	19,878.8	33.0
Liabilities (excluding below the line items)	142,022.3	110,930.6	32,974.6	20,231.6	88,816.1	28.0
Deposits of Non-public Sector	77,305.7	62,150.7	20,043.3	7,049.2	50,213.2	24.4
Debt to CBI	7,713.5	3,912.4	2,358.8	1,631.2	3,723.5	97.2
Deposits of Public Sector	392.0	463.2	211.9	104.6	75.5	-15.4
Capital Account	2,599.6	2,384.3	-464.4	1,094.2	1,969.8	9.0
Foreign Deposits	20,479.7	17,035.5	3,209.0	4,741.5	12,529.2	20.2
Other Liabilities	33,531.8	24,984.5	7,616.0	5,610.9	20,304.9	34.2

Source: Central Bank of Iran

At the end of 1402, the balance of extended facilities of the banking system reached IRR70,682.3 trillion, 26.6 percent and equivalent to IRR14,849.2 trillion above that at the end of 1401. The balance of deposits at the

same period reached IRR91,629.2 trillion by IRR18,886.7 trillion, equivalent to 26.0 percent rise from the end of 1401. The ratio of extended facilities to deposits less the legal reserves at the end of 1402 registered 85.2 percent,

showing no considerable change from its preceding year. Table 24 present the balance of extended facilities and

balance of deposits of the banking system.

Table 24. End of Period Balance of Extended Facilities and Deposits at Banks and Non-bank Credit Institutions

	1402	1401	Percentage Change
Extended Facilities (IRR trillion)	70,682.3	55,833.1	26.6
Deposits (IRR trillion)	91,629.2	72,742.5	26.0
Deposits Less Legal Reserves (IRR trillion)	82,974	65,603.3	26.5
Ratio of Extended Facilities to Deposits Less Legal Reserves (percent)	85.2	85.1	-

Source: Central Bank of Iran, Banking Statistics

During 1402, the total extended facilities by the banking system rose by IRR11,193.1 trillion compared to the end of 1401 to reach IRR56,460.3 trillion, indicating 24.7 percent rise. This annual growth is also consistent with the allowed monthly growth rate of the banks' assets in CBI's macroprudential policy. Out of the total facilities extended during 1402, IRR46,122.0 trillion was allocated to businesses (individuals and legal entities) and the remaining to the households. As for the type of extended facilities, during 1402, out of the total facilities allocated to the businesses, the highest share of 76.4 percent

was allocated for working capital. Out of the allocated facilities for the same regard, 41.5 percent equivalent to IRR14,618.0 trillion belonged to the Services sector and 39.0 percent equivalent to IRR13,728.8 trillion to the Industries and Mining sector. Moreover, Purchase of Private Goods constituted the highest share of 41.7 percent of the IRR10,338 trillion facilities extended to the households, while facilities aiming for house tenancy deposits accounted for the lowest share of 1.7 percent in 1402.

Table 25. Extended Facilities by The Banking System in 1402 (IRR trillion)

Sector /Type of Facility	Businesses (Individuals and Legal Entities)							Final Consumers (households)	Total
	Agriculture	Industries and Mining	Housing and Construction	Commerce	Services	Miscellaneous	All Sectors		
Total	3,064.4	16,743.0	2,603.9	4,473.8	19,224.4	12.6	46,122.0	10,338.4	56,460.3
	Share of Each Type by Sectors (percent)								
Creation	23.7	11.9	57.7	6.0	17.1	28.6	16.9	0.0	13.8
Working Capital	67.3	82.0	36.1	86.9	76.0	66.8	76.4	0.0	62.4
Development	6.5	5.0	3.2	6.0	4.9	3.7	5.0	0.0	4.1
Non-interest* Loans for State Welfare Organization	0.3	0.0	0.0	0.0	0.2	0.1	0.1	0.0	0.1
Non-interest* Loans for Imam Khomeini Relief Foundation	0.9	0.2	0.0	0.1	0.5	0.4	0.4	0.0	0.3
Non-interest* Loans for Other Purposes	1.0	0.3	0.0	0.1	0.6	0.4	0.4	0.0	0.3
Repair	0.0	0.0	0.1	0.0	0.0	0.0	0.0	2.5	0.5
Housing Repair	0.0	0.0	0.0	0.0	0.1	0.0	0.0	3.1	0.6
Purchase of Second-Hand House	0.0	0.0	0.7	0.0	0.0	0.0	0.0	5.2	1.0
Purchase of New Builds	0.0	0.2	1.5	0.5	0.1	0.0	0.3	3.3	0.8
Purchase of Private Goods	0.2	0.2	0.1	0.3	0.4	0.0	0.3	41.7	7.9
Purchase of Private Vehicle	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.9	0.5
Non-interest* Loans for Marriage	0.0	0.0	0.0	0.0	0.0	0.0	0.0	13.4	2.4
Non-interest* Loans for Necessary Cased	0.1	0.0	0.0	0.2	0.1	0.0	0.1	22.8	4.2
Non-interest* Loans for Population Growth**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.5	0.6
Tenancy Deposit	0.0	0.0	0.4	0.0	0.0	0.0	0.0	1.7	0.3

Source: Central bank of Iran

*Non-interest loans known as Gharz-al-hasaneh in CBI books, basically includes a small amount of fee for administrative affairs only.

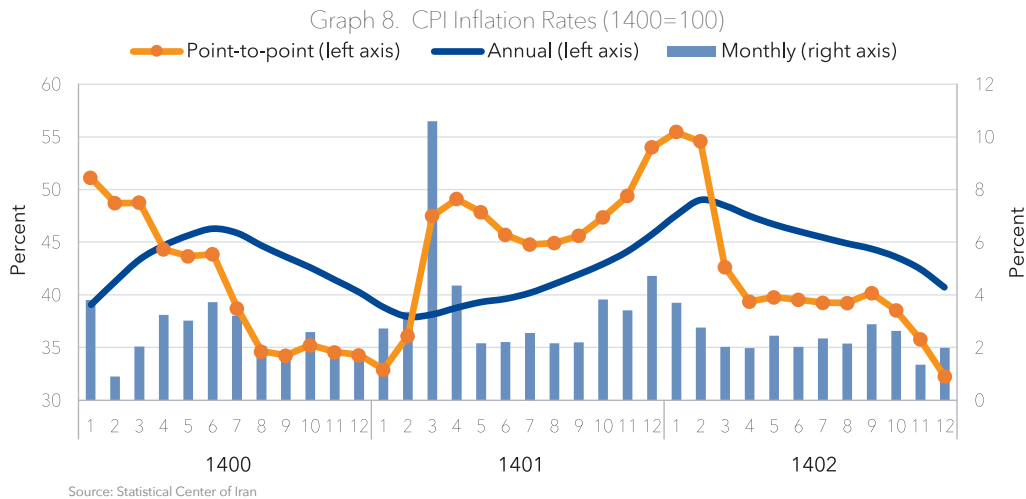
** This sort of loan is specified in the Government Budget in line with Demographic Policies. As a decreed type of loan for the banking system, it serves as a carrot for couples to give birth to more children. The amount of the loan varies by the birth order of any child.

7. PRICES AND INFLATION

During the past half a century, the Iranian economy has been suffering from chronic inflation, a phenomenon based on which a country experiences notable inflation rates for many years or decades due to various reasons such as continuous oversupply of money. Inflationary expectations among Iranians, imposition of economic sanctions on Iran especially from 1390s, limited access to foreign exchange reserves, and finally practicing unsound monetary and fiscal policies were the contributors to the persistence of the chronic inflation in the Iranian economy.

Various price indices are used for calculation of rates of inflation, among those the Consumer Price Index (CPI) is of high importance as the changes in that index represent the changes in welfare level of the households. The data on the CPI inflation rate was previously published by both the CBI and the SCI, however from the beginning of 1402 the SCI became in charge of issuing that data only. Note that the CBI data on CPI inflation rate are somehow released, but

unofficially and for certain reasons¹. On the basis of the SCI data (1400=100), from early 1402 the annual CPI inflation rate behaved different from 1401 and closed the year 1402 at 40.7 percent, far close to the 40.2 percent end of year annual CPI inflation rate of 1400. Graph 8 depicts the developments of the CPI inflation rates from the beginning of 1400 to the end of 1402.



The elimination of allocation of USD at official rate of IRR42 thousand for imports of essential goods in the early 1401 caused the monthly and point-to-point CPI inflation rates to surge in the last month of spring 1401. From the same month, the continuous downward trend of the annual CPI inflation that has started from mid-1400, reversed course and lasted till the end of the first month of 1402. In line with its upward trend from the beginning of fall 1401, in the first month of 1402 the point-to point CPI inflation rate reached the high of 55.5 percent from 1400 onwards. The annual

CPI inflation rate that had registered 49.1 percent in the second month of 1402 reversed course and in a continuous downward path closed the year 1402 at 40.7 percent. The point-to-point CPI inflation rate fell slightly to 54.6 percent in the second month of 1402 and considerably diminished by 12.0 percentage points to 42.6 percent at the end of spring 1402. Experiencing a stable trend in its succeeding 6 months, the point-to-point CPI inflation rate fell again and eventually closed the year 1402 at the low of 32.2 percent from 1400 onwards. The monthly CPI inflation rate

1. The CPI data published by the CBI is used for calculation of the present value of overdue obligations in courts.

did not experience much changes in 1402 compared to its preceding year and registered the low of 1.3 percent in the 11th month of the year. The downward trend of the annual and point-to-point CPI inflation rates in 1402 could be attributed to the CBI macroprudential policy that was exercised from 1400. According to the circular of the CBI, the commercial banks and the specialized banks were required to put a cap on the monthly growth rate of their assets, 2 percent for the former banks and 2.5 percent for the latter¹. The CBI statistics suggests that the annual liquidity growth rate that had exceeded 42 percent in 1400 reversed course from the middle of that year and continually diminished to 24.3 percent at the end of 1402. The monthly liquidity growth rate in 1402 averaged 1.8 percent, below the monthly growth rate caps of the banks' assets.

Even though no data on the CPI inflation rate was officially released by the CBI in 1402, some unofficial sources reported the annual CPI inflation rate of 52.3 percent for 1402 on the basis of the CBI table of Consumer Price Index used for calculation of the present value of overdue obligations. This annual CPI inflation rate however, is far above the official rate released by the SCI.

An examination of the CPI inflation rates by the twelve main groups of the consumption basket of goods and services based on the SCI indicates that at the end of 1402, the highest annual and point-to-point CPI inflation rates belonged to "Restaurants and Hotels" while the lowest ones belonged to "Communication". Nevertheless, the aggregated weights of these two groups in the consumption basket is negligible. "Clothing and Footwear" on the other hand experienced the highest monthly inflation rate of 3.3 percent in the last month of 1402 and the "Education" with zero monthly rate of inflation experienced the lowest. The developments of the changes in the price indices of "Housing, Water, Electricity and Other Fuels" as well as "Foods and Beverages" that constitute the highest weights in the basket of consumption, respectively, are crucial as they represent the changes in the welfare level of the households. The annual and point-to-point inflation rates of "Housing, Water, Electricity and Other Fuels" were slightly increasing during the last three months of 1402 and closed the year at 39.2 percent and 41.2 percent, respectively. On the contrary, the corresponding inflation rates in "Foods and Beverages" were continually decreasing during the same period and registered 41.2 percent and 25.0 percent at the end of 1402. Table 26 presents the CPI inflation rates in the last month of 1402.

Table 26. Inflation Rates of the Consumption Basket of Goods and Services at the End of 1402 (percent)

	Base Year Weight	Inflation		
		Monthly	Point-to-point	Annual
Overall	100.00	2.0	32.3	40.7
Housing, Water, Electricity and Other Fuels	36.11	2.4	41.2	39.2
Foods and Beverages	28.82	1.6	25.0	41.2
Transport	8.93	2.7	24.3	41.9
Health	6.68	0.5	31.1	42.9
Clothing and Footwear	4.52	3.3	38.6	47.2
Others	4.42	3.0	34.8	40.6
Household Equipment	4.40	2.0	29.7	36.7
Communication	2.41	1.0	17.8	19.8
Restaurants and Hotels	1.35	1.8	49.0	59.8
Education	0.88	0.0	41.4	37.4
Recreation and Culture	0.87	1.2	36.4	43.7
Tobacco	0.62	1.6	37.8	42.1

Source: Statistical Center of Iran

Taking into consideration the cost deciles at the end of 1402, the SCI statistics suggests that monthly and annual CPI inflation rates in the tenth cost decile experienced the highest levels of 2.26 percent and 42.2 percent while the first income decile experienced the lowest levels of 1.62 percent and 36.8 percent. In terms of point-to-point CPI inflation rate, the highest rate of 32.9 percent belonged to

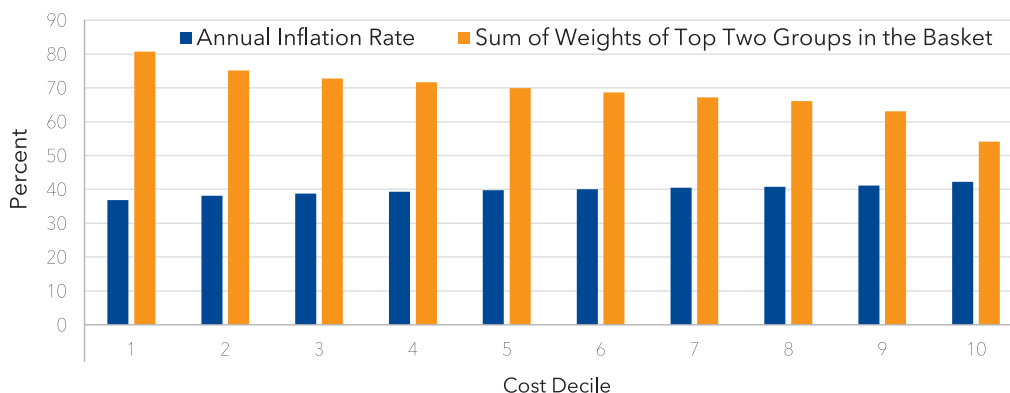
the ninth cost decile and the lowest rate of 29.0 percent to the first cost decile. The difference between the annual CPI inflation rates of the first and the last deciles at the end of 1402 is 5.4 percentage points only, while according to the SCI report on households' revenues and expenditures, the annual expenditures of the last decile in 1401 was 16 times that of the first decile, translating to high inequality

1. This topic is explained in the Chapter of Monetary Policy in detail.

of income distribution. Considering the notably higher weights of “Housing, Water, Electricity and Other Fuels” and “Foods and Beverages” in the consumption basket of the first decile than the last one, the inflation rates in these two main groups of consumption basket that include basic

needs affect the welfare level of lower income deciles more severely than the upper ones. Graph 9 depicts the annual inflation rates as well as the sum of the weights of the two aforementioned groups by cost deciles at the end of 1402.

Graph 9. Annual Inflation Rates of 1402 by Cost Deciles



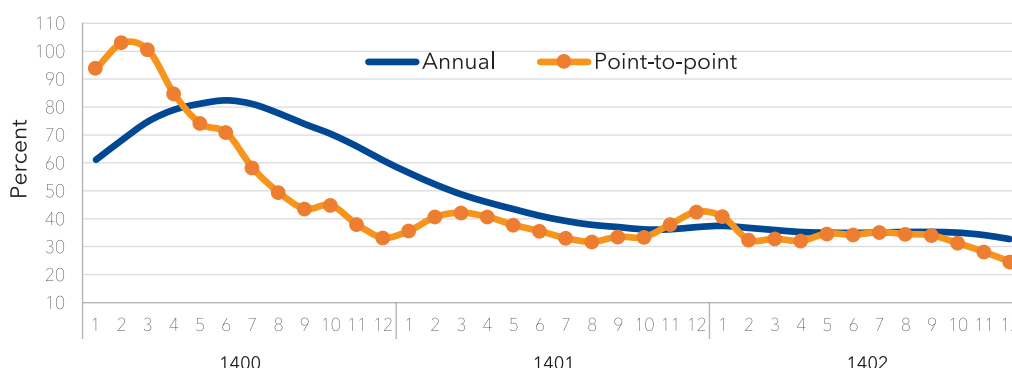
Source: Statistical Center of Iran

On the basis of the SCI, the annual inflation rate in urban and rural areas, respectively, registered 40.7 percent and 40.6 percent at the end of 1402, showing a remarkable drop compared to that of 1401, especially in rural areas. In addition, among the various provinces, Yazd experienced the highest annual inflation rate of 50.4 percent and Sistan and Baluchestan the lowest of 35.9 percent.

The CBI issues data of the Producer Price Index (PPI) on a monthly basis and the SCI issues that on a quarterly basis. The CBI data (1395=100) suggests that the point-to-point PPI inflation rate that had surpassed 100 percent in the

early 1400, considerably dropped till the end of that year and in 1401 and 1402 did not experience high fluctuations and eventually closed 1402 at 24.5 percent. The annual PPI inflation rate that had touched the peak of 82.6 percent at the end of summer 1400, reversed course to close 1402 at 32.6 percent. Notwithstanding the difference in values of PPIs calculated by SCI and CBI, the PPI inflation rates based on both issuing authorities have followed similar trends. Graph 10 exhibits the developments of annual and point-to-point PPI inflation rates from the beginning of 1400 to the end of 1402 based on the CBI reports.

Graph 10. PPI Inflation Rates (1395=100)



Source: Central Bank of Iran

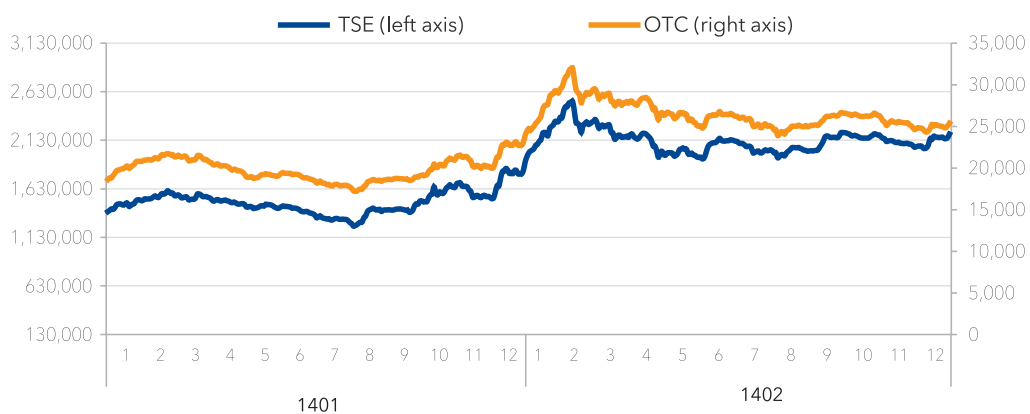
8. CAPITAL MARKET

The TSE Overall Index rose by 12.0 percent to 2,195.1 thousand at the end of 1402, compared to 1,960.5 thousand at the end of 1401. Moreover, the Equally-weighted Index that had registered 585.2 thousand at the end of 1401 expanded by 26.9 percent to 742.6 thousand at the end of 1402. As a comparison, the TSE Overall Index is more sensitive to the developments of the price and return of the large companies' shares, while in calculation of the Equally-weighted Index, same weights are assigned to the price and return of the companies' shares regardless of their size. Subsequently, it could be claimed that the price of small listed companies' shares has grown more than that of the large listed companies during 1402. Similarly, the Overall Index of OTC reached 25,367.2 at the end of 1402, indicating 4.0 percent rise from the end of 1401.

As the TSE and OTC Overall Indices grew below the annual inflation rate, in fact the Iranian Capital Market as a whole has contracted in the year 1402 in real terms. Graph 11

exhibits the daily developments of the TSE and OTC Overall Indices during 1401 and 1402.

Graph 11. TSE and OTC Overall Indices During 1401 and 1402



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

8-1. Tehran Stock Exchange

The TSE Market Capitalization¹ at the end of 1402 reached IRR79,408 trillion, indicating 5.6 percent rise compared to the end of 1401. The Stock Market, Exchange-traded Funds (ETFs), as well as the Debt Securities, respectively, constituted 95.5 percent, 3.0 percent, and 1.1 percent of the TSE Market Capitalization at the end of 1402. The TSE Free-float² Index also registered 2,851.0 thousand at the end

of 1402, up 12.3 percent from the end of 1401. From the negligible difference between the growth rates of the TSE Free-float Index and the Overall Index in 1402, it is grasped that the growth rates of the price of the shares of companies with less free-float shares were not that different from those with more free-float shares. In Table 27, some important statistics of TSE are presented.

1. The TSE Market Capitalization is the sum of the Market Capitalizations of stock market, debt securities, and exchange-traded funds based on the Securities and Exchange Organization of Iran.

2. Free float, also known as public float, refers to the shares of a company that can be publicly traded and are not restricted. In other words, the term is used to describe the number of shares that is available to the public for trading in the secondary market.

Table 27. Some Important Statistics of the TSE (end of period)

	Market Capitalization (IRR trillion)	Equally Weighted Index (thousand)	Overall Index (thousand)	Financial Index (thousand)	Industrial Index (thousand)	Free Float Index (thousand)
1402	79,407.8	742.6	2,195.1	1,917.7	2,090.0	2,851.0
1401	75,212.9	585.2	1,960.5	1,706.3	1,867.4	2,538.5
Percentage Change	5.6	26.9	12.0	12.4	11.9	12.3

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

The total value of TSE transactions in 1402 grew by 42.4 percent compared to 1401, in line with the annual inflation rate. During 1402, the highest growth rate in value of transactions belonged to Options at 248.2 percent. In addition, the Professional Investment market was launched in the second half of 1402 for the first time as a subsidiary

of the TSE, through which shares of Project Companies, Venture Capital Funds, and Private Funds are supplied. The 66.8 percent expansion of the ETFs transactions in 1402 has been mainly attributed to the IPO of three Leverage Funds in that year. Table 28 illustrates value of the transactions in various TSE markets during 1401 and 1402.

Table 28. Value of Transactions in Various TSE Markets during 1401 and 1402 (IRR trillion)

Market	1402	1401	Percentage Change
Shares	13,335.8	10,062.7	32.5
Debt Securities	1,175.3	1,028.0	14.3
Derivatives	267.9	76.9	248.2
Exchange-traded Funds	7,577.1	4,543.9	66.8
Professional Investment	19.6	-	-
Total	22,375.6	15,711.5	42.4

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

The Trading volume of TSE in 1402 reached 2,825.4 billion (shares or other securities), about 18.5 percent above the end of 1401. Moreover, the number of transactions in TSE in 1402 stood 19.4 percent above that of its preceding year. The average value of TSE per transaction that had registered

IRR135.6 million in 1401, grew to IRR161.8 million in 1402. The Volume and Number of Transactions and Average Value of Each Transaction in TSE by Market Type in 1401 and 1402 are shown in Table 29.

Table 29. Volume and Number of Transactions and Average Value of Each Transaction in TSE by Market Type in 1401 and 1402

	Volume of Transactions (billion shares or other securities)			Number of Transactions (1000 times)			Average Value of Each Transaction (IRR million)		
	1402	1401	Percentage Change	1402	1401	Percentage Change	1402	1401	Percentage Change
Shares	2,368.9	2,029.6	16.7	113,000.0	99,447.1	13.6	118.0	101.2	16.6
Debt Securities	1.2	1.1	9.8	11.5	50.4	-77.2	102,044.9	20,386.4	400.6
Derivatives	28.9	56.1	-48.6	6,201.1	2,740.0	126.3	43.2	28.1	53.9
Exchange-traded Funds	414.6	298.0	39.1	18,873.6	13,633.8	38.4	401.5	333.3	20.5
Professional Investment	11.8	-	-	207.6	-	-	94.2	-	-
Total	2,825.4	2,384.8	18.5	138,293.8	115,871.3	19.4	161.8	135.6	19.3

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

During 1402, IRR2,869.3 trillion was financed via the TSE listed companies, of which, 87.0 percent was through Raising Capital (matured claims and cash contributions, or accumulated reserves and profits), 7.3 percent through Issuance of Debt Securities, and 4.5 percent in form of Put Options. Moreover, IRR15.7 trillion was financed through the Initial Public Offering

(IPO) held by four newly-listed companies in 1402. In the period under review, IRR20.0 trillion was financed through the IPO of the first listed company in the Professional Investment Market of TSE. Details of the various methods of finance of TSE listed companies during 1401 and 1402 are found in Table 30.

Table 30. Various Methods of Finance by TSE Listed Companies (IRR trillion-percent)

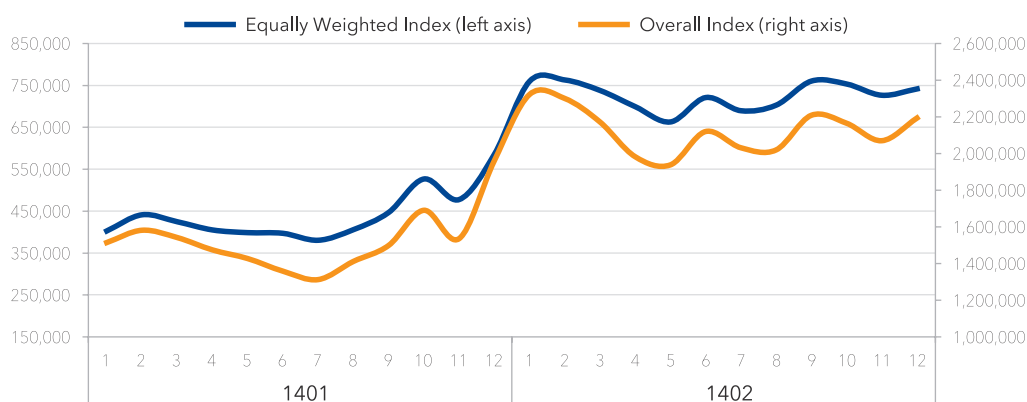
	1402		1401		1402 to 1401 Percentage Change
	Value	Share in Total (percent)	Value	Share in Total (percent)	
Total	2,869.3	100.0	2,732.4	100.0	5.1
Raising Capital (except for Asset Revaluation and Stock Premium)	2,495.8	87.0	2,331.2	85.4	7.1
Initial Public Offering	15.7	0.5	26.4	1.0	-40.6
Underwriting	20.0	0.7	-	-	-
Issuance of Debt Securities	208.2	7.3	304.3	11.1	-31.6
Issuance of Put Options	129.6	4.5	68.8	2.5	88.3

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

As the price of gas (used a fuel) in manufacturing sector is derived from the price of the supplied gas to the domestic petrochemicals for feedstock, the circular regarding the change in petrochemical feedstocks prices in mid-spring 1402 caused the TSE Overall index to drop. This drop was inevitable since the profitability of the TSE listed companies was directly affected by the aforementioned circular. Additionally, the power outages in summer 1402 coupled with the fall in global prices of petrochemicals intensified the bearish trend of the capital market. Accordingly, the TSE Overall Index from 2.5 million in the mid-spring 1402 fell to 2.1 million at the end of summer 1402. The tensions in the Middle East that was ignited in fall 1402 entailed economic and political consequences that severely affected the Iranian capital market as well, i.e., the TSE Overall Index experienced its highest daily drop of 2.5 percent on the 16th day of the first month of fall 1402. By the end of fall 1402, some news regarding the elimination of price control in the automotive market as well as Raising

Capital of some TSE listed companies (banks and large companies) contributed to the TSE Overall Index to rise. The TSE and OTC Overall Indices grew by 4.2 percent and 1.4 percent at the end of fall 1402, compared to the end of summer 1402, respectively. The Iranian Capital Market faced various challenges including offering Special Certificates of Deposits with 30 percent interest rate by banks upon the CBI circular, limited gas feedstock in steel and petrochemical industries, tensions in Middle East, and boom in alternative markets (cryptocurrencies and gold) that pulled down the TSE and OTC Overall Indices in the first two months of winter 1402 by 6.3 percent and 6.6 percent compared to the end of fall 1402, respectively. Although part of the drop in TSE and OTC Overall Indices was offset in the last month of winter 1402, eventually the TSE and OTC registered negative 0.7 percent and negative 4.6 percent rates of return in winter 1402. The developments of the TSE Overall and Equally-weighted indices in 1401 and 1402 are shown in Graph 12.

Graph 12. TSE Overall and Equally-weighted Indices in 1401 and 1402

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

8-2. Over the Counter

The OTC Market Capitalization at the end of 1402 rose by 8.8 percent to IRR24,727 trillion compared to the end of 1401, of which, 73.5 percent was attributed to the value of shares of the listed companies in OTC, 21.9 percent to Debt Securities, and 4.6 percent to the ETFs as well as Mortgage Right Securities. Among the various OTC markets, the market capitalization for shares grew by 0.5 percent only, at the end of 1402 compared to the end of 1401. Hence, the sum of market capitalizations for shares

in TSE and OTC reached IRR94,351 trillion at the end of 1402, up 3.9 percent from the end of 1401 and far below its 33.1 percent annual growth rate at the end of 1401. The trading volume in OTC reached 1,810 billion (shares or other securities) in 1402, indicating 44.3 percent rise from its preceding year. The number of transactions also escalated by 47.6 percent in the same period. Table 31 compares major OTC Indices in 1401 and 1402.

Table 31. Major Over the Counter Indices

	Market Capitalization (end of period-IRR trillion)	Total Value of Transactions (IRR trillion)	Volume of Transactions (billion)	Overall Index (end of period-thousand)
1402	24,727	169,719	1,810	25,367
1401	22,722	105,597	1,255	24,394
Percentage Change	8.8	60.7	44.3	4.0

Source: Iran Fara Bourse

Except equities, other securities in the OTC are classified as the modern financial instruments. Unlike its 26.5 percent share in OTC Market Capitalization, the market for modern financial instruments constituted close to 96.4 percent of the total value of OTC transactions in 1402. The Market Capitalization and value of transactions in the market for modern financial instruments grew by 41.2 percent and 61.0 percent, respectively, in 1402 compared to its preceding year. Government Murabaha Debt Securities - aiming for public finance - constituted a sizable portion of the modern financial instruments in 1402 like its preceding year. In 1402 the value of transactions of Government Murabaha Debt Securities grew by 64.9 percent to IRR129,382 trillion compared to the IRR78,483 trillion in 1401. In addition, another type of government debt securities, Islamic Treasury Bills and Bonds (known as AKHZA) aimed to finance government debt to contractors were also traded in the secondary market, with

their value of transactions at IRR25,472 trillion in 1402. The Exchange-traded Funds as well as the Venter Capital Funds were among the other modern financial instruments that, respectively, experienced remarkable rises of 104.4 percent and 42.6 percent in their value of transactions in 1402. From 1398 onwards, Private Investment Funds were also added to market of modern financial instruments. In addition, in 1400 the first Fund of Funds (FOF) also stepped in the OTC and its value of transactions in 1402 contracted by 14.0 percent compared to 1401. By the end of 1402, more than 15 Sector Funds were active in the Iranian Capital Market. These funds invest solely in businesses that operate in a particular industry or sector of the economy. In addition, the value of the Transactions of Mortgage Right Securities that are issued by Bank Maskan rose by 39.7 percent in 1402. Table 32 exhibits value and number of traded symbols in modern financial instruments.

Table 32. Value of Transactions and Number of Traded Symbols in the Modern Financial Instruments (IRR trillion)

Type	1402		1401		Percentage Change in Value of Transactions	
	Value of Transactions (IRR trillion)	Number of Traded Symbols	Value of Transactions (IRR trillion)	Number of Traded Symbols		
Sukuk	Islamic Treasury Bill and Bond (AKHZA)	25,472	37	16,552	39	53.9
	Ijara	460	45	415	44	10.9
	Debt Purchase	0	0	1	2	-100.0
	Musharaka	0	0	0	2	-100.0
	Murabaha	129,382	214	78,483	130	64.9
	Gharz-al-hasaneh	501	3	1	1	-
	GAAM	141	18	177	22	-20.4
	Manfaat	139	6	2,305	15	-94.0
Investment Funds	Exchange-traded	7,340	80	3,591	63	104.4
	Fund of Funds	2	1	2	1	-14.0
	Venture Capital	1	14	1	15	-42.6
	Properties	19	3	5	1	238.9
	Sector	55	9	-	-	-
	Private	8	6	5	4	67.9
Mortgage Right	76	39	54	49	39.7	
Total	163,595	475	101,594	388	61.0	

Source: Iran Fra Bourse

During 1402, more than IRR3,785.6 trillion has been financed through the OTC, up 52.0 percent from that in 1401, of which 65.0 percent was via underwriting (including Government Murabaha Debt Securities) and 19.5 percent via Islamic Treasury Bills and Bonds. During the same period, the OTC listed companies increased their capital by IRR481.7 trillion, excluding asset revaluation. In addition, IRR99.5 trillion was raised through IPO by newly-listed companies in OTC. In the

same year, 16 symbols held IPO in the OTC. All in all, during 1402, the listed companies financed IRR6,627.8 trillion via TSE and OTC, indicating 27.4 percent rise from the year 1401 and about one seventh of the IRR46,122 trillion corporate financing through the banking system. Table 33 presents details of various methods of finance in OTC in 1401 and 1402.

Table 33. Various Types of Financing Through OTC

	1402		1401		Percentage Change in Value
	Value (IRR trillion)	Share in Total (percent)	Value (IRR trillion)	Share in Total (percent)	
Total	3,758.6	100.0	2,472.4	100.0	52.0
Initial Public Offering	99.5	2.6	43.4	1.8	129.4
Islamic Treasury Bills and Bonds	734.5	19.5	465.5	18.8	57.8
Underwriting	2,442.8	65.0	1,595.9	64.5	53.1
Raising Capital (except for asset revaluation)	481.7	12.8	367.7	14.9	31.0

Source: Iran Fara Bourse

9. BUSINESS ENVIRONMENT

Basically, the business environment is referred to as the collection of internal and external factors that affect a firm's activities but is out of control of its managers. Besides, the resources and employees are categorized as the internal while customers and markets as the external factors affecting such sorts of activities. Moreover, governments as the regulatory authorities for various businesses and activities play a dominant role in improvement or worsening of the business environment, hence success and failure of the private sector is tied to the government practices in that regard. Some international organizations survey the business environment of various countries. The result of the surveys that are issued annually shed light on the requirements for improvement in the business environment of countries.

The Ease of Doing Business Report of the World Bank has been published annually from 2003 to 2020. The report assessed the business environment of the countries by 10 major indices. The issuance of the report, however, was ceased from 2020 onwards due to the manipulation of the data of some countries including Saudi Arabia. Consequently, the world bank is about to issue a new annual report regarding the business environment of countries. The new report is titled Business Ready which is supposed to be published from 2024. The report aims to survey the business

environment through 10 distinct indices and is planned to be published in three phases. Iran, however, would not be under survey in the initial phase and is planned to be included in the new report from 2026 onwards.

The issuances of Global Competitiveness Report of the World Economic Forum (WEF) which ranks countries in four areas (enabling environment, human capital, markets, and innovation ecosystem), has also been stopped since 2020.

9-1. Economic Freedom and Corruption

The economic freedom of various economies is assessed by some international organizations, the Fraser Institute and well as the Heritage Foundation are as such. The Fraser Institute issues an index which is presented in the Economic Freedom of the World (EFW) report. The index is derived from five areas including "Size of Government", "Legal Structure and Property rights", "Sound Money", "Freedom to Trade Internationally" and "Regulation Policies in Credit Market, Labor Market, and Business". The most recent report of the Fraser institute was published in 2023, assessing 165 countries worldwide in 2021. According to the survey, in 2021, by descending one place from 2020, Iran ranked as 160th with the total score of 4.53, followed by Yemen, Sudan, Syria, Zimbabwe, and Venezuela. Among the five distinct areas of the survey, the 79th place in the Size of Government with score of 6.59 was the highest

position achieved by Iran and on the other hand, Iran's weakest performance was related to the Freedom to Trade Internationally with the score of 2.39 and 165th place, albeit compared to 2020, the country has become worse in both areas. Among the subsets of the Size of Government, Government Investment as well as Transfers and Subsidies, respectively, scored 9.73 and 7.99, remaining the same as 2020. Moreover, in 2021, Government Consumption and State Ownership of Assets underperformed compared to 2020, scoring 4.47 and 4.14, respectively. Note that lower level of the subsets of the Size of Government translates to more favorable condition of the country in that area of survey and make more scores. In the area of Freedom to Trade Internationally, the Black-Market Exchange Rates scored zero, Controls of the Movement of Capital and People scored 0.68, Regulatory Trade Barriers scored 3.25,

and Tariffs scored 5.37. As for the Sound Money, Iran scored 5.9, below its score in 2020. In the various subsets of Sound Money, the Foreign Currency Bank Account scored 10, Money Growth scored 8.6, Standard Deviation of Inflation scored 3.69, and Inflation scored 1.32. In the area of Legal Systems and Property Rights, Iran scored 3.26 and among its subsets, Property Rights got the lowest score of 2.11, while Real Property the highest of 8.17. In the area of Regulation, Iran scored 4.49 and among its subsets got 6.41 in Credit Market Regulation, 2.86 in Business Regulation, 4.70 in Labor Market Regulation, and 4.61 in Freedom to Compete.

In addition to Fraser Institute, Heritage Foundation also issues the Index of Economic Freedom (IEF). The latest report of Heritage Foundation surveys 176 countries worldwide and indicates that the global IEF score has declined to 58.6 in 2024 from 59.3 in 2023 - the lowest score from 2001 onwards. According to the same report, the inappropriate policies implemented during COVID-19 pandemic, Russia invasion of Ukraine, and the tensions in the Middle East region have served as the drivers of the exacerbation of global economic freedom. In the 2024 report of Heritage Foundation, only four countries (down from seven in the 2022 Index) recorded economic freedom scores of 80 or more, putting them in the ranks of the economically "free".

The IEF is measured through four broad pillars that cover 12 aspects as follows: "Rule of Law (including Property Rights, Judicial Effectiveness and Government Integrity)", "Government size (including Tax Burden, Government Spending and Fiscal Health)", "Regulatory Efficiency (including Business Freedom, Labor Freedom and Monetary Freedom)", and "Market Openness (including Trade Freedom, Investment Freedom and Financial Freedom)". Among the 176 countries under survey in 2024 report, Iran stood at the 169th place, indicating no change compared to 2023, followed by Eritrea, Burundi, Zimbabwe, Sudan, Venezuela, Cuba, and North Korea. Note that some countries including Iraq, Afghanistan, Libya, Liechtenstein, Somalia, Syria, Ukraine, and Yemen have not been surveyed in 2024. Moreover, among the 14 countries of MENA, Iran occupied the last place. As for the aspects related to the Government Size, Iran's condition has improved. On the basis of the 2024 Heritage Foundation report, the worst scores of Iran regarding Economic Freedom belonged to Investment Freedom, Financial Freedom, and Government Integrity, respectively, while the best scores of Iran was related to Government Spending, Tax Burden, and Fiscal Health. Table 34 presents Iran's scores in the Heritage Foundation report of 2024.

Table 34. Iran's Scores in the Index of Economic Freedom of Heritage Foundation (out of 100)

Aspect	Score			
	2024	2023	2022	2021
Government Spending	95.3	94.8	92.5	90.1
Tax Burden	81.1	81.1	80.8	80.8
Fiscal Health	62.5	58.8	54.7	82.8
Labor Freedom	48.8	50.7	49.4	50.1
Judicial Effectiveness	18.8	26.3	29.4	28.3
Business Freedom	37.9	38.9	38.9	57.1
Trade Freedom	55.8	55.8	59.2	54.2
Government Integrity	17.1	19.6	19.8	31.8
Property Rights	23.8	25.0	26.6	33.5
Monetary Freedom	38.2	40.6	42.3	42.1
Investment Freedom	5	5	5	5
Financial Freedom	10	10	10	10

Source: Heritage Foundation, Index of Economic Freedom of 2021 to 2024

The International Property Rights Index issued by the Property Right Alliance in 2023 indicated that among 125 countries investigated in the report, Iran ranked as 113th, the same place as in 2022, but note that in the 2022 survey 129 countries were included. In this regard, Iran's global score has fallen by 0.04 in 2023 from 2022. In regional term, Iran has stood at the 13th place among the

15 countries, showing one step improvement.

Moreover, the Corruption Perception Index (CPI) of the Transparency International indicates that in 2023, among 180 countries Iran has ranked 149th, losing two places compared to its preceding year.

9-2. Monitoring Business Environment by Domestic Institutions

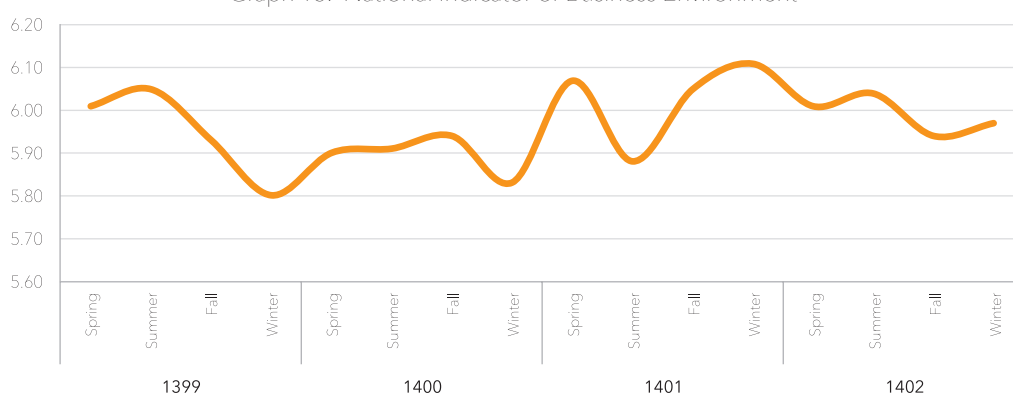
According to the Law of Sustained Improvement in Business Environment passed in the year 1390, the Chambers of Commerce are required to establish national indicators of business environment in Iran and also assess and publish them annually and quarterly by different provinces, sectors, and economic activities in order to enable the policymakers to monitor the conditions of business environment in the country. Although this task was previously carried out by Islamic Parliament Research Center till 1395, Iran Chamber of Commerce, Industries, Mines, and Agriculture (ICCIMA) identified and introduced national indicators for monitoring business environment in 1394 and started the national project of monitoring business environment in collaboration with Iran Chamber of Cooperative and Iran Chamber of Guilds.

In the winter 1402 report issued by the ICCIMA, survey data were obtained via perception polls on the condition of business environment components in the country by 2,658 economic agents of the three Chambers (the ICCIMA, Chamber of Cooperative, and Chamber of Guilds) through completing online questionnaires and phone sampling, while statistical data were collected from

official statistical sources of the country.

The results of the ICCIMA report suggest that the national indicator of business environment in Iran has reached 6.04 in winter 1402, below the 6.11 in winter 1401 and above the 5.98 in fall 1402. In other words, the business environment has improved compared to the winter 1401 but has worsened compared to fall 1402. The national indicator ranges from 0 to 10, with 10 pertaining to the worst state. According to the economic agents data used in the survey, in winter 1402 "Instability and Unpredictability of Prices (for raw materials and products)", "Difficulty of Financing from Banking System" and "Instability of Policies, Regulations, and Procedures Concerning Doing Business" were the most unfavorable components of the business environment (same as preceding years), while "Ease of access to water", "Customer Acceptance of Innovation in Products and Services" and "Ease of Access to Energy Carriers Such as Electricity, Gas and Diesel Fuel" were the most favorable components of the indicator. Graph 13 depicts the quarterly developments of national indicator of business environment from spring 1399 to winter 1402.

Graph 13. National Indicator of Business Environment*



Source: Iran Chamber of Commerce, Industries, Mines, and Agriculture
* Decrease in the index means improvement of the business environment.

In winter 1402, from the Iranian economic agents' point of view, the Services sector had the worst business environment, followed by the Agriculture sector and the Industry sector but their indicators were not much different. In the same period, the indicators of the Industry sector and Services sector show improvement compared to 1401, but that of the Agriculture sector did not change. In all the three sectors, the Instability and Unpredictability of Prices (for raw materials and products) has been the worst

component of the indicator for business environment. Customer Acceptance of Innovation in Products and Services was the most favorable component of the business environment in the Agriculture and Industry sectors. Moreover, as for the Services sector the Ease of Access to Water was the most favorable component of the indicator. Table 35 presents the details of the Business Environment Indicator of ICCIMA in a descending order on the basis of winter 1402 scores.

Table 35. The ICCIMA Business Indicator by Its Components in Various Quarters of 1402

Component	Winter	Fall	Summer	Spring
Instability and Unpredictability of Prices (for raw materials and products)	8.23	7.98	8.26	8.39
Difficulty of Financing from the Banking System	7.84	7.55	7.70	7.59
Instability of Policies, Regulations, and Procedures Concerning Doing Business	7.26	7.22	7.41	7.49
Unfair Auditing and Taxing Procedures	6.82	6.73	6.86	6.78
Unreasonable Intervention of Government in Pricing	6.60	6.53	6.69	6.73
Corruption in Administrative Organizations	6.56	6.39	6.34	6.44
Production and Supply of Non-standard and Counterfeit Goods	6.50	6.40	6.46	6.45
Monopoly, Privilege or Any Kind of Economic Rent to a Number of Competitors in the Market	6.48	6.49	6.61	6.50
Inefficient Administrative Processes and Difficulty of Obtaining Business Licenses	6.37	6.46	6.67	6.54
Courts' Deficiency in Dealing with Complaints and Effective Prosecution of Violators of Rights of Others	6.37	6.14	6.23	6.45
Unfair Competition of Public or Quasi-Public Corporations and Institutions in the Market	6.34	6.17	6.26	6.31
Lack or Non-Transparency of Required Information for Doing Business	6.31	6.12	6.07	6.06
Different Interpretations of Laws and Regulations by Public Sector Employees	6.16	6.21	6.39	6.26
Strict Labor and Social Security Insurance Procedures for Human Resource Management	6.15	6.25	6.26	6.33
General Absenteeism	6.06	6.13	6.17	6.09
Supply of Smuggled Goods	6.04	6.14	5.99	6.16
Lack of Skilled Labor Force	5.94	5.96	5.89	5.76
Lack of New Technologies and Required Equipment	5.83	5.88	5.86	5.62
Poor Transportation Infrastructures	5.67	5.71	5.59	5.59
Insufficient Demand in the Market	5.47	5.47	5.48	5.42
Lack of Appropriate Coordination in the Supply Chain	5.39	5.43	5.58	5.72
Contracting Parties' Non-Compliance with Their Obligations and Promises	5.35	5.40	5.56	5.60
Ineffective Distribution System	5.32	5.28	5.20	5.46
Limited Access to Mobile Network and Internet	5.28	5.14	5.40	5.27
General Tendency to Buy Imported Goods Instead of Domestic Products	5.23	5.11	5.01	5.16
Limited Access to Energy Carriers (electricity, gas, diesel fuel, etc.)	4.11	4.27	4.79	4.36
Customer Acceptance of Innovation in Products and Services	3.91	4.29	4.11	4.21
Limited Access to Water	3.79	3.89	4.18	3.89

Source: Iran Chamber of Commerce, Industries, Mines, and Agriculture, quarterly reports of monitoring business environment

The ICCIMA survey of winter 1402 suggests that Kurdistan, Fars, and Razavi Khorasan provinces experienced the most unfavorable the business environment, while Markazi, Qom, and Khuzestan provinces enjoyed the most favorable, respectively. The difference between the value of business environment indicators of the top

one province and the bottom one province in winter 1402 registered 0.84 only. An examination of the business environment by various economic activities reveals that "Transportation and Storage", "Food and Accommodation", and "Information and Communication" experienced the most undesirable business environment,

respectively, but "Arts, Leisure, and Entertainment", "Insurance and Finance", and "Real Estate" enjoyed the most desirable business environment during the period under review. The difference between the indicators of the business environment in the top one and the bottom one economic activities registered 0.75 only. In terms of size of the firms, the firms with less than 5 workers had the worst business environment while those with 50 to 100 workers had the best business environment, however, the difference between their indicators was negligible and

0.18 only. Regarding the age of the firms, those aged 6 to 10 years had the worst business environment while in those aged less than 2 years, the business environment was favorable. Similarly, the difference between the indicators in the 2 aforementioned groups was negligible. The firms under the survey in the ICCIMA report have operated with 42.1 percent of their nominal capacity on average in winter 1402, down 2.1 percentage points from that in winter 1401.

10. KEY POINTS

- In 1402 the Iranian Economy experienced positive growth rate of above 4 percent for four consecutive years, mainly thanks to the Oil sector. At the end of 1402, the oil production of Iran considerably rose to 3.2 mbpd.
- In spite of the rise in oil production and exports, in 1402 the Government Budget Deficit (Disposal of Financial Assets) was 66.1 percent above the estimated figure in the Budget Law of that year.
- Despite the rise in the oil exports, the Current Account Surplus fell in 1402 but the Net Capital Account Deficit grew by 54.2 percent.
- Following its upward trend from the first working day of 1402, the price of US Dollar fell to IRR470 thousand and did not experience much change till the end of fall 1402. In winter 1402, the Iranian Free Market for foreign exchanges experienced an upward price shock but during 1402 as a whole was less volatile than its preceding year.
- The Liquidity growth rate that had reached 39.0 percent at the end of 1400 reversed course and closed the years 1401 and 1402 at 31.1 percent and 24.3 percent, respectively. The annual growth rate of Monetary Base in 1402 fell to 27.6 percent, far below the 42.9 percent on 1401. In line with the fall in growth rates of the monetary aggregates, the annual CPI inflation rate followed a downward path in 1402 and closed that year at 40.7 percent.
- At the end of 1402, the market capitalization of TSE and OTC expanded by 5.6 percent and 8.8 percent compared to the end of 1401, far below the annual CPI inflation rate of 1402. Out of the total finance in the Iranian economy, 12.6 percent was through the Capital Market in 1402.

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