

In 1389, average consumer price index of goods and services (CPI) in urban areas and producer price index (PPI) (base year: 1383) increased by 12.4 and 16.6 percent, respectively, compared with the previous year. Comparing these figures with those of 1388 (10.8 and 7.4 percent) indicates increase in both indices during this year.

Table 18.1. Annual Average Percentage Change in Price Indices (1383=100)

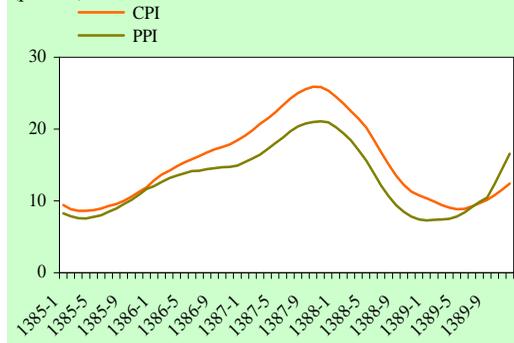
	1388	1389
Consumer price index of goods and services in urban areas	10.8	12.4
Producer price index	7.4	16.6
Exportable goods price index	-6.8	11.0
GDP deflator (basic price) (1376=100)	2.4	14.3
Non-oil GDP deflator (basic price) (1376=100)	8.1	10.6

Following the adoption of CBI control policies in 1387 for liquidity management which had a lagged effect on the general level of prices in 1388 and the beginning of 1389, the inflation rate followed a downward trend from 25.9 percent in Bahman 1387 to 8.8 percent in Mordad 1389 when compared with the respective months of the previous year. As of Shahrivar, however, this trend was reversed and the inflation rate increased from 8.9 percent in this month to 10.1 percent in Azar 1389. With the implementation of Subsidy Reform Act, as of late-Azar 1389, the inflation rate continued to rise and reached 12.4 percent in Esfand 1389. A similar trend was witnessed for the producer price index.

The PPI followed a downtrend from 21.1 percent in Bahman 1387 to 7.3 percent in Farvardin 1389. However, it increased from 7.4 percent in Khordad 1389 to 10.4 percent in Azar and 16.6 percent in Esfand 1389.

Figure 18.1. Changes of CPI and PPI (1383=100)

(compared with the respective month of the previous year) (percent)



Consumer Price Index (CPI)

Urban Areas

Review of the major components of the CPI indicates that the growth rates of all groups, except for "tobacco", "housing, water, electricity, gas, and other fuels", "communication" and "education", were higher than those of 1388. Among the major groups, "medical care" had the highest growth rate by 19.9 percent. In this year, the price index of "communication" decreased by 0.2 percent compared with last year.

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In 1389, the major group of "food and beverages", with a relative weight of 28.49 percent in CPI and a growth rate of 16.2 percent compared with preceding year, had the lion's share of 40.6 percent in the rise of the general index. This was mainly attributable to 27.3 percent increase in the price index of "meat", accounting for 38.8 percent of the rise in the "food and beverages" index and 15.8 percent of the rise in the general index.

After "food and beverages" major group, "housing, water, electricity, gas and other fuels", with a relative weight of 28.60 percent, had the highest share in raising the general index by 18.2 percent. This major group increased by 7.3 percent compared with the year before. This was largely due to increase in the price index of "imputed rental value of owner-occupied housing" by 6.6

percent, which accounted for the lion's share in the rise in "housing, water, electricity, gas and other fuels" index.

Figure 18.2. Contribution of major groups to the growth of CPI (general index) in 1389

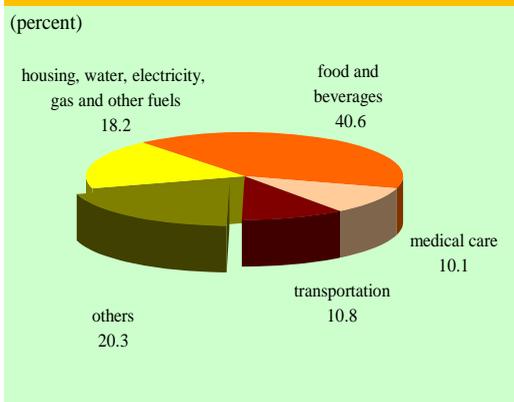


Table 18.2. Annual Average Consumer Price Index in Urban Areas

(1383=100)

	1388	1389	Percentage change		Contribution to the growth of general index in 1389	
			1388	1389	Percentage point	Percent
Special groups						
Goods	188.5	214.9	7.8	14.0	7.4	59.7
Services	222.3	245.8	14.3	10.6	5.0	40.3
Housing, water, electricity, gas, and other fuels	220.2	236.2	12.2	7.3	2.3	18.2
General index	203.0	228.2	10.8	12.4	12.4	100.0
Major groups and selected sub-groups						
Food and beverages	218.6	254.1	9.9	16.2	5.0	40.6
Meat	215.8	274.7	20.4	27.3	2.0	15.8
Fish and seafood	219.9	246.4	14.1	12.1	0.1	0.8
Bread and cereals	225.5	264.1	-3.1	17.1	0.9	7.0
Fats and oils	187.4	249.1	-6.6	32.9	0.3	2.4
Fruits and nuts	246.3	258.7	18.5	5.0	0.3	2.6
Vegetables, pulses, and vegetable products	215.2	261.1	1.1	21.3	0.9	7.1
Dairy products and eggs	192.9	200.6	8.6	4.0	0.1	1.1
Tobacco	218.3	223.4	30.1	2.3	*	0.1
Housing, water, electricity, gas, and other fuels	220.2	236.2	12.2	7.3	2.3	18.2
Rental value of non-owner occupied housing	223.3	236.8	12.8	6.0	0.4	3.1
Imputed rental value of owner-occupied housing	223.8	238.5	13.3	6.6	1.4	11.2
Maintenance and repair services	269.8	293.1	9.5	8.6	0.2	1.7
Water	132.0	136.4	3.4	3.3	*	0.1
Electricity, gas, and other fuels	122.2	162.4	-3.4	32.9	0.3	2.2
Clothing and footwear	179.9	200.9	10.3	11.7	0.6	5.1
Furnishings, household equipment, and routine household maintenance	186.6	203.7	4.2	9.2	0.5	4.3
Transportation	157.8	181.2	5.9	14.8	1.4	10.8
Communication	97.3	97.1	0.4	-0.2	*	*
Medical care	226.0	270.9	18.9	19.9	1.2	10.1
Recreation and culture	145.3	162.1	8.8	11.6	0.3	2.5
Education	217.4	245.3	15.9	12.8	0.3	2.4
Restaurants and hotels	218.3	254.7	15.5	16.7	0.3	2.5
Miscellaneous goods and services	207.6	234.7	12.6	13.1	0.4	3.4

Therefore, in 1389, major groups of "food and beverages" and "housing, water, electricity, gas and other fuels", with a total relative weight of 57.1 percent, together accounted for 58.8 percent of the inflation.

Among other major components of the CPI, the price index of "transportation", with 14.8 percent growth compared with last year, had 10.8 percent share in raising the general index. Growth in the index of this group was 5.9 percent in 1388. In "transportation" group, the price index of "travel expenses" rose by 19.5 percent.

The growth in the price index of "medical care" group reached 19.9 percent in the review year, from 18.9 percent in 1388. The rise in medical care costs was mainly owing to 22.1 percent rise in the price index of the "medical, dental and paramedical" sub-group, contributing to 63.1 percent of the rise in the price index of "medical care" group.

A review of CPI monthly changes points to the upward trend of this index in all months of 1389. The highest increase by 3.4 percent, compared with the month before, was related to Esfand, and the lowest increase to Ordibehesht by 0.4 percent.

A review of CPI developments in urban areas by provinces reveals that in 1389, Sistan and Baluchestan, South Khorasan, Golestan, and Yazd provinces, with respectively 15.9, 15.8, 15.7 and 15.6 percent, had the highest inflation rates. The lowest rate of inflation was related to Tehran Province by 10.4 percent. Meanwhile, in terms of the general level of prices, in 1389, Bushehr Province experienced the lowest, and Qom Province the highest level of CPI growth, compared with 1383.

In 1389, inflation rate was 10.4 percent in Tehran Province which, due to its population and share in total expenditures of urban households, had a relative weight of 33.05 percent in the general index. Surge in the

CPI in Tehran Province raised CPI's general index of all urban areas by 3.4 percentage points, and had a share of 27.7 percent in raising the general index. Isfahan Province, with 9.5 percent share, Khorasan Razavi Province, with 6.9 percent, and Fars Province, with 5.2 percent, ranked next in terms of contribution to CPI growth in all urban areas.

Rural Areas

CPI for rural areas picked up by 20.0 percent compared with the previous year. Inflation in rural areas was the result of growth in the price index of "goods" with 23.0 percent and "services" with 10.7 percent, compared with last year. These special groups, with relative weights of respectively 76.3 and 23.7 percent in the general index, raised this index by 86.6 and 13.4 percent, respectively.

In 1389, price index of "food, beverages, and tobacco" grew by 27.0 percent, compared with the previous year, largely due to increase in the price index of "bread and cereals", "vegetables and pulses" and "meat, poultry, and their products" groups. In the review year, "food, beverages, and tobacco" group constituted 66.0 percent of the rise in CPI for rural areas, and "non-edible goods and services", 34.0 percent.

After "food, beverages, and tobacco" group, "housing, water, electricity, gas and other fuels" with 12.7 percent, "medical care" with 5.0 percent, "transportation" with 4.9 percent, and "miscellaneous goods and services" with 4.1 percent had the highest shares in raising the general index. These five groups together accounted for 92.7 percent of the increase in general price index of the rural areas.

Producer Price Index (PPI)

In 1389, producer price index (PPI) rose by 16.6 percent compared with last year. The

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growth rate of this index was 20.9 percent in 1387, and 7.4 percent in 1388 (base year: 1383). Among the major components of the PPI, "manufacturing", "agriculture, hunting, and forestry", and "transport, storage, and communication" groups made the greatest contribution to raising the general index.

In 1389, the price index of "manufacturing" group, with 22.0 percent growth compared with 3.0 percent increase in the previous year, had 60.4 percent contribution to the growth of general index.

The price index of "agriculture, hunting, and forestry" group, with a relative weight of 21.35 percent in the general index and a growth rate of 12.2 percent, made a contribution of 17.5 percent to the growth of general index.

The price index of "transport, storage, and communication" and "health and social work" groups, with respectively 7.1 and 21.8

percent growth, accounted for the rise in PPI general index by 7.8 and 7.0 percent, respectively. Rise in the price index of "health and social work" was mainly due to 21.4 and 22.7 percent rise in the price indices of "hospital services" and "medical and dental services" groups, respectively.

Figure 18.3. Contribution of special groups to the growth of PPI (general index) in 1389

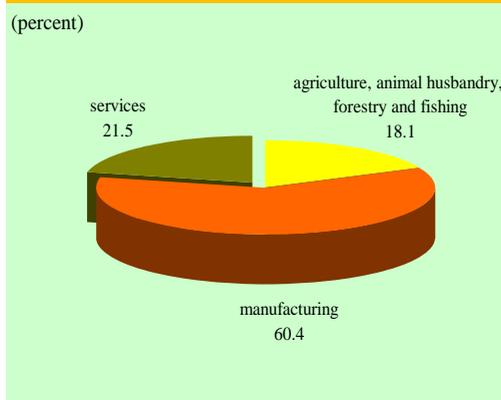


Table 18.3. Annual Average Producer Price Index

(1383=100)

	1388	1389	Percentage change		Contribution to the growth of general index in 1389	
			1388	1389	Percentage point	Percent
Special groups						
Agriculture, animal husbandry, forestry, and fishing	200.7	225.5	11.8	12.4	3.0	18.1
Manufacturing	171.7	209.5	3.0	22.0	10.0	60.4
Services	181.8	203.3	11.1	11.8	3.6	21.5
General index	181.1	211.2	7.4	16.6	16.6	100.0
Major groups						
Agriculture, hunting, and forestry	200.6	225.1	11.7	12.2	2.9	17.5
Fishing	203.8	238.1	17.6	16.8	0.1	0.7
Manufacturing	171.7	209.5	3.0	22.0	10.0	60.4
Hotels and restaurants	225.8	268.4	17.5	18.9	0.2	1.2
Transport, storage, and communication	158.1	169.3	6.0	7.1	1.3	7.8
Education	217.4	245.2	15.9	12.8	0.4	2.3
Health and social work	243.7	296.9	21.1	21.8	1.2	7.0
Other community, social & personal services activities	260.2	315.9	24.1	21.4	0.5	3.1

Over 80.0 percent of the rise in "transport, storage and communication" price index was attributable to increase in the price index of "bus ticket" by 18.6 percent, "intra-city taxi fare" by 22.0 percent, and "land freight transport" by 4.6 percent.

The price indices of "manufacturing", "agriculture, hunting, and forestry", "health and social work", and "transport, storage and communication" groups, with a total relative weight of 94.4 percent, together accounted for 92.7 percent of the growth in general index.

Reviewing the monthly changes of the producer price index indicates that this index followed an upward trend in all months of the review year. Implementation of the Subsidy Reform Act as of Azar 28, 1389 raised this index remarkably in Dey 1389. Therefore, the highest rise by 15.3 percent was related to the month of Dey, and the lowest rise by 0.1 percent to the month of Khordad.

Exportable Goods Price Index

Price index of "exportable goods" rose by 11.0 percent compared with the preceding year. This index grew by 22.1 and -6.8 percent in 1387 and 1388, respectively, at 1383 prices. Among the components of the price

index of "exportable goods", "base metals and articles of base metals", with 41.8 percent, "mineral products", with 25.0 percent, and "products of the chemical or allied industries", with 15.5 percent growth, had the lion's share in raising the general index. In the review year, "vegetable products", with 13.6 percent decrease compared with the previous year, had the highest decreasing effect on the price index of exportable goods. This index grew by 17.6 percent in 1388.

Total Return on Assets

Comparison of the total return on assets (price movements + yields) with the inflation rate reveals that, in 1389, price and cash dividend index, full Bahar Azadi gold coin price index (old design), full Bahar Azadi gold coin price index (new design), and provisional profit rate of participation papers, and public and private banks' term deposits were all experiencing an increase higher than the inflation rate, while real returns on other assets were lower than the inflation rate. Price and cash dividend index, with 85.8 percent, and full Bahar Azadi gold coin price index (old design), with 41.8 percent, had the highest growth rates in the review year. During 1387-1389, price and cash dividend index had the highest return on assets by 37.8 percent.

Table 18.4. Annual Average Price Index of Exportable Goods

(1383=100)

	1388	1389	Percentage change		Contribution to the growth of general index in 1389	
			1388	1389	Percentage point	Percent
Animal products	133.0	141.8	1.4	6.6	0.1	0.9
Vegetable products	288.1	248.8	17.6	-13.6	-3.3	-29.8
Animal and vegetable fats and oils	183.4	238.9	-18.2	30.3	0.2	1.7
Prepared foodstuffs, beverages, and tobacco	191.2	202.5	6.0	5.9	0.2	1.6
Mineral products	212.3	265.4	-3.0	25.0	5.5	49.4
Products of the chemical or allied industries	132.3	152.8	-29.8	15.5	1.4	12.3
Plastic & articles thereof, rubber & articles thereof	127.6	135.6	-9.1	6.3	0.2	1.5
Raw hides and skins, leather and articles thereof	118.4	181.7	-3.5	53.5	0.5	4.5
Wood and articles of wood	171.8	173.2	-8.5	0.8	*	*
Textiles and articles thereof	215.6	223.3	7.1	3.6	0.6	5.2
Footwear	130.4	169.1	3.8	29.7	0.2	1.4
Articles of stone	133.8	137.5	3.6	2.8	0.1	0.5
Base metals and articles of base metals	128.6	182.4	-34.9	41.8	5.6	50.3
Mechanical appliances and electrical equipment	159.1	158.5	-11.8	-0.4	*	-0.1
Vehicles and transport equipment	131.6	138.8	3.1	5.5	0.1	0.8
Optical, precision, and medical instruments	161.9	151.5	1.4	-6.4	*	-0.2
General index	185.1	205.5	-6.8	11.0	11.0	100.0

Table 18.5. Total Return on Assets (price movements+yields) (1383=100) (percent)

	1387	1388	1389	Average rate of return ¹	Standard deviation	Sharpe ratio ²
Land price index (all urban areas)	42.4	-7.8	0.2	9.6	27.0	-0.3
Price and cash dividend index	-11.3	58.8	85.8	37.8	50.1	0.4
Rental value of non-owner occupied housing	28.6	12.8	6.0	15.5	11.6	-0.1
Nominal value of US dollar (parallel market)	3.3	3.2	6.2	4.2	1.7	-7.4
Nominal value of euro (parallel market)	4.2	2.5	-0.7	2.0	2.5	-6.0
Full Bahar Azadi gold coin price (old design)	21.5	6.5	41.8	22.4	17.7	0.3
Full Bahar Azadi gold coin price (new design)	18.8	17.6	34.6	23.4	9.5	0.7
Provisional profit rate of participation papers	18.0	16.0	16-17	16.8	1.0	0.0
Provisional profit rate of one-year term deposits in public commercial banks (highest rate)	15.0	14.5	14.0	14.5	0.5	-4.7
Provisional profit rate of one-year term deposits in private banks (highest rate)	17.3	14.5	14.0	15.3	1.8	-0.9
Price index of Samand cars	8.1	1.1	0.9	3.3	4.1	-3.3
Price index of Pride cars	9.7	-2.2	0.3	2.5	6.3	-2.3
Consumer price index of goods and services	25.4	10.8	12.4	16.0	8.0	0

¹ Average return on assets (except for participation papers and term deposits) is calculated using the geometric mean method.

² The sharpe ratio is calculated by dividing the difference between the return on risky and risk-free assets (government participation papers) by the standard deviation of return on risky assets.

Velocity of Circulation of Money

Velocity of circulation of money during the course of 1387-1389 was within the range of 5.7 to 6.4 and that of liquidity within 1.5 to 1.8. By definition, the velocity of circulation of notes and coins has a direct relationship with inflation. Moreover, change in the composition of money and liquidity, due to improvements in banking services and expansion of electronic non-cash payment instruments, affects velocity of circulation of money and liquidity. In 1389, liquidity posted

a growth of 25.2 percent, which was higher than the year before. In this year, the velocity of circulation of notes and coins increased while that of money was lower than 1388. Meanwhile, the velocity of circulation of liquidity remained unchanged compared with the previous year. In Esfand 1389, consumer price index of goods and services had 19.9 percent growth compared with the same month last year, higher than the corresponding figure of the previous year.

Table 18.6. Velocity of Circulation of Monetary Aggregates (percent)

	1387	1388	1389
Notes and coins	21.4	18.5	19.1
Money	6.4	5.9	5.7
Liquidity	1.8	1.5	1.5
CPI changes (1383=100) (compared with Esfand of the year before)	17.8	10.4	19.9

Box 18.1. Subsidy Reform Act

Article 1- The government is obliged to reform the prices of energy carriers in accordance with the provisions of this Act:

A. Domestic sales prices of gasoline, gas oil, fuel oil, kerosene, liquefied petroleum gas (LPG), and other oil products, depending on production costs, product quality, and marketing costs (transportation and distribution costs, taxes, and other levies) should be adjusted gradually so that these prices will not be lower than 90 percent of Persian Gulf FOB prices until the end of the final year of the 5th Plan period.

Note: The prices of crude oil and gas condensates sold to domestic refineries will be set at 95 percent of Persian Gulf FOB prices and the purchase prices of final products are set as prescribed above.

B. Average domestic sales price of natural gas will be adjusted gradually so that until the end of the final year of the 5th Plan period, it reaches at least 75 percent of natural gas export price after deduction for transportation costs, tax, and other levies.

Note: To encourage domestic investment, for a period of at least 10 years from the approval date of this Act, the per cubic meter prices of natural gas consumption for manufacturing units, refineries, and petrochemical centers shall not exceed 65 percent of the prices of exports basket of the Persian Gulf (excluding transfer costs).

C. Average domestic sales price of electricity will be adjusted gradually until the last year of the 5th Plan period, so as to reach the production cost of electricity.

Note: Calculation of the cost price of electricity will be based on total costs of

energy conversion efficiency, transmission and distribution, as well as fuel, with at least 38 percent efficiency of power plants, and in observance of the standards. Meanwhile, the efficiency of the country's power plants shall be increased by at least one percent annually, so that it will reach 45 percent within five years from the implementation of this Act. The network losses (transmission and distribution) shall be reduced to 14 percent by the end of the 5th Plan.

The government is required to establish a working group comprising governmental and non-governmental experts, for the rating of electricity producers in terms of efficiency, and electricity distributors in terms of losses, and to adopt appropriate incentives and supportive policies.

Note 1: With regard to electricity and natural gas prices, the government is authorized to apply preferential prices, considering geographical regions and the type, amount, and time of consumption.

In case several families or customers share the benefits of a single connection, water, electricity, and gas companies are required to install additional meters and charge only for the cost of the meter and its installation. If additional meters are not feasible, the number of individual users will be counted as the number of utility customers.

Note 2: The prices of energy carriers, after the base year (first year of implementation of this Act), shall be determined based on the exchange rate stipulated in the annual budget.

Box 18.1. (cont.)

Note 3: Prices for the base year (first year of the implementation of this Act) shall be determined in a way that would generate revenue of at least Rls. 100,000 billion and at most Rls. 200,000 billion for a period of one year.

Article 2- To manage the impact of fluctuations of the energy carriers price on the national economy, the government is authorized to keep the prices unchanged for consumers as long as they fluctuate within a range of 25 percent of Persian Gulf FOB prices, through collecting the difference or paying subsidies, and include such amounts in the market regulation account of the energy carriers stipulated in the budget law. In case price fluctuations exceed 25 percent, the government shall revise the prices.

Article 3- The government is authorized to determine the price of water and the fee chargeable for sewage collection and disposal, in observance of the provisions of this Act.

A. Considering the water quality and source of water, the average price of water for different uses shall be adjusted gradually through cost price approach, until the final year of the 5th Plan period.

Note 1: The government is obliged to utilize the cost price approach, by including all cost items of water supply, transfer and distribution, and observing the water use efficiency.

Note 2: Preferential and progressive pricing of water is authorized based on geographical regions, type and amount of consumption.

B. Calculation of chargeable fee for sewage collection and disposal services will be based on total costs of maintenance and operation of the system, upon deducting the intrinsic value of delivered wastewater and government subsidies as stipulated in the annual budget (in connection with incentive measures).

Article 4- The government is required to take measures for the gradual targeting of subsidies paid on wheat, rice, cooking oil, milk, sugar, postal services, and air and rail (passenger) transportation services, by the end of the 5th Plan.

Note: The subsidy paid annually to producers active in the agriculture sector shall not decline year after year.

Article 5- The government is required to make available to consumers the flour and bread subsidies, to the extent stipulated in the annual budget bill, through adopting appropriate measures.

Note: With specific government policy measures, the per capita subsidies paid on bread to the rural population, the dwellers in small cities with populations under 20,000, and vulnerable groups in other cities should be at least 50 percent higher than the average per capita payment.

Article 6- The government is required to adopt incentive measures as well as supportive policies, aiming at establishing and expanding industrial bread production units, and compensating the flour and bread production units that undergo difficulties in the aftermath of the implementation of this Act for the losses incurred.

The executive by-law of this Article will be prepared by the Ministry of Commerce,

Box 18.1. (cont.)

in cooperation with the relevant organizations, and approved by the Cabinet within three months after the approval of this Act.

Article 7- The government is authorized to spend up to 50 percent of the receipts (net) from the implementation of this Act on the following:

A. Cash and non-cash payments to the heads of the households, considering the family income in comparison with average income of all households in the country;

B. Implementation of the Comprehensive Social Security System for the target population as follows:

1. Provision of social insurances and health care services, enhancement of public health, and expansion of medical coverage for patients suffering from special diseases and terminal illnesses;

2. Assistance with the financing of housing costs, reinforcement of buildings, and creation of employment;

3. Implementation of empowerment as well as social support programs.

Note 1: The executive by-law of this Article, pertaining to the identification of the target population, establishment and updating of the required databases; the method of payment to the target population; and the payments subject to this Article, will be proposed by the Ministers of Economic Affairs and Finance, and Welfare and Social Security, as well as the Head of the Management and Planning Organization (MPO), and approved by the Cabinet, within three months after the approval of this Act.

Note 2: The government is authorized to open the subsidy targeting accounts in the names of the heads of the eligible households, or other eligible individuals determined by the government. The government shall exercise control over the disbursements of the funds of the said account, including the time and type of money withdrawals by beneficiaries, and the refund of the amounts erroneously deposited into the household accounts.

Article 8- The government is required to spend 30 percent of the receipts (net) from the implementation of this Act on grants-in-aid, subsidies on loans and facilities extended by banks, or administered funds in implementation of the following:

A. Optimizing energy consumption in production, services, and residential units, and facilitating the implementation of energy saving plans and in observance of the consumption pattern as determined by the relevant executive organization;

B. Reforming the technological structure of production units, aiming at enhancing water and energy efficiency, and developing electricity from renewable (energy) sources;

C. Compensating the utility companies for part of the losses incurred as a result of implementing this Act, including water and sewage, electricity, natural gas, and oil products companies, as well as the municipalities and the village councils;

D. Developing and improving public transportation, within the framework of Public Transportation Development and Fuel Consumption Management Law, with

Box 18.1. (cont.)

maximum disbursement as set by Article (9) of the said Law;

E. Supporting the producers in the agriculture and manufacturing sectors;

F. Supporting the production of industrial bread;

G. Promoting non-oil exports;

H. Developing interactive electronic services to eliminate or reduce the unnecessary commuting.

Note: The executive by-law of this Article, including the support of industries, agriculture, and services, and the disbursement methods under this Article, will be proposed by the Ministers of Economic Affairs and Finance, Industries and Mines, Jihad-e-Agriculture, Commerce, Petroleum, Energy, and Interior, as well as the Chairman of the Iranian Chamber of Commerce, Industries and Mines, the Secretary General of the Chamber of Cooperatives, and the Head of the MPO, and approved by the Cabinet within three months after the approval of this Act.

Article 9- The disbursement of funds related to Articles (7) and (8) of this Act, including aids, loans and facilities, and administered funds shall be made available to recipients through state-owned and private banks as well as credit institutions.

Article 10- Receipt of the aids and subsidies, subject of Articles (7) and (8) of this Act, shall be subject to the provision of accurate information by the beneficiaries. In case the provided information is proved to be inaccurate, the

government is required to take necessary legal measures for the refunding of the disbursed funds by the beneficiaries, as well as blocking future payments.

Those considering themselves eligible for the receipt of the aids and subsidies, subject of Articles (7) and (8) of this Act, may submit their objection to the Council referred to in the executive by-law of this Article.

The executive by-law of this Article will be proposed by the Ministers of Justice, Economic Affairs and Finance, and Welfare and Social Security, as well as the Head of the MPO, and approved by the Cabinet within three months after the approval of this Act.

Article 11- The government is authorized to spend up to 20 percent of the receipts (net) from the implementation of this Act, to compensate for the negative impact of energy price reform on government current expenditures and the acquisition of non-financial assets.

Article 12- The government is required to deposit all revenues from the implementation of this Act in a special account, titled subsidy targeting account with the Treasury General. One hundred percent of the funds so deposited will be allocated for the uses stipulated in Articles (7), (8) and (11) of this Act, in the framework of the annual budget laws.

Note 1: The government is required to provide the projection for the sources and uses of funds, subject to the said Articles, under four separate budgetary items in the relevant annual budget bill.

Box 18.1. (cont.)

Note 2: Cash and non-cash payments to natural and legal persons, as a result of the implementation of this Act, will be exempt from income tax, subject of Direct Tax Law approved in Esfand 1366 (February 1988) and its Amendments. Payments for the compensation of part of the price or the whole price of goods or services provided by producers will not be subject to the tax exemption referred to in this Note.

Note 3: The government is required to provide a detailed report of its operations as subject of this Article to the Supreme Audit Court and the Parliament every six months.

Article 13- The revolving fund required for the implementation of this Act will be included in the revolving fund of the annual budget, and will be amortized out of the sources derived from the implementation of this Act during the year.

Article 14- The projected disbursements under Articles (7), (8) and (11) of this Act can deviate from the said percentages up to a maximum of 10 percentage points of the projected mobilized funds. However, the funds should be disbursed for the approved uses and all the projections should be approved under the government annual budget.

Article 15- Within one month after this Act comes into force, the government is authorized to establish a new public organization, named Subsidy Targeting Organization, for the implementation of this Act in accordance with the 5th FYDP Law. The newly established Subsidy Targeting Organization will come into existence through the use of available human and other resources and through restructuring and merging of available public entities.

The government is authorized to withdraw the funds deposited into the Treasury as a result of implementation of this Act and make them available to the mentioned organization as aid, after deducting the share of the government, subject of Article (11). These amounts will be utilized solely for the purposes and obligations specified in Articles (7) and (8) of this Act.

The management of the mentioned organization is centralized, and it will solely be authorized to have staff, plan, and supervision divisions in the main office.

The members of the General Assembly of this organization will be composed of the Ministers of Welfare and Social Security, Economic Affairs and Finance, Commerce, Roads and Transportation, Jihad-e-Agriculture, Industries and Mines, Petroleum, and Energy, as well as the Head of the MPO.

The Articles of Association of this organization, including the organizational chart, responsibilities, and powers, will be prepared by the Ministry of Economic Affairs and Finance and the MPO, and approved by the Cabinet.

Projected revenues and expenditures subject of this Act, including Articles (12) and (15), will be reflected in the country's general budget, like those of other public companies. Changes in the credit ceiling of this organization during the year will be subject to the government's proposal and the approval of the Parliament, except for the cases authorized in accordance with the provisions of this Act, including Articles (2) and (14).

Box 18.1. (cont.)

The funds carried over from the previous year could be used in the following year, and the organization may make commitments for the following years annually, in the framework of this Act.

Credits of this Act are subject to the Regulations Governing the Spending of Credits, which are exempted from the observation of the Public Audit Law and Other General Government Regulations approved on Bahman 6, 1364 (January 26, 1986).

The Organization is required to provide reports on the performance, receipts, and payments related to the resources derived from the targeted subsidies, for Articles (7) and (8) separately, to the Parliament's Planning, Budget and Audit

Committee and other relevant committees every six months.

The Supreme Audit Court is required to provide semi-annual reports to the Parliament on the operations undertaken by the government, based on the targets envisaged in this Act.

Article 16- As of the beginning of the year 1389 (March 21, 2010), the government is authorized to increase the amount of tax exemption, subject of Article (84) of the Direct Tax Law, by two-fold maximally over a period of five years, in addition to its annual increase. This shall be proportionate to the price adjustments under this Act and based on the proposal of the Ministry of Economic Affairs and Finance.