

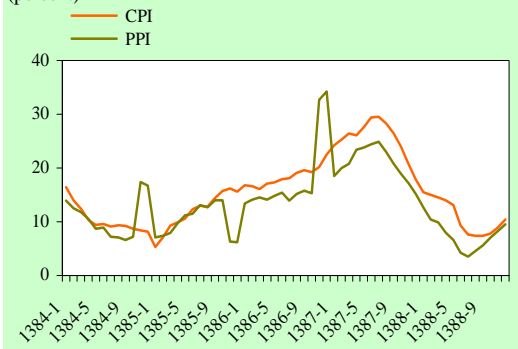
In 1388, average consumer price index of goods and services (CPI) in urban areas and producer price index (PPI) (base year: 1383) increased by 10.8 and 7.4 percent, respectively, compared with the previous year. Comparing these figures with those of 1387 (25.4 and 20.9 percent) indicates decrease in both indices during the review year.

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

	1387	1388
Consumer price index of goods and services in urban areas	25.4	10.8
Producer price index	20.9	7.4
Exportable goods price index	22.1	-6.8
GDP deflator (basic price) (1376=100)	17.1	2.4
Non-oil GDP deflator (basic price) (1376=100)	21.5	8.1

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

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



In 1388, inflation rate followed a downward trend from 24.5 percent in the month of Farvardin to 10.8 percent in the month of Esfand. With the adoption of CBI control policies in 1387 for liquidity management, which had a lagged effect on the general level of prices in 1388, the rate of inflation declined to 10.8 percent at end-1388.

Consumer Price Index (CPI)

Urban Areas

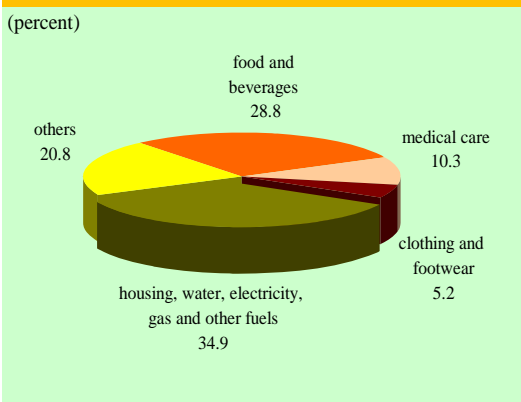
Review of the major components of the CPI indicates that the growth rates of all groups, except for "tobacco", "communication" and "education", were lower than those of 1387. Among the major groups, "tobacco" had the highest growth, and "communication" the lowest. Most sub-groups experienced a sharp reduction compared with last year.

In 1388, the major group of "housing, water, electricity, gas and other fuels", with a relative weight of 28.60 percent in CPI and a growth rate of 12.2 percent compared with preceding year, had the lion's share in raising the general index by 34.9 percent. This was mainly ascribable to 13.3 percent increase in "imputed rental value of owner-occupied housing", accounting for 72.8 percent of the rise in the "housing, water, electricity, gas and other fuels" index and 25.5 percent of the rise in the general index. Ranking next, "rental value of non-owner occupied housing",

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with 12.8 percent growth, contributed to the surge in the price index of this major group. Moreover, "maintenance and repair services" index grew by 9.5 percent in the review year.

Figure 18.2. Contribution of major groups to CPI changes in 1388



After "housing, water, electricity, gas and other fuels", "food and beverages", with a relative weight of 28.49 percent, had the highest share in raising the general index. This major group increased by 9.9 percent compared with the year before, and had 28.8 percent contribution to raising the general index. This was largely due to increase in the price index of "meat" by 20.4 percent, which accounted for the lion's share in the rise in "food and beverages" index. In this group, "mutton" rose by 38.1 percent, "beef and veal" 20.1 percent, and "chicken" 1.5 percent.

Therefore, major groups of "housing, water, electricity, gas and other fuels" and "food and beverages", with a total relative weight of 57.1 percent, accounted for 63.7 percent of the inflation in 1388.

Annual Average Consumer Price Index in Urban Areas

(1383=100)

			Percentage change			Contribution to the growth of general index in 1388	
	1387	1388	1387	1388	1384-1388	Percentage point	Percent
Special groups							
Goods	174.9	188.5	24.9	7.8	13.5	4.3	39.1
Services	194.5	222.3	25.9	14.3	17.3	6.5	60.9
Housing, water, electricity, gas, and other fuels	196.2	220.2	27.9	12.2	17.1	3.8	34.9
General index	183.3	203.0	25.4	10.8	15.2	10.8	100.0
Major groups and selected sub-groups							
Food and beverages	198.9	218.6	30.2	9.9	16.9	3.1	28.8
Meat	179.2	215.8	25.4	20.4	16.6	1.3	12.5
Fish and seafood	192.8	219.9	25.5	14.1	17.1	0.1	1.1
Bread and cereals	232.8	225.5	57.3	-3.1	17.7	-0.2	-1.7
Fats and oils	200.6	187.4	27.9	-6.6	13.4	-0.1	-0.6
Fruits and nuts	207.8	246.3	28.4	18.5	19.8	1.1	10.3
Vegetables, pulses, and vegetable products	212.8	215.2	22.9	1.1	16.6	0.1	0.5
Dairy products and eggs	177.6	192.9	23.3	8.6	14.0	0.3	2.7
Tobacco	167.8	218.3	19.3	30.1	16.9	0.1	1.3
Housing, water, electricity, gas, and other fuels	196.2	220.2	27.9	12.2	17.1	3.8	34.9
Rental value of non-owner occupied housing	197.9	223.3	28.6	12.8	17.4	0.8	7.5
Imputed rental value of owner-occupied housing	197.6	223.8	28.2	13.3	17.5	2.7	25.5
Maintenance and repair services	246.3	269.8	34.7	9.5	22.0	0.2	2.2
Water	127.7	132.0	12.0	3.4	5.7	0.0	0.1
Electricity, gas, and other fuels	126.5	122.2	8.8	-3.4	4.1	0.0	-0.3
Clothing and footwear	163.1	179.9	21.0	10.3	12.5	0.6	5.2
Furnishings, household equipment, and routine household maintenance	179.0	186.6	23.8	4.2	13.3	0.3	2.5
Transportation	149.0	157.8	17.6	5.9	9.6	0.6	5.2
Communication	96.9	97.3	-0.2	0.4	-0.5	0.0	0.0
Medical care	190.0	226.0	23.3	18.9	17.7	1.1	10.3
Recreation and culture	133.6	145.3	10.2	8.8	7.8	0.2	2.2
Education	187.5	217.4	14.7	15.9	16.8	0.3	3.2
Restaurants and hotels	189.0	218.3	29.8	15.5	16.9	0.3	2.6
Miscellaneous goods and services	184.3	207.6	23.9	12.6	15.7	0.4	3.8

Among other major components of the CPI, the price index of "transportation", with 5.9 percent growth compared with last year, had 5.2 percent share in raising the general index. In "transportation" group, the price index of "travel expenses" rose by 16.4 percent.

The growth of price index for "medical care" group reached 18.9 percent in the review year, from 23.3 percent in 1387. The rise in medical care costs was mainly owing to 19.2 percent rise in the price index of the "medical, dental and paramedical" sub-group, contributing to 57.5 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 1388 except for the month of Dey. The highest increase by 1.8 percent, compared with the month before, was related to Khordad and Esfand, and the lowest increase to Tir and Mehr by 0.1 percent. CPI remained relatively unchanged in Dey.

A review of CPI developments in urban areas by provinces reveals that in 1388, Qom, Golestan, Khorasan Razavi, and Mazandaran provinces, with respectively 14.0, 13.1, 12.8 and 12.8 percent, had the highest inflation rates. The lowest rate of inflation was related to Bushehr Province by 7.5 percent. Meanwhile, Bushehr Province experienced the lowest price level, and Qom Province the highest level of CPI growth.

During 1384-1388, Bushehr Province, with an average annual rate of 13.0 percent, and Qom Province, with 17.1 percent, had the slowest and fastest growth pace in general level of prices, respectively. Average inflation rate in all urban areas was 15.2 percent during the mentioned period.

In 1388, inflation rate was 11.0 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 3.6 percentage points, and had a share of 33.7 percent in raising the general index. Isfahan Province, with 8.3 percent share, Khorasan Razavi Province with 7.2 percent, and Fars Province with 4.6 percent, ranked next in terms of contribution to CPI in all urban areas.

Rural Areas

CPI for rural areas picked up by 10.3 percent compared with previous year. Inflation in rural areas was the result of growth in the price index of "goods" with 10.7 percent and "services" with 9.1 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 77.7 and 22.3 percent.

In 1388, price index of "food, beverages, and tobacco" grew by 12.1 percent, compared with previous year, largely due to increase in the price index of "meat, poultry, and their products" and "fruits and nuts" groups. In the review year, "food, beverages, and tobacco" group constituted 56.2 percent of the rise in CPI for rural areas, and "non-edible goods and services" 43.8 percent.

After "food, beverages, and tobacco", "housing, water, electricity, gas and other fuels" with 10.1 percent, "clothing and footwear" with a weight of 8.5 percent, "medical care" with 8.0 percent, "furnishings, household equipment, and routine household maintenance" with 5.6 percent, and "transportation" with a weight of 5.4 percent had the highest shares in raising the general index. These six groups together accounted for 93.8 percent of the increase in general price index of the rural areas.

Producer Price Index (PPI)

In 1388, producer price index (PPI) rose by 7.4 percent compared with a year before.

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The growth rate of this index was 14.9 percent in 1386, and 20.9 percent in 1387 (base year: 1383). Among the major components of the PPI, "agriculture, hunting, and forestry", "manufacturing", and "transport, storage, and communications" groups made the greatest contribution to raising the general index.

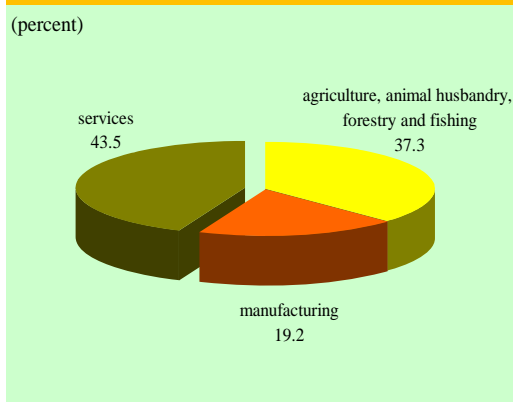
In 1388, the price index of "agriculture, hunting, and forestry" group, with 11.7 percent growth compared with 27.3 percent increase in previous year, had 35.7 percent contribution to the growth of general index.

The price index of "manufacturing" group, with a relative weight of 48.06 percent in the general index and a growth rate of 3.0 percent, made a contribution of 19.2 percent to the growth of general index.

The price index of "transport, storage, and communications" and "health and social work" groups, with respectively 6.0 and 21.1

percent growth, accounted for the rise in PPI general index by 15.1 and 13.5 percent, respectively. Rise in the price index of "health and social work" was mainly due to 25.2 and 20.0 percent rise in the price indices of "hospital services" and "medical and dental services" groups, respectively.

Figure 18.3. Contribution of special groups to PPI changes in 1388



Annual Average Producer Price Index

(1383=100)

	1387	1388	Percentage change			Contribution to the growth of general index in 1388	
			1387	1388	1384-1388	Percentage point	Percent
Special groups							
Agriculture, animal husbandry, forestry, and fishing	179.5	200.7	27.1	11.8	15.0	2.8	37.3
Manufacturing	166.7	171.7	22.3	3.0	11.4	1.4	19.2
Services	163.7	181.8	14.1	11.1	12.7	3.2	43.5
General index	168.6	181.1	20.9	7.4	12.6	7.4	100.0
Major groups							
Agriculture, hunting, and forestry	179.7	200.6	27.3	11.7	14.9	2.7	35.7
Fishing	173.3	203.8	21.7	17.6	15.3	0.1	1.6
Manufacturing	166.7	171.7	22.3	3.0	11.4	1.4	19.2
Hotels and restaurants	192.1	225.8	29.8	17.5	17.7	0.2	2.4
Transport, storage, and communications	149.1	158.1	9.5	6.0	9.6	1.1	15.1
Education	187.5	217.4	14.7	15.9	16.8	0.4	5.8
Health and social work	201.2	243.7	23.5	21.1	19.5	1.0	13.5
Other community, social & personal services activities	209.7	260.2	32.6	24.1	21.1	0.5	6.7

Over 60.0 percent of the rise in "transport, storage and communications" price index was attributable to increase in the price index of "bus ticket" by 16.0 percent, "intra-city taxi fare" by 16.2 percent, and "land freight transport" by 2.5 percent. Moreover, the price indices of "manufacturing", "agriculture, hunting, and forestry", "health and social work", and "transport, storage and communications" groups, with a relative weight of 94.4 percent, accounted for 83.5 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, except for Shahrivar. The highest rise by 1.8 percent was related to the month of Aban, and the lowest rise by 0.1 percent to the month of Farvardin.

Exportable Goods Price Index

Price index of "exportable goods" declined by 6.8 percent compared with preceding year. This index grew by 23.3 and 22.1 percent in 1386 and 1387, respectively, at 1383 prices. Among the components of the price

index of "exportable goods", "base metals and articles of base metals", "products of the chemical or allied industries" and "mineral products", with respectively 34.9, 29.8, and 3.0 percent decline, had the highest decreasing effects on the general index. In the review year, "vegetable products", with 17.6 percent increase compared with 43.5 percent growth in previous year, had the lion's share in raising the price index of exportable goods.

Total Return on Assets

Comparison of the total return on assets (price movements + yields) with inflation rate reveals that, in 1388, price and cash dividend index, full Bahar Azadi gold coins (new design), provisional profit rate of participation papers, and public and private banks' investment deposits were all experiencing an increase higher than the inflation rate, while real returns on other assets were negative. Of note, price and cash dividend index, with 58.8 percent, and full Bahar Azadi gold coins (new design), with 17.6 percent, had the highest growth rates in the review year.

Annual Average Price Index of Exportable Goods

(1383=100)

	Percentage change					Contribution to the growth of general index in 1388	
	1387	1388	1387	1388	1384-1388	Percentage point	Percent
Animal products	131.2	133.0	6.7	1.4	5.9	0.0	-0.3
Vegetable products	244.9	288.1	43.5	17.6	23.6	3.4	-49.7
Animal and vegetable fats and oils	224.3	183.4	36.9	-18.2	12.9	-0.1	1.8
Prepared foodstuffs, beverages, and tobacco	180.4	191.2	32.7	6.0	13.8	0.1	-2.4
Mineral products	218.8	212.3	6.8	-3.0	16.2	-0.6	9.2
Products of the chemical or allied industries	188.5	132.3	27.7	-29.8	5.8	-3.5	51.2
Plastic & articles thereof, rubber & articles thereof	140.3	127.6	13.1	-9.1	5.0	-0.3	3.6
Raw hides and skins, leather and articles thereof	122.7	118.4	9.8	-3.5	3.4	0.0	0.5
Wood and articles of wood	187.7	171.8	22.4	-8.5	11.4	0.0	0.2
Textiles and articles thereof	201.3	215.6	23.6	7.1	16.6	1.0	-14.5
Footwear	125.6	130.4	11.2	3.8	5.5	0.0	-0.3
Articles of stone	129.1	133.8	12.1	3.6	6.0	0.1	-1.0
Base metals and articles of base metals	197.4	128.6	25.7	-34.9	5.2	-6.6	97.5
Mechanical appliances and electrical equipment	180.3	159.1	6.9	-11.8	9.7	-0.3	4.9
Vehicles and transport equipment	127.6	131.6	5.4	3.1	5.6	0.0	-0.7
Optical, precision, and medical instruments	159.7	161.9	22.9	1.4	10.1	0.0	0.0
General index	198.5	185.1	22.1	-6.8	13.1	-6.8	100.0

(1383=100)	Total Return on Assets (price movements+yields)					(percent)		
	1384	1385	1386	1387	1388	Average rate of return ¹	Standard deviation	Sharpe ratio ²
Land price index (all urban areas)	11.5	12.8	53.3	42.4	-7.8	20.4	24.9	0.2
Price and cash dividend index	-12.7	14.7	17.6	-11.3	58.8	10.6	29.0	-0.2
Rental value of non-owner occupied housing	11.6	13.7	21.2	28.6	12.8	17.4	7.2	0.2
Nominal value of US dollar (parallel market)	3.4	2.0	1.4	3.3	3.2	2.7	0.9	-15.2
Nominal value of euro (parallel market)	0.6	7.0	11.6	4.2	2.5	5.1	4.3	-2.6
Full Bahar Azadi gold coins (old design)	17.6	36.7	13.5	21.5	6.5	18.7	11.3	0.2
Full Bahar Azadi gold coins (new design)	18.2	35.3	19.9	18.8	17.6	21.8	7.5	0.7
Provisional profit rate of participation papers	15.5-17	15.5	15.5	18.0	16.0	16.3	1.0	0.0
Provisional profit of one-year term deposits in public commercial banks (highest rate)	13.0	15.8	16.0	15.0	14.5	14.9	1.2	-1.2
Provisional profit of one-year term deposits in private banks (highest rate)	18.0	17.5	17.5	17.3	14.5	17.0	1.4	0.5
Price index of Samand automobiles	-2.2	4.3	9.7	8.1	1.1	4.2	4.9	-2.5
Price index of Pride automobiles	0.9	2.2	4.3	9.7	-2.2	2.9	4.5	-3.0
Consumer price index of goods and services	10.4	11.9	18.4	25.4	10.8	15.2	6.5	0

¹ Average return on assets (except for participation papers and investment 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 1384-1388 was within the range of 5.3 to 6.4 and that of liquidity within 1.5 to 2.0. By definition, there exists a direct relationship between velocity of circulation of money/liquidity and 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

1388, liquidity posted a growth of 23.9 percent, which was higher than the year before. The velocity of circulation of notes and coins, as well as money and liquidity in the review year was lower than the year before. In Esfand 1388, consumer price index of goods and services had 10.4 percent growth compared with the same month last year. However, this index was lower than the corresponding figure of the previous year.

	Velocity of Circulation of Monetary Aggregates					(percent)
	1384	1385	1386	1387	1388	
Notes and coins	36.6	36.8	35.8	21.4	18.5	
Money	5.8	5.5	5.3	6.4	5.9	
Liquidity	2.0	1.8	1.7	1.8	1.5	
CPI changes (1383=100) (Compared with Esfand of the year before)	8.2	15.6	22.5	17.8	10.4	

4th Five-Year Development Plan

The Twenty-Year Vision Plan emphasizes curbing inflation, raising the deprived and low-income groups' purchasing power, reducing the gap between the high and the low income deciles, and implementing appropriate compensatory policies. Therefore, articles 3, 26 and 39 of the 4th FYDP Law are dedicated to inflation control and prices.

Article 3 of the 4th FYDP Law pertains to price adjustment of fuel oil, gas oil and gasoline using the Persian Gulf wholesale prices as a benchmark. Accordingly, the expected proceeds are set to be devoted to the implementation of specific plans and policies. This Article was amended in 1383, however. According to Article 3 amendment (Price Stabilization Law), price of gasoline, gas oil, kerosene, fuel oil and other oil products, gas, electricity, water, sewage collection, telephone communication and postal services should remain unchanged in 1384-1385. Bills on any further changes in prices shall be submitted to the Parliament for approval (by September at the latest).

According to the 4th Plan (1384-1388), inflation rate was projected at 9.9 percent, on average. Notwithstanding such projection, the average consumer price index of goods and services rose from 110.4 in 1384 to 203.0 in 1388, at 1383 base year. Review of CPI developments during 1384-1387 points to the upward trend of this index from 10.4

percent in 1384 to 25.4 percent in 1387. However, this index decreased to 10.8 percent in 1388.

During the 4th FYDP, inflation rate was 15.2 percent, on average, showing increase compared with the corresponding figure of the 3rd Plan (14.1 percent). This was also 5.3 percentage points higher than the Plan projection (9.9 percent). Comparing the performance figures of inflation rate with its projection figures during the 4th Plan reveals that actual rates of inflation for 1384-1385 were less than the projected rates. However, the actual rates of inflation surpassed the projected figures in next years. Thus, 9.3 percentage points deviation from the projection was witnessed in 1386, 17.5 percentage points deviation in 1387 (the largest), and 4.0 percentage points deviation in 1388.

Producer price index increased from 108.8 in 1384 to 181.1 in 1388, at 1383 base year, representing an average growth rate of 12.6 percent over the 4th Plan. This index, which had an upward trend during 1384-1387, declined by 13.5 percentage points to 7.4 percent in 1388.

Price index of exportable goods rose from 113.0 in 1384 to 185.1 in 1388. This index, experiencing sharp fluctuations over the 4th Plan, faced 13.0 percent increase in 1384, 22.1 percent increase in 1387, and 6.8 percent decrease in the final year of the Plan.

Inflation Rate Projections during the 4th FYDP

	1383	1384	1385	1386	1387	1388	4 th Plan average
Price index (1381=100)	137	157	175	191	206	220	–
Percentage change (inflation rate)	–	14.6	11.5	9.1	7.9	6.8	9.9

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General Price Indices during the 4th FYDP (1383=100)

		1383	1384	1385	1386	1387	1388	4 th Plan average
Consumer price index of goods and services	General index	100.0	110.4	123.5	146.2	183.3	203.0	–
	Percentage change	15.2	10.4	11.9	18.4	25.4	10.8	15.2
Producer price index	General index	100.0	108.8	121.4	139.5	168.6	181.1	–
	Percentage change	16.8	8.8	11.6	14.9	20.9	7.4	12.6
Exportable goods price index	General index	100.0	113.0	131.9	162.6	198.5	185.1	–
	Percentage change	28.4	13.0	16.7	23.3	22.1	-6.8	13.1