

CHAPTER ELEVEN

CAPITAL MARKET

The Tehran Stock Exchange, in the third year of a relatively bullish market after the recession of 1376, enjoyed substantial growth in this year. This growth was due mainly to improving manufacturing sector activities and the relative stability in alternate markets such as foreign exchange, gold, and automobile. Moreover, due to the expectation of a reduction in banks deposit rates, public savings were diverted to the TSE, which was another factor for the relative bullish market in the review year. In addition, the government's policies in support of the manufacturing sector, which included provision of foreign exchange facilities from the OSF, and TSE policies designed to expand capital market activities by adoption of appropriate regulations, were all other effective factors for the marked improvement in the performance of this sector.

TRANSACTIONS OF SHARES ON STOCK EXCHANGE

	Number of shares transacted (million share)			Value of transactions (billion rials)			Number of active days of TSE in the year	Average number of shares transacted per day (million shares)	Average value of shares transacted per day (billion rials)
	Shares	Priority	Total	Shares	Priority	Total			
1376	485.3	70.9	556.2	1,894.0	123.6	2,017.6	242	2.30	8.34
1377	1,133.6	69.1	1,202.7	2,992.0	124.7	3,116.7	244	4.93	12.77
1378	1,056.2	125.7	1,181.9	5,137.1	106.5	5,243.6	243	4.86	21.58
1379	1,606.7	74.8	1,681.5	9,118.8	57.9	9,176.7	241	6.98	38.08

Source: TSE, Monthly Review

In the review year, other important indices for the stock market such as number and value of shares and priority share, the value of shares offered by public sector and banks, price index and dividend index, the number of buyers and number of accepted companies in the TSE all showed marked increases, compared with the previous year. Priority share transactions fell off and this was offset by the substantial increase in ordinary share transactions.

Although the ratios for the rial value of transactions to average liquidity of 4.26 percent and the rial value of transactions to GDP of 1.67 percent in 1379 were both indicative of the comparatively small size of the TSE, compared to foreign stock markets, the referenced ratios rose compared to the corresponding ratios for the previous year. This rise indicates relative improvement in the performance of the TSE.

Shares

In 1379, the rise in the number and value of all shares traded on the TSE registered a marked growth. In this period, 1,606.7 million shares were traded, showing a 52.1 percent increase compared with the previous year. Moreover, the value of share transactions reached Rls. 9,118.8 billion, indicating a 77.5 percent growth as compared with the previous year. The increase in the rate of the value of traded shares over the growth rate of the number of traded shares, during the review period, indicates that the average share price index also rose.

A comparison between the number and value of priority share transactions in 1379 with the year before indicates that these fell respectively by 40.5 and 45.6 percent. However, the negative impact of this reduction on the value and the total number of priority share transactions was offset by the relatively high increase in the volume and value of ordinary share transactions. The total number and value of ordinary share and priority share transactions in 1379, with respectively 42.3 and 75 percent growth compared with the previous year, reached 1,681.5 million shares and Rls. 9,176.7 billion.

The TSE was open for business for 241 days in 1379. The average daily number of shares traded reached 6.98 million shares and the average value of daily share transactions reached Rls. 38.08 billion, representing 43.5 and 76.5 percent growth compared with the previous year. The current value of the Stock Market reached Rls. 62,486.6 billion at the end of the review year, indicating 42.8 percent growth compared with the previous year. At the end of 1379, the overall share price index registered 35 percent growth to reach 2,978.26, as against 2,206.19 for the previous year.

A comparison between ordinary share and priority share transactions in the first and second halves of 1379, indicate that in the first six months, the overall number and total value of ordinary and priority shares were respectively 760.2 million shares and Rls. 3,593.3 billion. This represents 45.2 percent of total shares and 39.2 percent of total value in overall transactions for the year, while in the second half of the year, these figures increased to 921.3 million shares and Rls. 5,583.4 billion, representing 54.8 and 60.8 percent of total transactions.

Due to the fact that most listed companies hold their annual general meetings in the second half of the year, where they announce their profit and losses for the year and future projections, thereby affecting buyers and sellers in the market place, the TSE was more bullish in the second half of 1379. A comparison between number and value of transactions in the second half of 1379 with the previous year indicates a bull market since the beginning of the year. This is further evidence that there has been an increase in both the amount that buyers are investing at the TSE and their willingness toward investing in this market.

TRANSACTION OF SHARES ON TEHRAN STOCK EXCHANGE

(Share percent)

	Number		Value	
	1 st half	2 nd half	1 st half	2 nd half
1375	59.4	40.6	60.8	39.2
1376	57.8	42.2	53.5	46.5
1377	26.1	73.9	26.5	73.5
1378	28.9	71.1	20.6	79.4
1379	45.2	54.8	39.2	60.8

Source: Tehran Stock Exchange

Review of the statistics of 19 industries' ordinary share and priority share transactions on the TSE, indicate that 'financial intermediaries', 'oil refining and nuclear fuel', and 'transportation vehicles' had the highest percentage shares respectively of 28.3, 18.6, and 13.5

percent in the total number of ordinary and priority share transactions totaling 60.4 percent. The headings under 'oil refining and nuclear fuel', 'transportation vehicles', and 'machinery and equipment', respectively with 27.4, 12.4 and 11.5 percent totaling 51.3 percent, registered the highest share in the total value of ordinary and priority share transactions. In 1378, the overall share of these industries as a percentage in the number and value of ordinary and priority shares were respectively 63.1 and 54.6 percent. Moreover, 'office equipment manufacturing' industry had the smallest number and value of share transactions of all industries.

A comparison of number and value of shares and priority share for various industries indicates that the two industry headings of 'transportation vehicles' and 'transportation equipment' showed a reduction, both in the number and value of transactions compared with the previous year. 'Machinery and electrical devices' fell merely in value of transactions compared with the previous year. Other industries enjoyed positive growth in both the number and value of ordinary and priority share transactions when compared with the previous year. The above developments point to a relatively widespread bull in TSE's industrial shares and generally holds true for most industries.

The heading under 'transportation equipments' industry registered a decrease of 83 percent in number and a 74.6 percent decrease in value of both ordinary and priority shares, which was the highest decrease recorded at the TSE this year. The highest increase in the number of ordinary and priority shares transacted was under the heading of 'wood and paper' industry, which recorded a massive 384 percent growth over the previous year. The highest recorded increase in value was that of the 'oil refinery and nuclear fuel' heading which registered an unprecedented 421.7 percent growth.

In 1379, share offerings by the public sector and banks rose in comparison with the previous year. The total shares offered by public corporations and institutions, the banking system, and foundations totaled 327 million shares in 1379, against 242.7 million shares in 1378. This showed a 34.7 percent growth. The value of shares offered, increased to Rls. 2,248 billion from Rls. 2,034.8 billion in 1378, registering a 10.5 percent growth in 1379.

The increase in both the number and value of share offerings at the TSE in 1379 was mainly due to the increase in shares offered by the banking system. The banking system's number of shares increased to 35 percent of the total shares offered and their value grew to 32.1 percent of the overall value of shares offered on the TSE in 1379. The respective figures for the banking system in 1378 were 16.1 and 9.3 percent. The specialized banks particularly the Bank of Industry and Mine made up the major portion of the increase of these ratios. The specialized banks share in the overall number and value of shares offered in 1379 was respectively 28.5 and 26.7 percent registering a relatively high growth in the referenced ratios when compared with the previous years' ratios of respectively 8.3 and 8.1 percent.

In the review year, the commercial banks, mainly Bank Tejarat increased their share offering resulting in the number and value of these shares to rise by 11.1 and 379.8 percent respectively, as compared with the previous year.

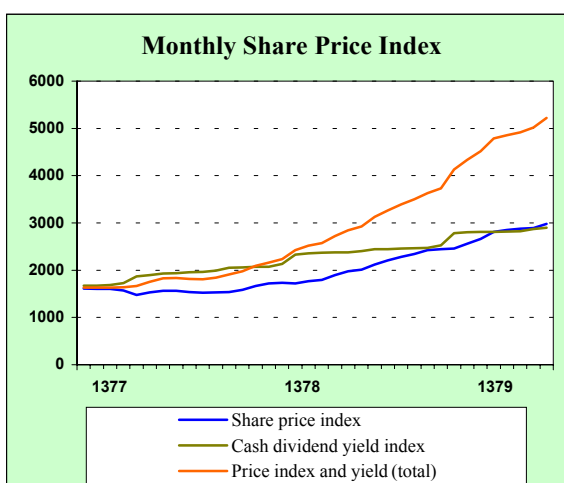
The number and value of shares offered by public corporations and institutions fell by 2.9 and 18.2 percent, respectively in 1379. This fact resulted in a reduction of these organizations' share in total numbers and value of offered shares from 80.7 and 89.5 percent respectively in 1378 to 58.2 and 66.3 percent in the review year. The reduction in the shares offered by the Industries Development and Renovation Organization and National Iranian Industries made up the major portion of this reduction.

SHARES OFFERED BY THE PUBLIC SECTOR AND BANKS

	Number		Value		Percentage change		Share (percent)	
	(thousand shares)		(billion rials)		Number	Value	Number	Value
	1378	1379	1378	1379				
Public organizations and corporations	195,919.4	190,188.6	1,821.2	1,489.8	-2.9	-18.2	58.2	66.3
Foundations	7,679.5	22,329.6	24.1	37.2	190.8	54.2	6.8	1.7
Banking system	39,117.1	114,453.3	189.5	721.0	192.6	280.5	35.0	32.1
Central Bank	0	0	0	0	0	0	0	0
Commercial banks	19,069.3	21,178.6	25.2	120.9	11.1	379.8	6.5	5.4
Specialized banks	20,047.8	93,274.7	164.3	600.2	365.3	265.2	28.5	26.7
Total	242,716.0	326,971.5	2,034.8	2,248.0	34.7	10.5	100.0	100.0

Source: TSE, Monthly Review for 1378 and 1379.

Despite reduction in the number of shares offered by public corporations and institutions, the share offering for this sector is still relatively high. In the review year, the share of public corporations and institutions, banking system, and foundations in the overall number of share offerings was 58.2, 35 and 6.8 percent, respectively and made up 66.3, 32.1 and 1.7 percent of the total value of share offerings. It is to be noted that, despite the increase in the number and value of shares offered by the foundations, mainly Bonyad Mostazafan va Janbazan, in the review year, the mentioned ratios in the number and value of shares issued compared with other public sector institutions is still at a low level.



Study of the share price index in the TSE, during 1379, indicates that the total price index and cash dividend, with 59.9 percent growth, reached 5,221.4, against 3,266.3 in 1378. The share price index grew 70.8 percent in the previous year. The cash dividend and share price indices registered respectively 18.4 and 35 percent growth as compared with the previous year's growth of 19.1 and 43.4 percent to reach 2,898.1 and 2,978.3 in 1379.

TSE INDICES

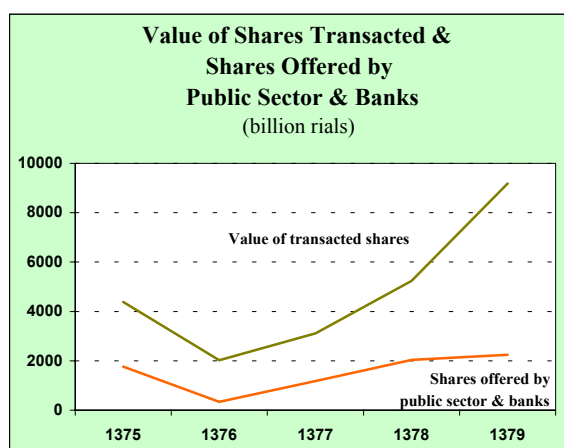
					(1369=100)	
	1376	1377	1378	1379	Percentage change	
					1378	1379
Price and cash dividend index	1,653.06	1,911.88	3,266.27	5,221.35	70.8	59.9
Cash dividend index	1,653.06	2,054.98	2,447.39	2,898.09	19.1	18.4
Share price index	1,653.06	1,537.96	2,206.19	2,978.26	43.4	35.0
Financial index	4,114.91	4,048.17	4,683.57	6,347.29	15.7	35.5
Industrial index	1,393.86	1,275.81	1,945.89	2,621.80	52.5	34.7

Source: Tehran Stock Exchange, "Monthly Review" for various years

Amongst the components of general share price index, the financial and industrial indices enjoyed relatively high growths of, respectively, 35.5 and 34.7 percent in 1379. This is

indicative of a marked rise in the financial price index and a reduction in the growth rate of the industrial price index, as compared to the growth rates in the previous year of 15.7 and 52.5 percent, respectively. The industrial price index is composed of the share prices of about 93.8 percent of the companies listed on the TSE. These companies made up 71.7 percent of the total number of listed ordinary and priority shares and about 89.8 percent of the total value of share transactions during 1379. However, the reduction in the growth rate of the industrial price index as compared with the previous year directly led to a reduction in the growth rate of share price index this year. The comparison between the financial and industrial price indices during 1378-1379 indicates that, although the share price index of industrial corporations at the TSE grew less than in the previous year, the overall share for the total number and value of ordinary and priority shares of these corporations increased.

A study of the share price index by industries indicates that while the share price index under the headings of 'textile', 'machinery and equipment', 'radio and television', and 'transportation equipment' industries fell compared with the previous year, the other indices all grew. In the review year, the share price index of 'paper and paper products', with a 183.9 percent growth, enjoyed the highest rise and the share price index of 'radio and television', with a 34.7 percent reduction, registered the highest decline as compared with the previous year.



CURRENT VALUE OF SHARES AND TURNOVER RATIO (billion rials)

	Current value of shares at the end of the year	Value of transactions	Current value of total shares (average)	Turnover ratio (percent)
1375	31,164.4 (45.5)	4,381.6 (133.0)	29,696.6 (129.2)	14.8
1376	27,128.8 (-12.9)	2,017.6 (-54.0)	27,944.6 (-5.9)	7.2
1377	26,584.6 (-2.0)	3,116.7 (54.5)	26,000.8 (-7.0)	12.0
1378	43,743.5 (64.5)	5,243.6 (68.2)	34,715.8 (33.5)	15.1
1379	62,486.6 (42.8)	9,176.7 (75.0)	53,769.2 (54.9)	17.1

Source: Tehran Stock Exchange, Reviews for various years.

Figures in parentheses indicate percentage change over the previous year.

Turnover Ratio⁽¹⁾

In the third consecutive year of the relative bull at the TSE, the turnover ratio went up from 15.1 percent in 1378 to 17.1 percent in 1379, while the pace of its growth declined in comparison with 1377 and 1378.

(1) The "turnover ratio" is the ratio value of transactions during the year to average current value of shares in the same year.

In 1379, the 342,764 real and legal individuals traded ordinary and priority shares on the TSE, showing a 46 percent growth as compared with the previous year. The average number and value of ordinary and priority shares purchased by each individual in the review year was 4,905.7 shares and Rls. 26.8 million. This was a 1.4 percent rise in number and a 24.7 percent rise in value as compared with the previous year.

In the review year, out of the total number of listed companies on the TSE, 94 companies increased their capital by Rls. 3,389.8 billion. This capital increase was financed as follows: 6.6 percent or 11 companies were financed from reserves amounting to Rls. 224.3 billion, 11 percent or 10 companies from accumulated profit of Rls. 372.9 billion, 42.1 percent or 61 companies from cash assets and claims of Rls. 1,427.1 billion, and 40.3 percent or 12 companies increased their capital by Rls. 1,365.5 billion through reserve funds, accumulated profit and cash assets and claims.

FINANCIAL RESOURCES OF CAPITAL INCREASE OF

COMPANIES ACCEPTED ON THE TSE

(billion rials)

Year	Out of reserves	Out of surplus (1)	Out of claims and cash assets	Out of reserves, claims and cash assets	Total	Percentage change
1375	78.8	..	2,511.2	0	2,590.0	34.4
1376	158.8	..	548.1	0	706.9	-72.7
1377	111.4	..	924.2	18.7	1,054.3	49.1
1378	784.1	..	1,463	15.5	2,262.6	114.6
1379	224.3	372.9	1,427.1	1,365.5	3,389.8	49.8

Source: Tehran Stock Exchange

(1) According to classification of TSE, figures related to surplus appeared under reserves in the years before 1379.

In 1379, the TSE accepted and listed 12 new companies on the exchange board and this brought the total number of listed companies to a figure of 318, which includes 3 companies on suspension and a further 8 on conditional acceptance. This represented an overall increase of 7 companies over the previous year.

NUMBER OF COMPANIES ACCEPTED ON THE TSE

	1377	1378	1379	Change in 1379
Listed companies	281	295	307	12
Investment companies	16	18	19	1
Other companies	265	277	288	11
Companies on suspension	3	3	3	0
Conditionally accepted companies	20	13	8	-5
Total	304	311	318	

Source: Tehran Stock Exchange, Monthly Review for various years

Amongst the industries, the heading under 'foodstuffs', with 42 companies listed, ranked first in number of companies listed on the TSE. This was followed by the heading under 'chemicals', and 'mineral and non-metallic' industries, each with 41 companies listed while the headings under 'farming', 'manufacturing of office equipment', and 'printing and publishing' industries, each with one company listed, registered the smallest number of listed companies on the TSE. The heading under 'financial intermediaries' industry, with 19 companies listed on the TSE, held 6.2 percent of overall companies listed.

Increase in the number of listed companies on the TSE led to a rise in the number of shares in the market. Moreover, the increase in the average current ordinary shares and priority shares price resulted in a growth of 42.8 percent in the current value of the stock market at the end of 1379, which amounted to Rls. 62,486.6 billion.

Participation Papers

In accordance with the 1379 Budget Law, the government was authorized to issue up to a maximum of Rls. 2,000 billion worth of participation papers to speed up the implementation of development projects. These papers had a four-year validity, and were issued and sold in three lots.

As stipulated in the Budget Law, the Ministry of Energy along with its affiliated corporations and institutions was authorized to issue Rls. 300 billion participation papers with a maturity of 3 years to complete the projects. These papers were sold at one time in Aban 1379. Iran Poly Acryl Corporation issued a total of Rls. 80 billion participation papers, the first portion of which was sold in Ordibehesht 1378 and raised Rls. 50 billion, while the balance was sold in Mehr 1379.

All these participation papers issued in 1379 were bearer and could be redeemed at any time through the agent banks. The provisional profit rate for the participation papers of the Poly Acryl Corporation was 20 percent and the other papers were set at 19 percent per annum provisional profit. The profit on all papers was tax-exempted.

Of the total participation papers issued by the public and non-public sectors, only papers related to 'hospital projects' were tradable on the TSE. However, in the review year, no such transactions took place on these papers. Participation papers for 'hospital projects' were matured in Bahman 1379.

Certificate of Deposit (CD) Transactions

During 1379, a total of \$2,624.7 million and €162.6 million, with a total rial value of 22,339.1 billion in Certificate of Deposits were traded on the TSE. Certificate of Deposit trading on the TSE commenced from the beginning of 1379 and all foreign exchange transactions before this date were in the form of import certificates.

The average dollar value of CD equaled Rls. 8,064.52 and the average euro value was Rls. 7,206.27 in 1379. The CD rate at the end of 1378 was Rls. 5,148 per dollar including Rls. 3,000 the cost of foreign exchange received through import certificates. The average dollar value in CD therefore faced slight fluctuations in comparison to the previous year.