

# CHAPTER TWELVE

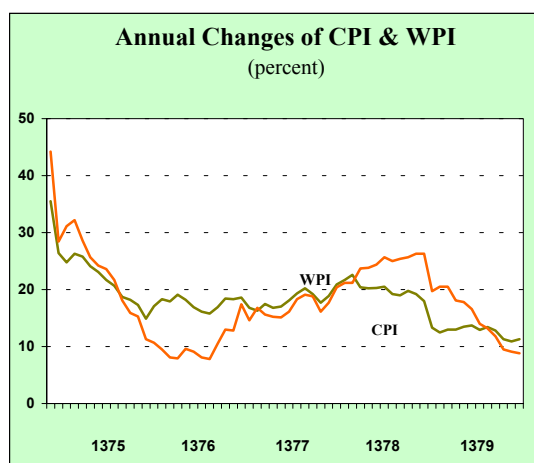
## PRICE TRENDS

The inflation rate in 1379, showed a marked change against the previous year and declined to a low of 12.6 percent; while in the 3<sup>rd</sup> FYDP Law it was forecasted at 19.9 percent in 1379. The fall in inflation rate was due to the positive impact of the increase in foreign exchange revenues on government's fiscal position and improvement in BOP during 1378-1379, limitation of price increases to no more than 10 percent annually for goods and services provided by public corporations and institutions in accordance with the Third Plan Law, and a decline in inflationary expectations. The major portion of the rise in the Consumer Price Index (CPI) i.e. 36 percent was due to an increase in the price index under the heading of 'housing, fuel and lighting', which in turn, was due to the increase in the price index for 'housing'. The increase in the price of 'housing' was due to the relatively mild upturn of this sector from recession.

The trend of change in the consumer price index shows a decline since the beginning of 1378, which with a 1.6 percentage point decrease, reached 20.1 percent by year-end. This declining trend continued in 1379 and recorded an unprecedented 12.9 percent in the first three months of the year. With minor fluctuations in the months that followed, this change was 12.6 percent at the end of the year.

In the year under review, the growth rate of the wholesale price index and the producer price index markedly declined and stood respectively at 14.7 and 16.3 percent. The growth of these indices in 1378 was 24.2 and 22.9 percent, respectively.

The ration system for the distribution of certain essential goods continued in this year and the amount of subsidy paid on goods and services reached Rls. 8,390.5 billion, registering Rls. 739.4 billion increase as compared to the previous year. The ratio of subsidies to GDP declined from 1.8 percent in 1378 to 1.5 percent in 1379. Rls. 5,835 billion or 69.5 percent of this amount was paid for wheat purchase, Rls. 543.1 billion or 6.5 percent for fertilizers, and Rls. 434 billion or 5.2 percent for rice, vegetable oil, sugar and cube sugar. The major portion of subsidies was paid out for the economic well being of consumers.



## AVERAGE ANNUAL CHANGES IN PRICE INDICES

(percent)

	Base year	1376	1377	1378	1379
Consumer price index in urban areas	1376	17.3	18.1	20.1	12.6
Wholesale price index	1376	9.9	16.7	24.2	14.7
Producer price index	1376	15.6	18.7	22.9	16.3
Exported goods price index	1376	..	22.2	59.8	17.7
GDP deflator (base price)(1)	1369	14.4	8.8	29.1	24.8
Non-oil GDP deflator (base price)	1369	17.6	15.5	19.6	19.9

(1) The 1379 figure is preliminary.

### Consumer Price Index

#### 1. Urban Areas

The average consumer price index (CPI) grew by 12.6 percent in 1379, which when compared to the 20.1 percent increase in the previous year shows a marked decline. A review of the constituents of this index by special groups shows that the price index of 'goods', 'services', and 'housing, fuel and lighting' groups declined in comparison with the preceding year. The price index heading under 'goods' showed the highest share, 43.6 percent of this increase in the general index. The percentage shares for the 'services' and the 'housing, fuel and lighting' price indices, in the increase in the general index were respectively 16.7 and 39.7 percent.

The consumer price index by major groups reflects that, with the exception of 'clothing' group, the growth rate for all other price indices declined. Among the main constituents of CPI, the price index under the heading of 'housing, fuel and lighting' with 18.4 percent growth, had a 39.7 percent share in raising the general index. The average price index of 'housing' increased by 18.2 percent. Among the sub-groups of 'housing', the 18.6 percent increase in the price index of 'renting value of privately-owned houses', was one of the main factors in raising the 'housing' price index. The average price index of 'food, beverages and tobacco' group grew by 8.9 percent and with its high relative weight, raised the general index by 24.6 percent. The price index for 'red meat, poultry and fish' and 'fruits and vegetables' groups grew by 15.5 and 13.9 percent, respectively. This raised the general index by 2.4 percentage point over the previous year. Thus, 77.4 percent of increase in the price index of the 'food, beverages and tobacco' group was due to the increase in the price index of these two sub-groups. The growth of the price index for the 'bread, rice and grain products' group markedly decreased and registered a 2.1 percent decline in comparison to the 23.1 percent rise in 1378. This was mainly due to a reduction of 13.5 percent in the price index of various rice varieties, which had shown a 24.7 percent rise in the preceding year. The price index of the 'grain products' group had a more limited growth of 13.2 percent when compared to the 17.1 percent growth in 1378.

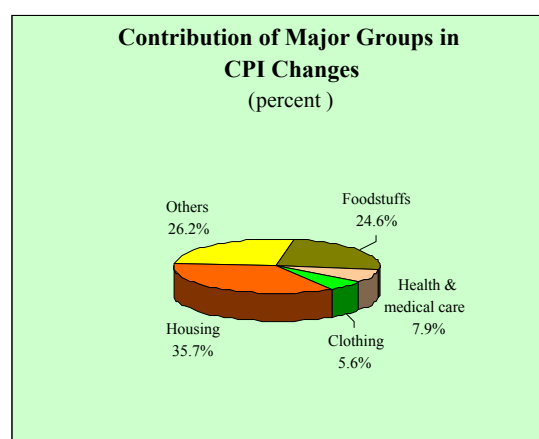
The price index for the 'transportation and communication' group showed an 8.5 percent growth and raised the general index by one percentage point. This increase was primarily caused by the rise in the price index for 'private transportation' group due to a price increase of the Paykan (domestically produced motorcar).

The price index for the 'miscellaneous goods and services' and 'clothing' groups increased by 15 and 8.7 percent, respectively and raised the general index by a 1.3 percentage point. Among the constituents of CPI by main and selected minor groups, the highest growth of 20.7 percent over the previous year was related to the price index for the 'health and medical care' group. Due to its relative weight of only 4.57 percent among the main groups, this raised the general index by only one percentage point.

The course of changes recorded in the average CPI, after seasonal adjustments, showed 2.2 percent increase for the first quarter of 1379, a 2.8 percent decrease for the second quarter, a slight decrease in the third quarter and a 1.6 percent increase in the fourth quarter of the year.

**AVERAGE CHANGES IN CPI AFTER SEASONAL ADJUSTMENT (each period over previous period)**

	(percent)		
	1377	1378	1379
Q1	2.5	2.2	2.2
Q2	-2.9	-2.8	-2.8
Q3	-1.0	-0.9	-0.9
Q4	1.6	1.6	1.6



An examination of the inflation rate in the provinces shows that Tehran had the highest rate of inflation this year, which registered 15 percent. Golestan Province had the lowest rate of 8.6 percent. The inflation rate in Tehran was 2.4 percentage point more than the average inflation rate.

At the end of 1378, the 1369 (1990/91) base year that was used for CPI calculations, was revised to 1376 (1997/98). The purchasing basket of CPI based on the 1376 base year was made up of 310 items in total. 257 of these were goods, 43 were service items, and 10 items were related to construction and housing. In the 1369 base year, the CPI basket contained 313 items of which 52 items were deleted and 49 new items added to the new base year basket. The number of provinces on the survey for the new base year was increased from 25 to 28 while the number of cities was decreased from 82 to 72.

**RELATIVE WEIGHTS OF SPECIAL AND MAIN GROUPS OF CPI (percent)**

	Base year	
	1369	1376
<b>Special groups:</b>		
Goods	64.77	60.93
Services	10.05	12.03
Housing, fuel and lighting	25.18	27.04
<b>General index</b>	<b>100.00</b>	<b>100.00</b>
<b>Main groups:</b>		
Food, beverages and tobacco	27.33	32.45
Housing, fuel and lighting	25.18	27.04
Clothing	11.14	9.55
Household furnishings, goods and services used at home	7.16	7.22
Transportation and communication	7.93	11.40
Health and medical care	3.94	4.57
Recreation, education and reading	2.02	3.53
Miscellaneous goods and services	5.30	4.24

## 2. Rural Areas<sup>(1)</sup>

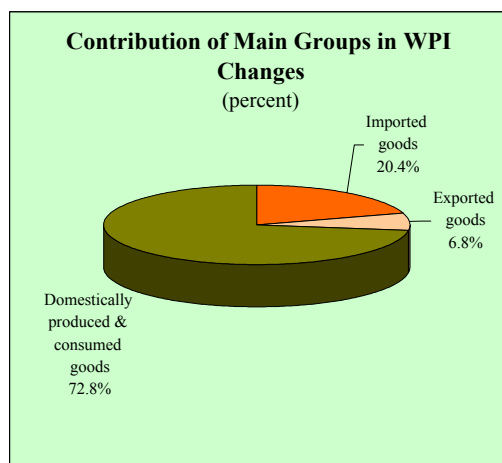
The average CPI for rural areas increased by 19.3 percent this year. A review of the price index for a selection of consumer goods and services of rural households indicates that the growth of the price index for the 'food' and 'health and medical care' groups with respective relative weights of 48.2 and 7.2 percent, had an 8.5 and a 3.1 percentage point share in raising the general index. This accounted for 60.1 percent of the increase in the inflation rate in rural areas. The price index under the headings of 'goods' and 'services' grew respectively by 18.3 and 23.6 percent over the previous year.

The price index under the heading of 'food, beverages and tobacco' grew by 17.6 percent. The highest increase under this heading was related to the price index for 'fruits and vegetables', which grew by 35.4 percent over the previous year. The price index of 'red meat, poultry and fish' group with a relative weight of 10.6 percent, grew by 18.2 percent over the previous year.

Among the constituents of CPI in rural areas, the highest increase of 30.8 percent was related to the price index for the 'health and medical care' group. The price index of 'clothing and shoes' grew by 22.5 percent over the previous year.

### Wholesale Price Index (WPI)

The average wholesale price index rose by 14.7 percent, registering a marked improvement over 24.2 percent for the previous year. The decline in the speed of the growth of this index was notable. A review of the major constituents parts of WPI indicates that the average growth rate of the price index for all three groups i.e. imported, exported and domestically produced and consumed goods declined and the highest recorded decline was related to 'exported goods' from 60.7 percent in 1378 to 19.7 percent in 1379. The price index of 'domestically produced and consumed goods' registered a 14.8 percent increase and with the highest relative weight, 71.75 percent, raised the general index by 72.8 percent.



The average price index of 'imported goods' with 13.3 percent growth over the previous year and relative weight of 24.29 percent, had the direct effect of 20.4 percent in raising the general index.

The average price index of 'exported goods' increased by 19.7 percent against a rise of 60.7 percent in the previous year, and with its 3.96 percent relative weight, had the direct effect of 6.8 percent in raising the general index.

Changes of the main constituent groups of WPI show an increase in the average index for all groups. The major factor behind this increase was the rise of 13.9 percent in the price index under the heading of 'food' which had a share of 36.1 percent in the rise of general index. The second most important factor was the increase of 16.3 percent in the price index under the heading of 'raw material manufacturing', which with a relative weight of 26.9 percent had a share of 27.2 percent in the surge of WPI.

(1) Statistics are released from Iran Statistical Center and the base year is 1374 (1995/96).

The price index for the 'machinery and transportation vehicles' group grew by 11.1 percent and, with its relative weight of 19.45 percent, had the direct effect of 13.6 percent in raising the general index. As a result, the growth of these three indices with their high relative weights had a share of 76.9 percent in the rise of WPI.

Among the constituents of special groups, the average price index of 'farm and livestock products and fishing' grew by 14.2 percent. The price index of 'agriculture' group and 'livestock and fishing' group raised the mentioned index by 51.2 and 48.8 percent, respectively.

The average price index for 'construction materials' grew by 15.1 percent as against 24 percent for the previous year, mainly as a result of the increase in the price index for 'metal construction materials' of 14 percent against the 27.9 percent increase recorded in the previous year.

It should be noted that in the last month of 1379, WPI was revised and the base year changed from 1369 (1990/91) to 1376 (1997/98). As a result, the number of items in WPI calculations increased from 432 goods in the 1369 (1990/91) base year to 1,026 goods in the 1376 (1997/98) base year and the respective relative weight changed accordingly.

**RELATIVE WEIGHTS OF MAJOR, MAIN AND SPECIAL GROUPS OF WPI IN  
1369 (1990/91) AND 1376 (1997/98) BASE YEARS** (percent)

	Base year	
	1369	1376
<b>Major groups:</b>		
Domestically produced and consumed goods	57.73	71.75
Imported goods	33.94	24.29
Exported goods	8.33	3.96
<b>General index</b>	<b>100.00</b>	<b>100.00</b>
<b>Main groups:</b>		
Food	35.76	35.40
Beverages and tobacco	1.02	0.78
Non-fuel mineral industrial products	4.41	3.86
Mineral fuel and its derivatives	3.21	2.76
Chemical and petrochemical products	2.60	8.60
Manufacturing in terms of raw materials	33.89	26.93
Machinery and transportation vehicles	17.63	19.45
Miscellaneous goods	1.48	2.23
<b>Special groups:</b>		
Farm and livestock products	28.08	26.82
Construction materials	20.44	10.74

### Exported Goods Price Index

The calculation of exported goods price index commenced in 1379, using 1376 as the base year. Calculation of this index was previously done within the context of the 'exported goods' group, which was one of the three major constituents of WPI and included 20 goods. In revising WPI under the new base year of 1376, the total number of goods under this index group increased to 86 goods classified under 17 main headings.

Review of changes in the average exported goods price index indicates a substantial growth of 59.8 percent in 1378 which was mainly due to the increase in the import certificate rate. The stability of the import certificate rate and the certificate of deposit rate in mid 1378 and

at the beginning of 1379 helped reduce the speed of growth of this index to 17.7 percent in 1379.

Changes of the constituent groups of this index show that except for the fall in the price index for the 'animal and vegetable oils' and the 'goods made of stone' groups, the price index of all other groups increased.

The constituent groups of this index show that the price index of the 'mineral products' group grew by 31.9 percent compared to the previous year to raise the general index by 33.3 percent. Increase in this index was due to a rise in the price of most of the constituents under this group heading especially that of 'liquid propane'. The price index for 'textiles and their products' grew by 15.7 percent over the previous year due to the rise in the price index of the 'carpet and fabricated carpet' group by 19 percent which raised the general index by 16.9 percent.

The price index for 'hide, leather and leather products' group rose by 53.5 percent, registering the highest increase among the constituent groups of exported goods price index and in turn raised the general index by 10.2 percent. This increase was due to a 53.5 percent rise in the price index of the 'processed sheep skin' group. The reduction in the price index for 'animal and vegetable oils' group of 11.5 percent was due to decline in the price index for hydrogenated oil by 11.5 percent.

### **Producer Price Index (PPI)**

The average producer price index grew by 16.3 percent over the previous year. This indicates a reduction in the growth rate of this index when compared to the 22.9 percent rise recorded in the preceding year.

Changes in the main constituents of this index represent an increase in the index for all groups. Special constituent groups of this index show that the price index of 'mineral and industrial products' grew by 15.5 percent which explained 46 percent of general index price rise. This increase was mainly due to a rise in the price index for the 'industrial products' group of 15.6 percent with sizeable 45.18 percent relative weight that explained the rise in general index by 94.7 percent. Most sub-groups under the heading of 'industrial products' showed price rise while the average price index of the 'foodstuffs and beverages', 'chemical and petrochemical products', 'basic metals' and 'textiles' sub-groups increased more than the average price increase of other sub-groups. The price index for the 'computer' and 'other transportation equipment' sub-groups, declined by 0.4 percent.

Special constituent groups of PPI show that the average price index under the heading of 'farming, animal husbandry, forestry and fishing' grew by 17.9 percent over the previous year and with its 23.62 percent relative weight had a share of 27 percent in the general index price rise. In this year, most items in this group had price rises, with the highest increase being recorded by goods included under the 'vegetables' sub-group, which showed a 39.7 percent growth over the previous year.

Changes in the producer price index indicate that the average price index for 'services' grew by 16 percent over the previous year and with its 28.47 percent relative weight explained 27 percent of the rise in general index. 43.2 percent of the increase in the price index under the 'services' heading was due to a rise in the price index for 'real estate, renting and business activities'. This rise was mainly due to the rise in the price index for the 'cost of residential houses' group.

**RELATIVE WEIGHTS OF SPECIAL AND MAIN GROUPS OF PPI IN  
1369 (1990/91) AND 1376 (1997/98) BASE YEARS**

(percent)

	Base year	
	1369	1376
<b>Special groups:</b>		
Farming, animal husbandry, forestry and fishing	25.05	23.62
Mineral and industrial products	46.71	47.92
Services	28.24	28.47
<b>General index</b>	<b>100.00</b>	<b>100.00</b>
<b>Main groups:</b>		
Farming, animal husbandry and forestry	25.05	23.19
Fishing		0.42
Mineral products	0.32	0.94
Industrial products	45.14	45.18
Provision of electricity, gas and water	1.25	1.80
Repair of engine vehicles		0.32
Hotel and restaurant	1.04	0.73
Transportation, storage and communication	2.53	10.53
Financial intermediaries	6.79	1.17
Real estate, renting and business activities	15.06	11.19
Training	0.28	0.59
Health and social work	2.54	2.23
Other public services activities		1.72

The average growth of the price index of ‘industrial products’ and ‘real estate, renting and business activities’ with a total of 56.37 percent relative weight, had a share of 55.3 percent in the rise of average PPI.

The base year for PPI compilation was changed to 1376 (1997/98) in the second half of the year under review and the number of constituent items in the basket increased from 442 goods and services in the 1369 (1990/91) base year to 1,130 goods and services in the 1376 base year. The main headings, under which items were grouped, were also increased, from 10 to 13.