

# CHAPTER TWELVE

## PRICE TRENDS

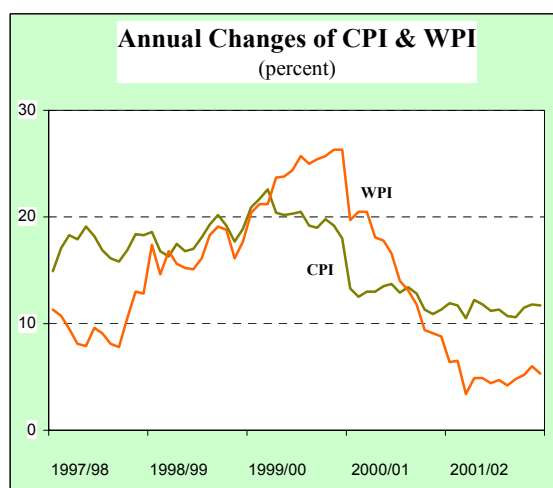
Inflation rate declined for the second consecutive year and limited to 11.4 percent in 1380. Increase in government foreign exchange revenues due to the improvement in international crude oil prices and improvement in BOP accordingly, government observance of fiscal discipline, exchange rate stability, administered pricing according to the 3<sup>rd</sup> Plan Law, and increase in the supply of consumer goods and services owing to production capacity utilization during the 2<sup>nd</sup> and 3<sup>rd</sup> Plans were among factors effective in curbing inflation rate during the past two years. Therefore, the stabilizing effect of these factors, despite the adverse effects of demographic profiles and liquidity growth during the recent two years, reduced inflation rate in 1380.

In the review year, major portion of the rise in the consumer price index was due to the group under the heading of “housing, fuel and lighting”. In this group, price of “housing” which includes rental housing units’ index, privately owned houses’ rental value and construction services had the highest share in the rise of “housing, fuel and lighting” group and consumer price index by 94.4 and 44.6 percent, respectively.

The downward trend of changes in consumer price index (inflation rate) appeared since the first four months of 1378 and continued with slight fluctuations during the next eight months and during the years 1379 and 1380. In the review year, the inflation rate peaked at 11.9 percent in Farvardin, while reached its lowest level in the nine months, ten months and eleven months of this year at 11.3 percent. In 1380, inflation rate with 1.2 percentage point reduction over 1379 reached 11.4 percent.

The growth rate of wholesale price index and producer price index markedly declined for the second consecutive year, and stood at 5.1 and 10.9 percent in 1380, respectively. The growth rate of these indices in 1379, with 9.5 and 6.6 percentage point decrease compared with 1378, had been limited to 14.7 and 16.3 percent, respectively.

The ration system for the distribution of certain essential goods continued in this year<sup>(1)</sup> and subsidy paid on goods and services amounted to Rls. 10,468 billion, showing 24.8 percent rise compared with the previous



(1) According to the 3<sup>rd</sup> Plan Law, paragraph A, Article 46, the policy of subsidy payment for basic goods such as wheat, rice, vegetable oil, sugar and cube sugar, cheese, pharmaceuticals, and powder milk will continue as in the 2<sup>nd</sup> Plan.

year. The ratio of subsidy to GDP rose from 1.5 percent in 1379 to 1.6 percent in 1380. Out of total subsidy, Rls. 6,818.7 billion (65.1 percent) was paid for wheat purchase, Rls. 428.4 billion (4.1 percent) for fertilizers, and Rls. 439 billion (4.2 percent) for essential goods.

AVERAGE ANNUAL CHANGES IN PRICE INDICES							(percent)
	Base year	1376	1377	1378	1379	1380	
Consumer price index in urban areas	1376	17.3	18.1	20.1	12.6	11.4	
Wholesale price index	1376	9.9	16.7	24.2	14.7	5.1	
Producer price index	1376	15.6	18.7	22.9	16.3	10.9	
Exported goods price index	1376	..	22.2	59.8	17.7	1.3	
GDP deflator (base price)(1)	1369	12.6	9.5	29.7	26.1	11.5	
Non-oil GDP deflator (base price)	1369	15.6	16.4	20.4	21.8	13.9	

(1) Figure for 1380 is preliminary.

## Consumer Price Index

### 1. Urban Areas

The consumer price index (CPI) grew by 11.4 percent in 1380 on average showing 1.2 percentage point decrease compared to the previous year. A review of the constituents of this index by special groups indicates that the price index of “goods” declined, while those of “services”, and “housing, fuel and lighting” increased.

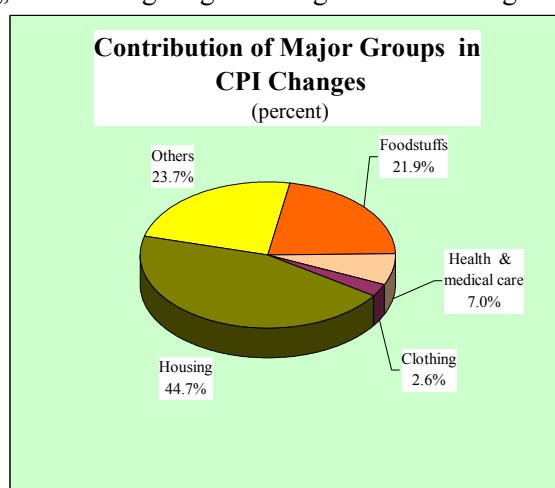
In 1380, the main group under “housing, fuel and lighting” heading showed the highest share in the rise of the general index. This group, with 27.04 percent relative weight and 18.8 percent growth rate, compared with the previous year, resulted in a 5.4 percentage point (47.4 percent) rise in the general index. Increase in the “housing” price index was the major reason for the rise in “housing, fuel and lighting” group.

The two main groups of “housing, fuel and lighting”, and “food, beverages and tobacco”, with total relative weight of 59.49 percent in the general index accounted for 69.1 percent of inflation rate. Thus, 7.9 percentage point of inflation rate (11.4 percent) was due to the rise in the mentioned groups.

Average changes in consumer price index, seasonally adjusted, is shown in the respective table. Although, a great portion of liquidity growth appears in the fourth quarter of each year, due to the lagged effect of liquidity growth on inflation, its effect on CPI appears in the first and second quarters of the next year.

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

The CPI for rural areas rose by 14.8 percent on average in the review year, compared with the previous year. The growth rate of this index was 19.3 percent in 1379. A review of the



### AVERAGE CHANGES IN CPI AFTER SEASONAL ADJUSTMENT

(each period over previous period)▲

	(percent)		
	1378	1379	1380
Q1	5.8	2.1	2.3
Q2	3.9	3.2	3.4
Q3	3.8	3.4	2.7
Q4	3.5	2.0	2.7

(1) Data are derived from Iran Statistical Center and the base year is 1374.

CPI for rural households according to two special groups indicates rise of price index for “goods” by 13.4 percent (against 18.3 percent in 1379) and “services” by 20.1 percent (against 23.6 percent in 1379) in the review year. The two special groups with relative weights of 83.4 and 16.6 percent in general index, accounted for 71.7 and 28.3 percent rise of the general index, respectively.

Comparison of two groups, i.e., “food, beverages and tobacco” and “non-edible goods and services” in the CPI for rural households indicates that the latter faced higher growth of 16 percent when compared with the 13.6 percent growth in price index under the heading of “food, beverages and tobacco” group. In 1380, over half of CPI increase for rural areas was due to the rise in the price index for the “non-edible goods and services” group.

During 1380, the growth rate of eight main groups constituting CPI for rural households declined as compared with the previous year. Reduction in the rate of growth of groups under “health and medical care” and “household furnishings, goods and services used at home” have been higher than in other groups.

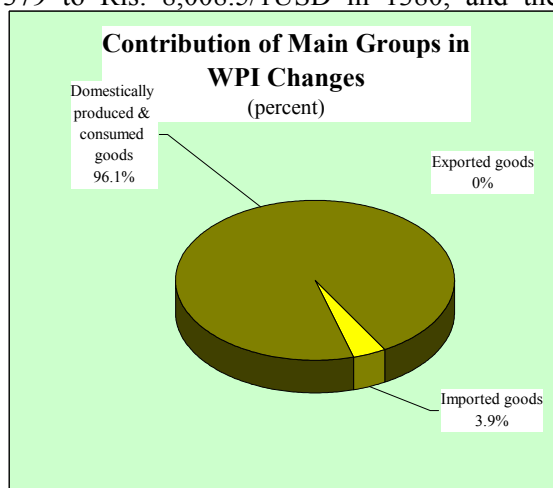
In 1380, the price index for “foodstuffs, beverages and tobacco”, with a rise of 13.6 percent compared with the previous year, accounted for 43.6 percent of the growth of this index, owing to the remarkable relative weight (50.6 percent) in the general index.

### Wholesale Price Index (WPI)

The wholesale price index declined dramatically in 1380 for the second consecutive year. The growth rate of this index which had decreased from 24.2 percent in 1378 to 14.7 percent in 1379, faced a decline of 5.1 percent in 1380. This reduction was mostly due to fall in growth rate of price index for “domestically produced and consumed goods”, from 14.8 percent in 1379 to 6.8 percent in 1380.

The “imported goods” price index fell sharply from 13.3 percent in 1379 to 0.8 percent in 1380. This reduction was the result of low international prices, and dollar depreciation in the parallel market, from Rls. 8,188.1/1USD in 1379 to Rls. 8,008.5/1USD in 1380, and the relaxation of import regulations which helped reduce the transaction expenditures. It is to be noted that, since 1379, the “exported goods” price index has been calculated on the basis of price of 86 items of goods separately<sup>(1)</sup>.

Among the main constituent groups of WPI, “foodstuffs” with 8.4 percent rise and remarkable relative weight of 35.4 percent in the general index made up 62.3 percent share in the rise of the mentioned index. The growth in the price index of the three main groups accounted for 87.6 percent of growth in WPI in 1380.



### Producer Price Index (PPI)

The producer price index grew by 10.9 percent in 1380 as compared with the previous year. Among the special constituent groups of PPI, the price index for “services” group grew remarkably from 16 percent in 1379 to 23.1 percent in 1380.

(1) Due to 1379 revisions in WPI, the total number of goods under “exported goods” group rose from 20 items to 86.

Among the main constituents of this index, the highest share of growth was related to “industrial products”, “transportation, warehousing and communication”, “real estate, renting and business activities”, and “agriculture, animal husbandry and forestry”. The price index for “industrial products” grew by 5.2 percent compared with the previous year, while enjoying a remarkable relative weight of 45.17 percent in general index had a 21.5 percent share in the growth of this index.

Among the main constituents of PPI, the price index for “financial intermediations” grew by 70.9 percent compared with the previous year. The main reason behind this growth was increase in automobile insurance premium and TSE commission in 1380.

### **Exported Goods Price Index**

The calculation of exported goods price index commenced in Tir, 1379, using 1376 as the base year. Calculation of this index was previously done within the context of one of major constituents of WPI. In revising WPI in 1379, total number of goods under this index coverage rose from 20 to 86 goods and classified under 17 main headings.

In 1380, the exported goods price index grew by 1.3 percent compared with the previous year. The growth rate of this index was 59.8 and 17.7 percent in 1378 and 1379, respectively. Among the constituent groups in exported goods index, the index for “hide, leather, and leather products” enjoyed the highest growth of 30.8 percent compared with the previous year.

Among the main constituent groups of the general index, “hide, leather and leather products”, and “chemical industries and allied industries products” groups registered the highest share in raising general index. The diminishing effect of other nine constituent groups in general index, however, offset the increasing effects of these two groups.