

# CHAPTER FIFTEEN

## CAPITAL MARKET

Tehran Stock Exchange (TSE) witnessed a bullish market in 1381, after a slowdown in the previous year. In this year, share price and dividend yield index surged more than 51 percent. TSE stood the third after Argentina and Slovenia in terms of growth in the total share price index (TEPIX) among world stock exchanges. The ratio of current value of stock market to GDP rose to 12.8 percent.

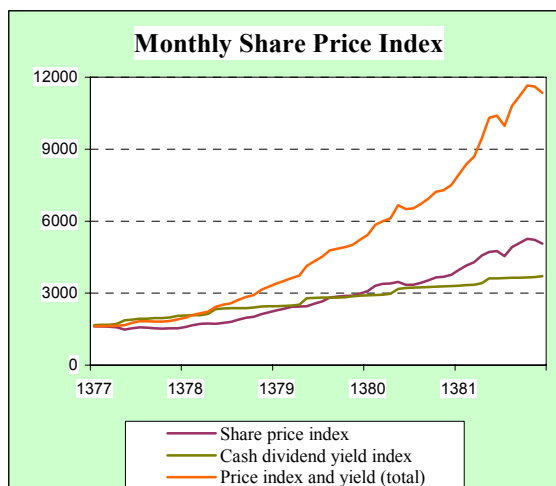
Change in the criteria for companies' acceptance on the TSE, division of the stock exchange board into first and second boards, and establishment of secondary floor in mid year helped enhance transparency, liquidation and velocity of shares circulation. Inauguration of the first provincial stock exchange (Mashad), as a salient measure taken during the first months of 1381, speeded up the pace of sustainable economic development process, facilitated the implementation of decentralization policies, and paved the way for further public contribution to productive activities. Moreover, in this year, second-hand tradings of participation papers took a legal form, which was largely responsible for expansion of capital market.

To keep the bullish position in place, provide the appropriate ground for the activity of second-hand tradings, and to further expand stock exchanges in provinces, the TSE attempted the following plans:

- Updating securities trading technology, installing and operating new trading softwares, finalizing studies for electronic trading system of securities
- Streamlining TSE information system; including establishment and operation of TSE Information Services Corporation, establishment of Informatics Mobilization Organization, and rearrangement of informatics system
- Optimizing the structure of second-hand market including division of the main TSE floor into first and second boards, establishment and operation of secondary floor, and implementation of new criteria for acceptance of corporations on the TSE
- Enhancing regulatory and supervisory coverage
- Optimizing administrative and supportive organization of the TSE
- Pursuing gradual expansion of stock exchange including operation of provincial stock exchanges, completion and implementation of second-hand trading of participation papers and certificates of deposit on the TSE

## Share Tradings

In 1381, number and amount of shares traded on the TSE grew markedly by 143 and 190.8 percent, respectively. This was principally attributable to inflationary expectations, high liquidity growth in the past years, a slowdown prevailing in other assets' market, and inflow of capital with foreign origin especially by Iranians residing abroad. Moreover, high return on shares trading, surge in market demand which was in turn owing to establishment of provincial (Khorasan) Stock Exchange and rendering brokerage services by certain bank branches in centers of provinces, and improvement in the informatics system of the TSE, were among effective factors. In the review year, 4,145.4 million shares and priority shares valuing at Rls. 22,776.1 billion were traded in 812,316 times. Since the operation of the secondary floor, 14.8 percent of the total shares traded (613 million shares) and 13.6 percent of the total value of tradings (Rls. 3,090.5 billion) were done in the secondary floor. The growth rate of value of traded shares outpaced the growth rate of the number of traded shares. This shows a rise of 19.7 percent in average shares price.



The TSE was active for 243 days in the review year. The average daily number and amount of shares and priority shares traded was 17.1 million shares and Rls. 93.7 billion, showing noticeable rises of 143 and 190.8 percent, respectively.

### TSE SHARE TRADINGS

	Number of tradings (million shares)			Value of tradings (billion rials)			Number of trading days	Average number of daily tradings (million shares)	Average value of daily tradings (billion rials)
	Shares	Priority	Total	Shares	Priority	Total			
1377	1,133.6	69.1	<b>1,202.7</b>	2,992.0	124.7	<b>3,116.7</b>	244	4.93	12.77
1378	1,056.4▲	125.5▲	<b>1,181.9</b>	5,137.1	106.5	<b>5,243.6</b>	243	4.86	21.58
1379	1,606.7	74.8	<b>1,681.5</b>	9,118.8	57.9	<b>9,176.7</b>	241	6.98	38.08
1380	1,621.6	84.0	<b>1,705.6</b>	7,702.5	128.4	<b>7,830.9</b>	243	7.02	32.23
1381	3,684.9	460.5	<b>4,145.4</b>	20,126.8	2,649.3	<b>22,776.1</b>	243	17.06	93.73

Source: TSE, monthly reports of various years

Shares and priority shares trading on the TSE by industries shows that “financial intermediations” industry with 35.5 percent of the total number of traded shares and “non-metallic mineral ores” industry with 30 percent of the total value of traded shares had the greatest share of the total number and value of shares trading, respectively.

The number and value of shares and priority shares traded in various industries indicate that the boom in stock exchange was clearly observed in all industries and not confined to a single industry.

Number of tradings edged up by 31.8 percent in the review year, owing to increase in share offerings, rise in number of buyers, gradual buying and selling of shares and shares circulation among shareholders.

### NUMBER OF TRADINGS AND BUYERS

	1379	1380	1381	Percentage change in 1381
Number of tradings	707,065	616,283	812,316	31.8
Number of buyers	342,764	315,918	359,751	13.9
Average number of buying per person (share)	4,906.0	5,399.0	11,523.0	113.4
Average value of buying per person (million rials)	26.8	24.8	63.3	155.3

At the end of the review year, the current value of stock market surged by 44.2 percent to Rls. 117,772.9 billion, and total share price index grew by 34.7 percent compared to the end of the previous year. The turnover ratio went up markedly, showing a recovery as compared with the previous year.

The ratio of shares traded to total issued shares increased from 9.1 percent in 1380 to 17.1 percent in the review year. Comparing the said ratio to turnover ratio in past years indicates that the above mentioned ratio has been less than turnover ratio. Moreover, the comparison of the average growth rate of the two said ratios during 1378-81 by 5.7 and 15.8 percent, respectively indicates that permanent changes in relative prices have been in favor of more active industries in stock exchange than to market price.

### CURRENT VALUE OF STOCK MARKET, TURNOVER RATIO, AND THE RATIO OF SHARES TRADED TO TOTAL SHARES ISSUED(1) (billion rials)

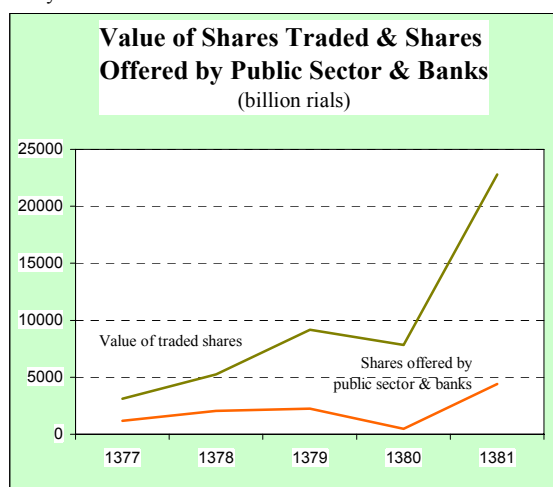
	Current value of stock market (end of the year)	Value of tradings	Current value of stock market (average)	Turnover ratio (percent)	Ratio of shares traded to total shares issued
1377	26,584.6 (-2.0)	3,116.7 (54.5)	26,000.8 (-7.0)	12.0	13.7
1378	43,743.5 (64.5)	5,243.6 (68.2)	34,715.8 (33.5)	15.1	9.6
1379	62,486.6 (42.8)	9,176.7 (75.0)	53,769.2 (54.9)	17.1	10.7
1380	81,681.8 (30.7)	7,830.9 (-14.7)	74,127.3 (37.9)	10.6	9.1
1381	117,772.9 (44.2)	22,776.1 (190.8)	105,382.7 (42.2)	21.6	17.1

Source: TSE, monthly reports of various years

(1) Figures in parentheses indicate percentage change over the previous year.

### Price and Dividend Yield Indices in Stock Market

Price and cash dividend yield index surged to 11,345.93 units at the end of 1381, showing a 51.2 percent rise as compared to the end of the previous year, spurred largely by share price rise. At the end of the review year, “cash dividend yield” and “share price” indices as the constituents of “share price and cash dividend yield” index grew by 12.3 and 34.7 percent, respectively.



## TSE INDICES

(1369=100)

	Year-end				Percentage change	
	1378	1379	1380	1381	1380	1381
	Price and cash dividend index	3,266.27	5,221.35	7,501.99	11,345.93	43.7
Cash dividend index	2,447.39	2,898.09	3,299.32	3,704.65	13.8	12.3
Share price index	2,206.19	2,978.29	3,758.77	5,062.76	26.2	34.7
Financial index	4,683.57	6,347.29	8,497.87	8,985.96	33.9	5.7
Industrial index	1,945.89	2,621.80	3,254.84	4,642.94	24.1	42.6

Source: TSE, monthly reports of various years

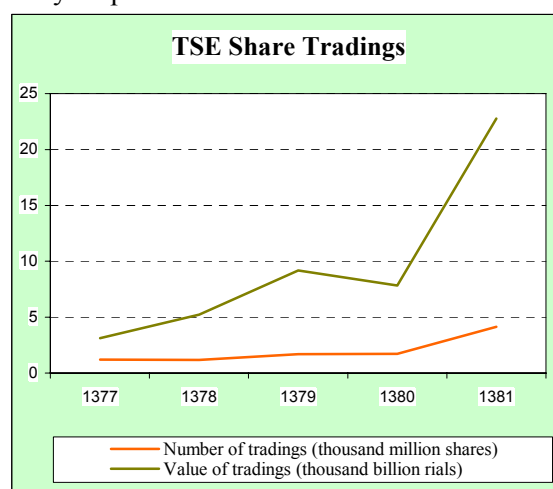
Among the indices related to total share price index, the industrial price index grew markedly by 42.6 percent, showing an increasing trend when compared to 24.1 percent growth in the previous year. Improvement in production of manufacturing, mining, and construction sectors in 1381, strengthened financial position of producing companies, and raised share price index and their dividends. In this context, financial price index edged up by 5.7 percent, much less than its 33.9 percent growth in the previous year, however.

### TSE Secondary Floor

TSE secondary floor commenced its operation in mid 1381, with the aim of improving share tradings and attracting further public contribution to capital market. Till the end of the year, 174 companies with a capital of Rls. 5,321 billion and 5,320,713 million shares were registered on its board. The rise in share offerings and number of tradings was attributed largely to the operation of secondary floor, helping share price index to grow by 28 percent till the end of 1381.

### Share Offerings by Public Sector and Banks

Total shares offered by public corporations and institutions, foundations and banking system grew markedly by 607.9 and 843 percent in terms of number and value, respectively against 58.2 and 79.2 percent reduction in the previous year. The highest rise was related to public corporations and institutions (Industries Development and Renovation Organization). The share of public corporations and institutions and public banks out of the total shares offered was 75.8 and 23 percent, respectively.



### SHARES OFFERED BY THE PUBLIC SECTOR AND BANKS

	Number		Value		Percentage change		Share (percent)	
	(million shares)		(billion rials)		Number	Value	Number	Value
	1380	1381	1380	1381				
<b>Public corporations and institutions</b>	<b>75.2</b>	<b>586.5</b>	<b>315.1</b>	<b>3,350.9</b>	⊖	⊖	<b>60.7</b>	<b>75.8</b>
<b>Foundations</b>	<b>9.3▲</b>	<b>10.7</b>	<b>11.3</b>	<b>49.7</b>	<b>15.1</b>	<b>339.8</b>	<b>1.1</b>	<b>1.1</b>
<b>Banking system</b>	<b>52.1</b>	<b>369.8</b>	<b>142.1</b>	<b>1,017.5</b>	⊖	⊖	<b>38.2</b>	<b>23.0</b>
Central Bank	0	0	0	0	⊖	⊖	0	0
Commercial banks	14.3	237.5	30.3	395	⊖	⊖	24.6	8.9
Specialized banks	37.8	132.3	111.8	622.5	250.0	456.8	13.7	14.1
<b>Total</b>	<b>136.6▲</b>	<b>967.0</b>	<b>468.5</b>	<b>4,418.1</b>	⊖	⊖	<b>100.0</b>	<b>100.0</b>

Source: TSE, monthly reports for 1380 and 1381

## New Corporations Listed on the TSE

The number of companies listed on the TSE totaled 334, with the inclusion of 16 new companies. Moreover, 3 companies were listed as on suspension and 28 as on condition, bringing the total number to 365.

### NUMBER OF LISTED COMPANIES

	Year-end			Changes in 1381
	1379	1380	1381	
Listed companies	307	318	334(1)	16
Investment companies	19	19	20	1
Other companies	288	299	314	15
Companies on suspension	3	3	3	0
Conditionally listed companies	8	22	28	6
<b>Total</b>	<b>318</b>	<b>343</b>	<b>365</b>	<b>22</b>

Source: TSE, monthly reports of various years

(1) Out of the total 334 companies, 159 companies were on the main and the remainder on the secondary board.

## Financial Resources of Capital Increase of Listed Companies

In 1381, listed companies on the TSE raised their capital markedly by Rls. 6,066.4 billion (103.7 percent growth), 23.8 percent of which was financed from reserves and accumulated profit, 61.5 percent from cash claims and assets, and the remaining 14.7 percent in the form of combination of above mentioned sources. Among these sources cash claims and assets had the highest growth of 213.7 percent.

### FINANCIAL RESOURCES OF CAPITAL INCREASE OF LISTED COMPANIES

	LISTED COMPANIES			Total	Percentage change
	Out of reserves and accumulated profit	Out of claims and cash assets	Out of reserves, accumulated profit and claims and cash assets		
1377	111.4	924.2	18.7	1,054.3	49.1
1378	784.1	1,463.0	15.5	2,262.6	114.6
1379	1,216.9	1,658.1	514.8	3,389.8	49.8
1380	1,199.6	1,189.8	589.1	2,978.5	-12.1
1381	1,445.7	3,731.9	888.8	6,066.4	103.7

Source: Tehran Stock Exchange

## Provincial Stock Exchange

The Khorasan Stock Exchange was inaugurated in 1381 to meet one of the objectives set in the 3<sup>rd</sup> Plan and to expand the geographical coverage of securities second-hand market. In this Stock Exchange 124 million shares valuing at Rls. 894 billion were traded in 1381, making up 2.4 and 3 percent of the number and value of shares traded on the TSE, respectively.

## Participation Papers

In the review year, a total of Rls. 27,300 billion participation papers were issued by the government, Central Bank<sup>(1)</sup> and companies, Rls. 25,631 billion (93.9 percent) of which were

(1) According to Article 91, 3<sup>rd</sup> Plan Law and in line with implementation of monetary policies, the CBI issued Rls. 18 trillion participation papers of one year maturity in four placements with 17 percent provisional profit rate, Rls. 17,052 billion of which were sold. These papers are monetary policy instrument issued for liquidity management.

sold. Sale of participation papers in 1381 was 64.9 percent more than the previous year. The provisional profit rate of government-budgetary papers was 15 percent, and that of CBI and off-budgetary papers 17 percent as in the previous year.

**PARTICIPATION PAPERS ISSUED IN 1381**

(billion rials)

	Number of projects▲	Times of issuance▲	Total approved amount▲	Issued amount▲	Sold amount▲	Provisional profit rate (percent per annum)	Participation papers at the end of 1381	
							Matured	Not matured
1373	1	1	75	75	75	20	75	0
1374	3	4	225	225	225	20	225	0
1375	3	3	400.6	400.6	400.6	20 <sup>(1)</sup>	400.6	0
1376	5	5	2,547.5	2,547.5	2,471.5	20	2,471.5	0
1377	6	6	3,130	3,130	3,130	20	3,100	30
1378	5	7	2,450	2,450	2,377	19 <sup>(2)</sup>	250	2,127
1379	4	6	10,380	10,380	5,296	19	2,916	2,380
1380	9	12	16,100	16,100	15,543.3	17	9,443.6	6,099.7
1381	8	12	27,500	27,300	25,631	17 <sup>(3)</sup>	0	25,631
<b>Total</b>	<b>44</b>	<b>56</b>	<b>62,808.1</b>	<b>62,608.1</b>	<b>55,149.4</b>		<b>18,881.7</b>	<b>36,267.7</b>

(1) Excludes the first phase of Iran Khodro participation papers with 24 percent provisional profit rate.

(2) Excludes Acrylic production participation papers with 20 percent provisional profit rate.

(3) Excludes government-budgetary participation papers with 15 percent provisional profit rate.

On this basis, the government issued Rls. 2,400 billion participation papers of 5 year maturity with a provisional profit rate of 15 percent, which were totally sold out. The Ministry of Energy issued Rls. 1,600 billion participation papers for the completion of electricity sector projects and Rls. 1,000 billion for water projects which were totally sold out. The Ministry of Agriculture Jihad and the Ministry of Road and Transportation issued totally Rls. 2,800 billion participation papers which were totally sold out. Participation papers of the Ministry of Agriculture Jihad for development of fisheries project by Rls. 200 billion were not offered.

Moreover, “Iran Khodro” Company issued Rls. 1,000 billion 4-year participation papers in 1381 which were totally sold out. The “National Petrochemical Industries Corporation” issued Rls. 500 billion participation papers which were totally sold out. The provisional profit rate of participation papers of these two corporations was 17 percent.

In the review year, 3,512 sheets of participation papers valuing at Rls. 1.8 billion were traded on the TSE, of which Rls. 1.1 billion were related to the Ministry of Energy and the remainder to the government. These papers had been issued in previous years and their provisional profit rate was 19 percent.