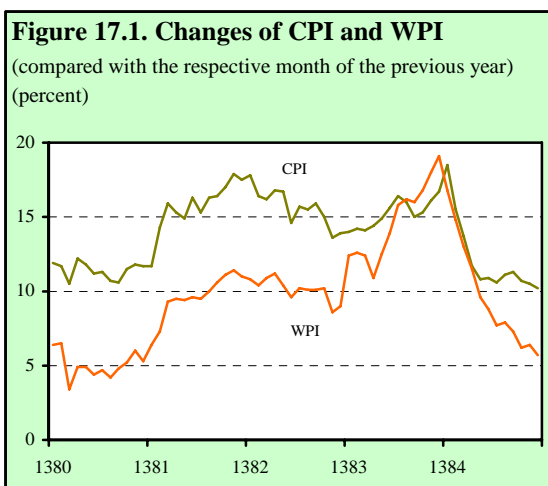


The increasing trend of inflation has been reversed since the beginning of 1382. This rate which was 11.4 and 15.8 percent in 1380 and 1381, with a slight decrease, was limited to 15.6 and 15.2 percent in 1382 and 1383, respectively. This declining trend continued in 1384 to 12.1 percent, showing 3.1 percentage points reduction.

Given the adverse effects of the inflation on the economy, the key objectives of the government are to reduce inflation rate to a single digit and to maintain price stability.

High liquidity growth is largely responsible for pushing inflation up. Other factors are also responsible for changes in the general price level. Increase in wages and price of production inputs (domestic and imported) are among other factors responsible for cost-push inflation. Change in the price of imported goods leads to change in inflation rate as well. This is attributable to the high dependence of various sectors of economy on intermediate goods and imported raw materials. High dependence of the government budget on oil revenues, the monetary and fiscal policies oriented towards job-creation, and inflexibility of wages are among structural factors causing inflation.

Despite high liquidity growth, factors such as relatively stable exchange rate, recessionary housing market condition which led to reduction in rentals, decrease in the velocity of circulation of money, surge in imports of consumer goods, decrease in import tariffs of several fruits resulting in the rise of their imports and fall of their prices, in conjunction with benign climatic conditions of recent years which led to rise in the supply of agricultural products, resulted in the deceleration of inflation rate as compared with the previous year.



	AVERAGE ANNUAL CHANGES IN PRICE INDICES					(percent)
	1380	1381	1382	1383	1384	
Consumer price index in urban areas	11.4	15.8	15.6	15.2	12.1	
Wholesale price index	5.1	9.6	10.1	14.7	9.5	
Producer price index	10.9	13.5	15.6	16.8	9.5	
Exported goods price index	1.3	5.7	11.7	28.4	16.2	
GDP deflator (basic price) (1)	11.6	28.3	11.8	20.6	15.9	
Non-oil GDP deflator (basic price) (1)	12.6	16.0	12.6	17.0	10.9	

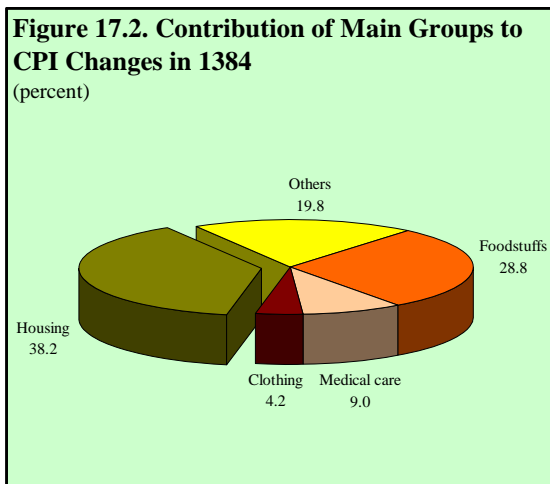
(1) Figure for 1384 is preliminary.

**Consumer Price Index (CPI)**

**Urban Areas**

Review of the constituents of the CPI indicates that except for the price index of “health and medical care” group, all other groups registered reduction. Among the main groups, “health and medical care” had the highest and “transportation and communications” the lowest growth.

The main group of "housing, water, fuel, and power", with a relative weight of 27 percent, rose by 13.8 percent and had the highest share (38.2 percent) in raising the general index. The main reason behind this was the growth of the sub-group of "housing", which with a rise of 14.7 percent compared with 1383, accounted for 98.2 percent of the increase in the "housing, water, fuel, and power" index and 37.5 percent of the rise in general index.



Ranking next, the main group of "food, beverages, and tobacco", with the highest relative weight of 32.5 percent, grew by 10.4 percent and raised the general index by 3.5 percentage points. Therefore, the two mentioned groups, with a total relative weight of about 59.5 percent in general index, had a share of 67 percent in the inflation rate, i.e. constituted 8.1 percentage points of the 12.1 percent inflation rate.

In 1384, inflation rate was 11.1 percent in Tehran Province which, due to its population and share in the expenditures of urban households, has the lion’s share of 34.9 percent in general index. Increase in CPI’s general index in Tehran Province accounted for 4.0 percentage points of that of all urban areas, constituting 32.9 percent share in the rise of the general index. Isfahan and Khorasan provinces ranked the second and third by 8.7 and 8.1 percent share in the increase of CPI in all urban areas.

**Rural Areas**

CPI for rural areas grew by 12.0 percent in 1384 as compared with the preceding year. The CPI for rural households, according to two special groups, points to increase in the price index for "goods" by 10.5 percent and "services" group by 16.2 percent compared to 1383. These two special groups, with relative weights of 76.3 and 23.7 percent in the general index, raised the general index by 64.3 and 35.7 percent, respectively.

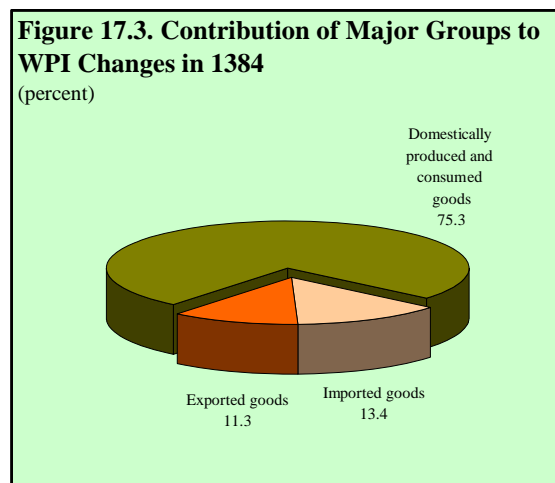
Price index of “food, beverages, and tobacco” group picked up by 10.5 percent in 1384, with that of “non-edible goods and services” group by 13.1 percent. The share of “food, beverages, and tobacco” and “non-edible goods and services” groups were 36.9 and 63.1 percent, respectively.

### Wholesale Price Index (WPI)

Wholesale price index grew by 9.5 percent on average in 1384. The growth rate of this index in the previous year was 14.7 percent. This reduction was largely due to the fall in the growth rate of "domestically produced and consumed goods" from 14.3 percent in 1383 to 9.5 percent in 1384, accounting for 75.3 percent of changes in the WPI.

The growth rate of price index of "imported goods" fell from 14.5 percent in 1383 to 6.6 percent in 1384 and that of "exported goods" from 22.5 percent in 1383 to 19 percent in 1384.

International prices, the amount of import duties, and exchange parity rate applied in customs calculations are among factors affecting the price index of imported goods. The effective rate of import duties<sup>(1)</sup> was 11 percent in 1383 which declined to 10.2 percent in 1384. The exchange parity rate applied in customs calculations was Rls. 9,009 on average per one US dollar compared with Rls. 8,500 in the previous year. In light of unification of exchange rate in 1381 and its adjustment by 6 percent in 1384 compared with the preceding year, increase in the price index of imported goods was largely attributable to the rise in international prices, changes in the composition of imported goods and rise in the exchange rate.



### ANNUAL AVERAGE WHOLESALE PRICE INDEX

(1376=100)

	Year		Percentage change		Contribution to the growth of general index in 1384	
	1383	1384	1383	1384	Percentage point	Percent
<b>Major groups</b>						
Domestically produced and consumed goods	253.3	277.4	14.3	9.5	7.1	75.3
Imported goods	191.5	204.2	14.5	6.6	1.3	13.4
Exported goods	345.4	411.0	22.5	19.0	1.1	11.3
<b>General index</b>	<b>241.9</b>	<b>264.9</b>	<b>14.7</b>	<b>9.5</b>	<b>9.5</b>	<b>100.0</b>
<b>Main groups</b>						
Foodstuffs	275.8	304.1	12.7	10.3	4.1	43.6
Beverages and tobacco	255.7	276.2	7.3	8.0	0.1	0.7
Industrial materials (except mineral fuels)	215.8	224.6	10.8	4.1	0.1	1.5
Mineral fuels and their products	464.5	486.3	12.2	4.7	0.3	2.6
Chemicals and petrochemicals	242.7	281.5	13.3	16.0	1.4	14.5
Manufactured goods according to raw materials	235.4	257.8	25.6	9.5	2.5	26.2
Machinery and transportation vehicles	171.1	182.4	7.2	6.6	0.9	9.6
Miscellaneous goods	162.9	176.2	3.7	8.2	0.1	1.3
<b>Special groups</b>						
<b>Agricultural, animal husbandry &amp; fishing products</b>	<b>282.1</b>	<b>310.6</b>	<b>13.5</b>	<b>10.1</b>	<b>3.2</b>	<b>33.3</b>
Agriculture	279.5	316.5	15.6	13.2	2.6	27.0
Animal husbandry and fishing	286.3	300.7	10.1	5.0	0.6	6.3
<b>Construction materials</b>	<b>268.8</b>	<b>285.4</b>	<b>23.9</b>	<b>6.2</b>	<b>0.7</b>	<b>7.8</b>
Metallic	250.8	262.7	33.1	4.7	0.3	3.2
Non-metallic	293.8	316.9	14.6	7.9	0.4	4.6

(1) It results from division of sum of the import duties received by the rial value of total imports.

**Producer Price Index (PPI)**

Producer price index (PPI) grew by 9.5 percent compared with 15.6 and 16.8 percent in 1382 and 1383, respectively. Among the main constituent groups of the PPI, "manufacturing", "real estate, renting and business activities", "transport, storage and communications", and "agriculture, animal husbandry and forestry" groups enjoyed the highest shares in raising the general index.

The price index of "manufacturing" group, considering its remarkable relative weight of 45.2 percent in the composition of general index, picked up by 9.3 percent and raised the PPI by 38.5 percent. Growth rate of "real estate, renting and business activities" group declined from 19 percent in 1383 to 14.7 percent in 1384, accounting for 20.1 percent of the rise in general index. "Transport, storage and communications" and "agriculture, animal husbandry and forestry" groups grew by 12.3 and 4.2 percent, raising the general index by 14.5 and 10.7 percent, respectively. Therefore, the four mentioned groups, with a relative weight of 90 percent, raised the PPI by 83.8 percent in 1384.

ANNUAL AVERAGE PRODUCER PRICE INDEX							(1376=100)
	1383	1384	Percentage change		Contribution to the growth of general index in 1384		
			1383	1384	Percentage point	Percent	
<b>Special groups</b>							
Agriculture, animal husbandry, forestry and fishing	299.2	312.5	17.9	4.4	1.1	11.5	
Mining and quarrying, manufacturing, and electricity, gas and water supply	249.2	271.7	14.8	9.0	3.8	39.6	
Services	345.2	392.0	18.6	13.6	4.6	48.9	
<b>General index</b>	<b>288.3</b>	<b>315.6</b>	<b>16.8</b>	<b>9.5</b>	<b>9.5</b>	<b>100.0</b>	
<b>Main groups</b>							
Agriculture, animal husbandry and forestry	298.6	311.2	17.9	4.2	1.0	10.7	
Fishing	334.3	385.3	22.5	15.3	0.1	0.8	
Mining and quarrying	170.6	198.8	8.2	16.5	0.1	1.0	
Manufacturing	248.2	271.4	14.7	9.3	3.6	38.5	
Electricity, gas and water supply	315.1	317.7	18.1	0.8	0	0.2	
Repairing of motor vehicles	280.2	323.9	18.6	15.6	0.1	0.5	
Hotels and restaurants	335.9	377.9	16.0	12.5	0.1	1.1	
Transport, storage and communications	304.7	342.3	14.2	12.3	1.4	14.5	
Financial intermediations	801.4	848.9	34.0	5.9	0.2	2.0	
Real estate, renting and business activities	331.7	380.6	19.0	14.7	1.9	20.1	
Education	409.9	494.3	22.9	20.6	0.2	1.8	
Health and social work	350.9	422.0	18.7	20.3	0.5	5.8	
Other community, social & personal services activities	357.6	405.1	18.1	13.3	0.3	3.0	

**Exported Goods Price Index**

Price index of "exported goods" rose by 16.2 percent as compared with the preceding year. The growth rates of this index were 11.7 and 28.4 percent in 1382 and 1383, respectively. Among the constituent groups of "exported goods", the price index of "mineral products" had the highest growth rate of 37.6 percent which was due to an increase in the price index of

"propane", "zinc concentrate", and "butane" by 35.1, 62.5 and 33.3 percent, respectively. In the review year, the price index of "raw hides and skins, leather and articles thereof", "animal products", and "vehicles and transport equipment" declined by 9.4, 5.2 and 2.9 percent, respectively, as compared with the year before.

Among the main constituent groups of this index, "mineral products" and "textiles and articles thereof" groups had the greatest effect on the general index and raised it by 47.1 and 21.9 percent, respectively.

	<b>ANNUAL AVERAGE INDEX OF EXPORTED GOODS</b>				<b>(1376=100)</b>	
	1383	1384	Percentage change		Contribution to the growth of general index in 1384	
			1383	1384	Percentage point	Percent
Animal products	551.2	522.5	13.9	-5.2	-0.2	-0.9
Vegetable products	270.7	287.2	30.3	6.1	0.5	3.3
Animal and vegetable fats and oils	244.1	253.7	10.3	3.9	0	0.1
Prepared foodstuffs, beverages and tobacco	300.4	382.9	11.7	27.5	2.1	12.8
Mineral products	738.2	1,016.1	31.0	37.6	7.6	47.1
Products of the chemical or allied industries	414.6	443.8	44.3	7.0	1.3	8.0
Plastic & articles thereof, rubber & articles thereof	320.6	327.9	47.9	2.3	0.1	0.5
Raw hides and skins, leather and articles thereof	414.9	375.8	5.9	-9.4	-0.4	-2.4
Wood and articles of wood	261.3	289.8	8.2	10.9	0	0.1
Pulp of wood, paper and paperboard	253.1	278.6	11.2	10.1	0.1	0.4
Textiles and articles thereof	200.0	245.2	9.2	22.6	3.6	21.9
Footwear	290.4	303.5	11.9	4.5	0.1	0.5
Articles of stone	258.4	278.1	6.6	7.6	0.1	0.5
Base metals and articles of base metals	470.7	514.2	71.1	9.2	1.2	7.5
Mechanical appliances and electrical equipment	271.6	310.0	14.1	14.1	0.1	0.5
Vehicles and transport equipment	201.4	195.6	6.8	-2.9	0	-0.1
Optical, precision and medical instruments	329.4	348.5	-2.6	5.8	0	0.2
<b>General index</b>	<b>352.7</b>	<b>409.9</b>	<b>28.4</b>	<b>16.2</b>	<b>16.2</b>	<b>100.0</b>

### Velocity of Circulation of Money

Velocity of circulation of money during the course of 1380-84 was within the range of 4.6 to 5.5 and that of liquidity between 1.8 and 2.2. By definition, there exists a direct relationship between velocity of circulation of money and inflation. Moreover, change in the composition of money and liquidity owing to improvement of the services rendered by the banking system and expansion of electronic and non-cash payment instruments affects the velocity of circulation of money. Changes in consumer price index reached 17.5 percent in Esfand 1381, against 11.7 percent in Esfand 1380. This index bottomed out over the last five years to 10.2 percent in Esfand 1384. As a result of high liquidity growth and reduction in economic activities resulting from the recession prevailing in the assets market (including housing, stock exchange, automobile and cell phone), the velocity of circulation of liquidity reached its lowest level.

	<b>VELOCITY OF CIRCULATION OF MONETARY AGGREGATES</b>					<b>(percent)</b>
	1380	1381	1382	1383	1384	
Notes and coins	22.8	26.4	28.3	30.9	33.4	
Money	4.6	5.0	5.0	5.5	5.3	
Liquidity	2.1	2.2	2.1	2.0	1.8	
<b>CPI changes (Esfand 1384 to Esfand 1383)</b>	<b>11.7</b>	<b>17.5</b>	<b>13.9</b>	<b>16.7</b>	<b>10.2</b>	