

The average consumer price index (CPI), wholesale price index (WPI), and producer price index (PPI) grew by 13.6, 12.1, and 12.2 percent, respectively. The corresponding figures for the previous year were 12.1, 9.5, and 9.5 percent.

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.

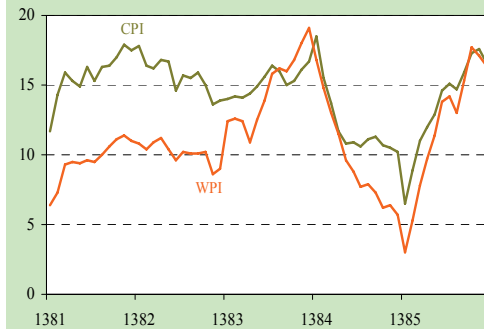
**ANNUAL AVERAGE CHANGES IN PRICE INDICES (percent)**

	1384	1385
Consumer price index in urban areas	12.1	13.6
Wholesale price index	9.5	12.1
Producer price index	9.5	12.2
Exported goods price index	16.2	17.4
GDP deflator (basic price)	15.3	13.8
Non-oil GDP deflator (basic price)	10.2	15.6

Despite a host of factors such as implementation of the Amendment of Article 3 of the 4<sup>th</sup> Plan Law<sup>(1)</sup>, relatively stable exchange rate, 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 together with favorable climatic conditions of recent years which led to rise in the supply of agricultural products, inflation rate trended upward. This was largely attributable to the rise in price indices of two main groups of "housing, water, fuel, and power" and "food, beverages, and tobacco".

**Figure 17.1. Changes of CPI and WPI**

(compared with the respective month of the previous year) (percent)



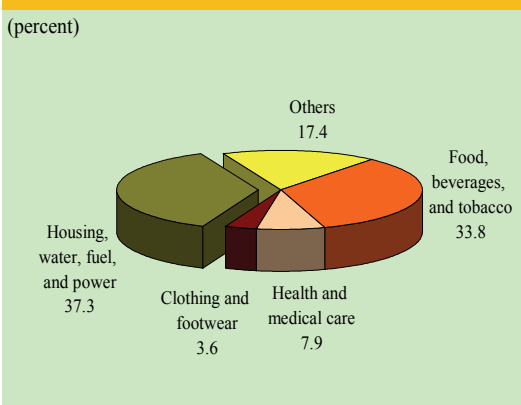
(1) Accordingly, the selling price of gasoline, gas oil, kerosene, fuel oil and other oil products as well as gas, electricity, water, sewage services rate, telecommunication, and postal services in 1384 was determined the same as Shahrivar 1383, and for the next years, changes in price of goods and services are to be proposed by the government in the form of bills and to be approved by the Parliament.

## Consumer Price Index (CPI)

### Urban Areas

Review of the main constituents of the CPI indicates that the price indices of four groups of “food, beverages, and tobacco”, “housing, water, fuel, and power”, “transportation and communications”, and “recreation, reading, and education” recorded an increase and the growth rate of other groups registered reduction. Among the main groups, “health and medical care” had the highest and “transportation and communications” the lowest growth.

**Figure 17.2. Contribution of main groups to CPI changes in 1385**



In 1385, the main group of "housing, water, fuel, and power", with a relative weight of 27 percent and the growth rate of 15 percent, had the highest contribution (37.3 percent) to raising the general index. The main reason behind this was the growth of the sub-group of "housing", with a rise of 16 percent compared with the previous year, which accounted for 99 percent increase in the "housing, water, fuel, and power" index and 36.9 percent of the rise in general index.

"Food, beverages, and tobacco", with the highest relative weight of 32.5 percent, ranked next. This main group, which raised the general index by 4.6 percentage points,

grew by 14.1 percent compared with the year before. This was mainly ascribable to the rise in the price index of "fruits and vegetables" sub-group by 17.1 percent compared with the growth rate of 15.7 percent in 1384. Therefore, the two mentioned groups, with a total relative weight of about 59.5 percent in general index, had a share of 71.1 percent in the inflation rate and constituted 9.7 percentage points of the 13.6 percent inflation rate of 1385.

Among other constituents of the CPI, the price indices of "health and medical care" and "transportation and communications", up by 18 and 8 percent compared with the previous year, raised the general index by 1.1 and 0.7 percentage points, respectively.

In 1385, inflation rate was 12.6 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 4.5 percentage points of that of all urban areas, constituting 32.8 percent share in the rise of the general index. Esfahan and Khorasan provinces ranked the second and third by 8.2 and 7.8 percent share in the increase of CPI in all urban areas.

### Rural Areas

CPI for rural areas advanced 12.4 percent in 1385 compared with the previous year. The CPI for rural households, according to two special groups, points to an increase of 13 percent in the price index of "goods" and 10.7 percent in the price index of "services". These two special groups, with relative weights of 76.3 and 23.7 percent in the general index, raised the general index by 76.2 and 23.8 percent, respectively.

## ANNUAL AVERAGE CONSUMER PRICE INDEX IN URBAN AREAS (1376=100)

	Year		Percentage change		Contribution to the growth of general index in 1385	
	1384	1385	1384	1385	Percentage point	Percent
<b>Special groups</b>						
Goods	255.8	286.7	9.8	12.1	6.1	44.9
Services	396.1	458.3	15.8	15.7	2.4	17.8
Housing, water, fuel, and power	384.8	442.7	13.8	15.0	5.1	37.3
<b>General index</b>	<b>307.6</b>	<b>349.5</b>	<b>12.1</b>	<b>13.6</b>	<b>13.6</b>	<b>100.0</b>
<b>Main and selected minor groups</b>						
<b>Food, beverages, and tobacco</b>	<b>310.3</b>	<b>353.9</b>	<b>10.4</b>	<b>14.1</b>	<b>4.6</b>	<b>33.8</b>
Red meat, poultry, and fish	363.4	415.1	6.0	14.2	1.3	9.8
Bread, rice, and cereal products	287.2	311.9	11.6	8.6	0.4	3.3
Fruits and vegetables	331.7	388.3	15.7	17.1	1.5	10.7
Dairy products and eggs	283.6	333.6	4.3	17.6	0.6	4.6
<b>Housing, water, fuel, and power</b>	<b>384.8</b>	<b>442.7</b>	<b>13.8</b>	<b>15.0</b>	<b>5.1</b>	<b>37.3</b>
Housing	381.7	442.7	14.7	16.0	5.0	36.9
Water, fuel, and power	432.7	444.0	3.2	2.6	0.1	0.4
<b>Clothing and footwear</b>	<b>171.0</b>	<b>186.6</b>	<b>9.4</b>	<b>9.1</b>	<b>0.5</b>	<b>3.6</b>
<b>Household furnishings and operation</b>	<b>214.0</b>	<b>237.7</b>	<b>11.9</b>	<b>11.1</b>	<b>0.5</b>	<b>4.0</b>
<b>Transportation and communications</b>	<b>254.7</b>	<b>275.1</b>	<b>7.6</b>	<b>8.0</b>	<b>0.7</b>	<b>5.5</b>
<b>Health and medical care</b>	<b>402.8</b>	<b>475.5</b>	<b>19.3</b>	<b>18.0</b>	<b>1.1</b>	<b>7.9</b>
<b>Recreation, reading, and education</b>	<b>288.8</b>	<b>338.4</b>	<b>15.2</b>	<b>17.2</b>	<b>0.6</b>	<b>4.1</b>
<b>Miscellaneous goods and services</b>	<b>315.8</b>	<b>353.1</b>	<b>12.4</b>	<b>11.8</b>	<b>0.5</b>	<b>3.8</b>

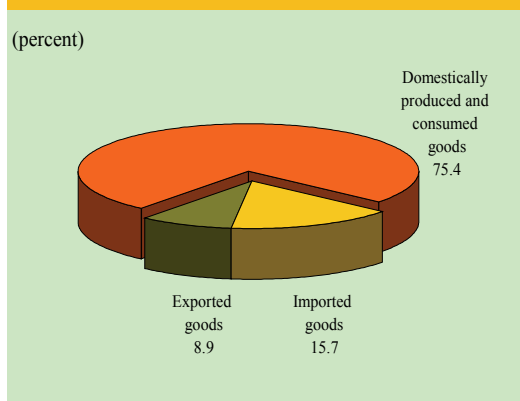
Price index of “food, beverages, and tobacco” group picked up by 16.0 percent in 1385, with that of “non-edible goods and services” group by 9.8 percent. The share of “food, beverages, and tobacco” and “non-edible goods and services” groups were 53.6 and 46.4 percent, respectively.

### Wholesale Price Index (WPI)

In 1385, wholesale price index increased by 12.1 percent on average. Considering the relative weight of major constituents of the general index, this increase was largely due to the rise in the growth rate of "domestically produced and consumed goods" from 9.5 percent in 1384 to 12.1 percent in 1385, accounting for 75.4 percent of changes in the WPI.

The growth rate of price index of "exported goods" fell from 19 percent in 1384 to 17.6 percent in the review year, while that of “imported goods” rose from 6.6 percent in 1384 to 10.1 percent in 1385.

**Figure 17.3. Contribution of major groups to WPI changes in 1385**



A host of factors affected the price index of imported goods, inter alia, international prices, import duties, and the exchange rate used in customs calculations. The effective rate of import duties<sup>(1)</sup> was 10.2 percent in 1384 which increased to 10.4 percent in 1385. The exchange parity rate applied in customs calculations was Rls. 9,193 on average per one US dollar compared with

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

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Rls. 9,009 in the previous year. In light of unification of exchange rate in 1381 and its adjustment by 2 percent in 1385 compared with the previous 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 increase in the effective rate of import duties and exchange rate.

The unit value index <sup>(1)</sup> for exported goods increased by 13.7 percent in 1385 to Rls. 4.31 million per ton, as against Rls. 3.79 million per ton of the year before. For imported goods, this index declined by 11.5 percent compared with Rls. 9.97 million per ton of the previous year and reached Rls. 8.82 million per ton in 1385.

### ANNUAL AVERAGE WHOLESALE PRICE INDEX

(1376=100)

	Year		Percentage change		Contribution to the growth of general index in 1385	
	1384	1385	1384	1385	Percentage point	Percent
<b>Major groups</b>						
Domestically produced and consumed goods	277.4	311.1	9.5	12.1	9.1	75.4
Imported goods	204.2	224.8	6.6	10.1	1.9	15.7
Exported goods	411.0	483.3	19.0	17.6	1.1	8.9
<b>General index</b>	<b>264.9</b>	<b>297.0</b>	<b>9.5</b>	<b>12.1</b>	<b>12.1</b>	<b>100.0</b>
<b>Main groups</b>						
Foodstuffs	304.1	342.2	10.3	12.5	5.1	42.0
Beverages and tobacco	276.2	293.9	8.0	6.4	0.1	0.4
Industrial materials (except mineral fuels)	224.6	257.6	4.1	14.7	0.5	4.0
Mineral fuels and their products	486.3	499.5	4.7	2.7	0.1	1.1
Chemicals and petrochemicals	281.5	312.4	16.0	11.0	1.0	8.4
Manufactured goods according to raw materials	257.8	299.3	9.5	16.1	4.2	35.1
Machinery and transportation vehicles	182.4	196.9	6.6	7.9	1.0	8.6
Miscellaneous goods	176.2	182.4	8.2	3.5	0.1	0.4
<b>Special groups</b>						
<b>Agricultural, animal husbandry &amp; fishing products</b>	<b>310.6</b>	<b>353.9</b>	<b>10.1</b>	<b>13.9</b>	<b>4.4</b>	<b>36.2</b>
Agriculture	316.5	364.5	13.2	15.2	3.1	25.1
Animal husbandry and fishing	300.7	336.1	5.0	11.8	1.3	11.1
<b>Construction materials</b>	<b>285.4</b>	<b>342.3</b>	<b>6.2</b>	<b>19.9</b>	<b>2.3</b>	<b>19.1</b>
Metallic	262.7	346.3	4.7	31.8	2.0	16.3
Non-metallic	316.9	336.8	7.9	6.3	0.3	2.8

(1) Value of exported or imported goods divided by their weight.

### Producer Price Index (PPI)

Producer price index (PPI) rose by 12.2 percent compared with the previous year. The growth rates of this index were 16.8 and 9.5 percent in 1383 and 1384, respectively. Among the main constituents of the PPI, "manufacturing", "agriculture, animal husbandry and forestry", "real estate, renting and business activities", and "transport, storage and communications" groups made the biggest contribution to raising the general index.

The price index of "manufacturing" group, considering its relative weight of 45.2 percent in the composition of general index,

advanced 11.5 percent and raised the PPI by 36.7 percent. "Agriculture, animal husbandry and forestry" group enjoyed a growth rate of 13.3 percent as against 4.2 percent of the previous year and raised the general index by 24.9 percent. "Real estate, renting and business activities" and "transport, storage and communications" groups grew by 16 and 9.9 percent, respectively, compared with the previous year, accounting for the respective shares of 17.7 and 9.3 percent in raising the general index. Therefore, the four mentioned groups, with a relative weight of 90 percent in the PPI, raised the PPI by 88.6 percent in 1385.

#### ANNUAL AVERAGE PRODUCER PRICE INDEX

(1376=100)

	Year		Percentage change		Contribution to the growth of general index in 1385	
	1384	1385	1384	1385	Percentage point	Percent
<b>Special groups</b>						
Agriculture, animal husbandry, forestry and fishing	312.5	353.5	4.4	13.1	3.1	25.1
Mining and quarrying, manufacturing, and electricity, gas and water supply	271.7	302.5	9.0	11.3	4.7	38.4
Services	392.0	441.3	13.6	12.6	4.4	36.5
<b>General index</b>	<b>315.6</b>	<b>354.0</b>	<b>9.5</b>	<b>12.2</b>	<b>12.2</b>	<b>100.0</b>
<b>Main groups</b>						
Agriculture, animal husbandry and forestry	311.2	352.6	4.2	13.3	3.0	24.9
Fishing	385.3	404.0	15.3	4.9	0	0.2
Mining and quarrying	198.8	268.1	16.5	34.9	0.2	1.7
Manufacturing	271.4	302.6	9.3	11.5	4.5	36.7
Electricity, gas and water supply	317.7	317.7	0.8	0	0	0
Repairing of motor vehicles	323.9	376.5	15.6	16.2	0.1	0.4
Hotels and restaurants	377.9	425.6	12.5	12.6	0.1	0.9
Transport, storage and communications	342.3	376.1	12.3	9.9	1.1	9.3
Financial intermediations	848.9	845.6	5.9	-0.4	0	-0.1
Real estate, renting and business activities	380.6	441.4	14.7	16.0	2.2	17.7
Education	494.3	605.4	20.6	22.5	0.2	1.7
Health and social work	422.0	498.3	20.3	18.1	0.5	4.4
Other community, social & personal services activities	405.1	453.5	13.3	11.9	0.3	2.2

### Exported Goods Price Index

Price index of "exported goods" advanced 17.4 percent in 1385, down from the 28.4 percent posted in 1383 and up from 16.2 percent in 1384. Among the constituents of price index of "exported goods", the price

index of "mineral products" had the largest contribution to the growth of general index by 34.7 percent. This was basically due to the surge in price index of most items in this group, especially "zinc concentrate" by 137.7

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percent. Moreover, "mechanical appliances and electrical equipment" group enjoyed the highest growth rate by 67.8 percent. This was mainly attributable to a 94.1 percent increase in the price of wire and cable. The group of "base metals and articles of base

metals", with 30.3 percent rise compared with the previous year, ranks next. Meanwhile, "raw hides and skins, leather and articles thereof" experienced 3.4 percent decline and "pulp of wood, paper, and paperboard" remained unchanged.

### ANNUAL AVERAGE INDEX OF EXPORTED GOODS

(1376=100)

	Year		Percentage change		Contribution to the growth of general index in 1385	
	1384	1385	1384	1385	Percentage	
					point	Percent
Animal products	522.5	547.8	-5.2	4.8	0.1	0.7
Vegetable products	287.2	292.7	6.1	1.9	0.2	0.9
Animal and vegetable fats and oils	253.7	272.4	3.9	7.4	0	0.1
Prepared foodstuffs, beverages and tobacco	382.9	442.4	27.5	15.5	1.3	7.4
Mineral products	1,016.1	1,271.1	37.6	25.1	6.0	34.7
Products of the chemical or allied industries	443.8	514.0	7.0	15.8	2.7	15.3
Plastic & articles thereof, rubber & articles thereof	327.9	346.8	2.3	5.8	0.2	1.0
Raw hides and skins, leather and articles thereof	375.8	363.1	-9.4	-3.4	-0.1	-0.6
Wood and articles of wood	289.8	325.2	10.9	12.2	0	0.1
Pulp of wood, paper and paperboard	278.6	278.6	10.1	0	0	0
Textiles and articles thereof	245.2	286.9	22.6	17.0	2.8	16.2
Footwear	303.5	311.2	4.5	2.5	0	0.2
Articles of stone	278.1	296.4	7.6	6.6	0.1	0.4
Base metals and articles of base metals	514.2	669.8	9.2	30.3	3.7	21.5
Mechanical appliances and electrical equipment	310.0	520.1	14.1	67.8	0.4	2.1
Vehicles and transport equipment	195.6	198.4	-2.9	1.4	0	0
Optical, precision and medical instruments	348.5	350.5	5.8	0.6	0	0
<b>General index</b>	<b>409.9</b>	<b>481.1</b>	<b>16.2</b>	<b>17.4</b>	<b>17.4</b>	<b>100.0</b>

### Velocity of Circulation of Money

Velocity of circulation of money during the course of 1381-85 was within the range of 4.9 to 5.5 and that of liquidity between 1.6 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. During 1383-85, consumer price index grew by 16.7, 10.2, and 16.6 percent year-on-year. As a result of high liquidity growth by 39.4 percent, the CPI experienced higher growth in 1385 than it did in 1384. However, velocity of circulation of notes and coins, money, and liquidity decreased. This points to a divergence between the growth rate of liquidity and inflation (growth in the CPI) during the recent years.

### VELOCITY OF CIRCULATION OF MONETARY AGGREGATES

(percent)

	1381	1382	1383	1384	1385□
Notes and coins	26.4	28.3	30.9	33.3	33.2
Money	5.0	5.0	5.5	5.3	4.9
Liquidity	2.2	2.1	2.0	1.8	1.6
<b>CPI changes (Esfand 1385 to Esfand 1384)</b>	<b>17.5</b>	<b>13.9</b>	<b>16.7</b>	<b>10.2</b>	<b>16.6</b>

### Divergence between Inflation and Liquidity Growth during the Recent Years

Inflation rate decelerated since the end of 1378 and bottomed out in Khordad 1385. It was down from 12.6 percent in 1379 to 11.4 percent in 1380. Then in 1381, it began rising slightly, but in 1383 and 1384, it trended down again and was limited to 10.3 percent in Khordad 1385. Since Tir 1385, inflation rate trended up and by the end of 1385, it reached 13.6 percent. During the same period, liquidity growth had been fluctuating between 26.1 (in 1382) and 39.4 percent (in 1385). This led the analysts to believe that a close and long-term relationship between liquidity and inflation, which is called neutrality of money, does not exist any more. Deceleration in inflation in tandem with increase in liquidity growth appears to create divergence between liquidity and inflation. Although the inflation model emphasizes the relationship between inflation and liquidity,

other economic aggregates have adversely affected this relationship creating a divergence between the two.

Determining the direct relationship between inflation and liquidity merits special attention by monetary authorities. To determine divergence between inflation and liquidity growth, attention should be paid to divergence between the ratio of liquidity to real production and inflation.

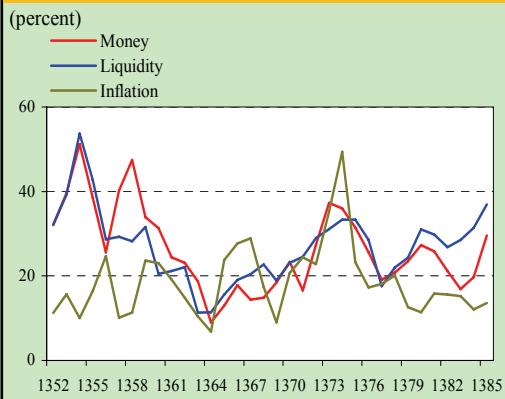
Divergence between inflation and liquidity growth could be observed in Iran during the past years. Looking backwards, during 1352-57, despite high liquidity growth (36.9 percent), general price rise averaged 14.7 percent. Therefore, the divergence could also be observed during the course of 1353-59, when the Iranian economy experienced oil price booms.

ANNUAL AVERAGE GROWTH OF VARIOUS  
ECONOMIC INDICES DURING 1352-85

(percent)

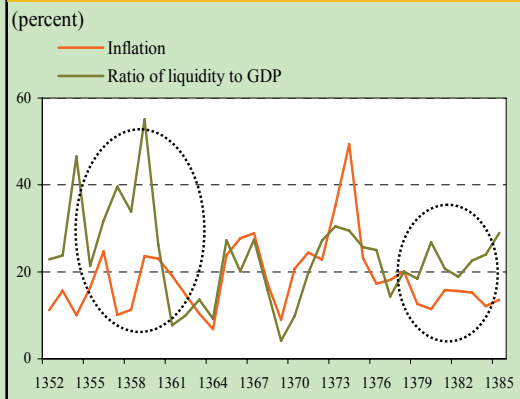
Growth rate	1352-67	1368-78	1379	1380	1381	1382	1383	1379-83	1384	1385	1352-85
Money	28.8	24.6	23.5	27.3	25.8	21.2	16.9	22.9	19.7	29.6	26.3
Liquidity	26.7	25.8	24.3	31.0	29.8	26.8	28.5	28.1	31.4	36.9	27.0
Consumer price index	17.3	23.4	12.6	11.4	15.8	15.6	15.2	14.1	12.1	13.6	18.6
GDP	1.1	4.9	5.0	3.3	7.5	6.7	4.8	5.4	5.9	6.2	3.3

**Figure 17.4. Growth trend of money, liquidity, and inflation**



The divergence between inflation and liquidity growth during the past years is attributed to lack of an appropriate price index – an indicator of all changes in consumer price of goods and services in the economy – relatively stable exchange rate, rise in imports and reduction in import tariff rates, rising international oil prices, bullish stock exchange, and administered prices. The mentioned factors adversely

**Figure 17.5. Changes in the ratio of liquidity to real GDP and inflation**



affected the logical relationship between inflation and liquidity growth and caused a divergent trend. Of particular note is that this close relationship will exist in the long run and monetary authorities should make attempts to curtail the liquidity growth incongruent with public requirements and prevent its expansion which is a threatening factor affecting price stability.