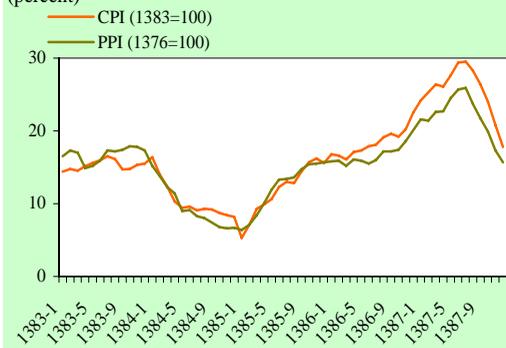


The average consumer price index of goods and services in urban areas (base year=1383) and producer price index (base year=1376) grew by 25.4 and 21.8 percent, respectively, in 1387. Comparing these figures with the corresponding figures of the previous year (18.4 and 16.8 percent) indicates that both indices posted an increase in this year¹.

Figure 18.1. Changes of CPI and PPI

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



Inflation rate followed an upward trend from 19.1 percent in Farvardin to 25.9 percent in Dey and Bahman 1387. This trend was mainly witnessed in households' essential goods and consumer durables, raising their prices noticeably. However, with the adoption of CBI control policies for liquidity management which had a lagged effect on

¹ As of the beginning of 1387, Wholesale Price Index (WPI) has not been produced.

the general level of prices towards the end of the year, growth in prices was decelerated and the rate of inflation decreased to 25.4 percent at year-end.

Annual Average Percentage Change in Price Indices (1376=100)

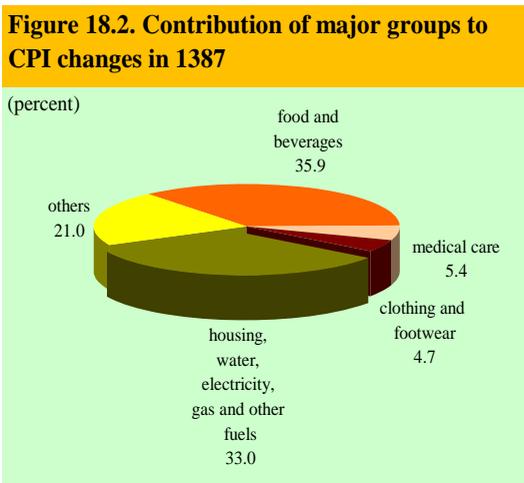
	1386	1387
Consumer price index of goods and services in urban areas (1383=100)	18.4	25.4
Producer price index	16.8	21.8
Exportable goods price index	16.3	13.9
GDP deflator (basic price)	20.6	17.1
Non-oil GDP deflator (basic price)	18.4	21.5

Consumer Price Index (CPI) Urban Areas

Review of the major constituents of the CPI indicates that the price indices of all groups, except for "communication", increased in this year. Among the major groups, "food and beverages" had the highest growth while "communication" experienced a decline. Meanwhile, most sub-groups experienced a noticeable growth in this year.

In 1387, the major group of "food and beverages", with a relative weight of 28.49 percent and a growth rate of 30.2 percent, had the lion's share in raising the general index by 35.9 percent. This was mainly attributable to 57.3 percent growth of "bread and cereals", the highest among subgroups of "food and beverages", compared with the previous year. Price index of "bread and cereals" experienced a remarkable growth compared

with the respective figure of last year (22.1 percent), which was in turn due to a rise in the price indices of "various types of rice" and "various types of bread". In this year, the price of Iranian rice (Grade one) increased by 87.7 percent, Iranian rice (Grade two) 91.1 percent, and imported rice 45.9 percent. Meanwhile, the price index of "various types of bread" rose by 29 percent.



After "food and beverages", "housing, water, electricity, gas, and other fuels", with a relative weight of 28.6 percent (the highest), ranked next in terms of raising the general index. This major group grew by 27.9 percent compared with the previous year and had 33 percent contribution to raising the general index. This was mainly ascribable to the rise in the price index of "imputed rental value of owner-occupied housing" by 28.2 percent, which accounted for 67.8 percent of the increase in the price index of "housing, water, electricity, gas, and other fuels" and 22.5 percent of the rise in the general index. After "imputed rental value of owner-occupied housing", "rental value of non-owner occupied housing", with 28.6 percent growth compared with the year before, had the lion's share in raising "housing, water, electricity, gas, and other

fuels" index. Moreover, price indices of "maintenance and repair services" and "electricity, gas, and other fuels" went up by 34.7 and 8.8 percent, respectively. Therefore, the two major groups of "food and beverages" and "housing, water, electricity, gas, and other fuels", with a total relative weight of 57.1 percent, had a share of 68.9 percent in the inflation rate for 1387.

Among other major constituents of the CPI, the price index of "transportation", with 17.6 percent growth compared with the previous year, raised the general index by 7.0 percent. In "transportation" group, the price index of "travel expenses" grew by 21.8 percent.

The growth rate for the price index of "medical care" increased from 17.0 percent in 1386 to 23.3 percent in the review year. This was mainly attributable to the rise in "medical, dental, and paramedical services" subgroup by 21.5 percent, which accounted for 53.0 percent of the increase in the price index of "medical care".

A review of CPI monthly changes reveals that this index followed an upward trend in 1387 except for months Dey and Bahman. The highest increase by 3.9 percent, compared with the month before, was related to Shahrivar and the highest decrease to Dey and Bahman by 0.4 percent.

An analysis of CPI developments in urban areas by provinces reveals that in 1387, Tehran Province, with 27.6 percent, Hamedan Province, with 27.0 percent, and Qazvin Province, with 26.7 percent, had the highest rates of inflation. The lowest rate of inflation at 19.6 percent was related to Kerman Province. Meanwhile, in terms of the general level of prices, Bushehr and Ilam provinces experienced the lowest and the highest levels, respectively, in 1387.

During 1383-87, Bushehr Province, with an inflation rate of 14.4 percent, had the

Annual Average Consumer Price Index in Urban Areas (1383=100)

	1386	1387	Percentage change		Contribution to the growth of general index in 1387	
			1386	1387	Percentage point	Percent
Special groups						
Goods	140.0	174.9	17.4	24.9	13.6	53.5
Services	154.5	194.5	19.8	25.9	11.7	46.5
Housing, water, electricity, gas, and other fuels	153.4	196.2	21.2	27.9	8.4	33.0
General index	146.2	183.3	18.4	25.4	25.4	100.0
Major groups and selected sub-groups						
Food and beverages	152.8	198.9	21.7	30.2	9.0	35.9
Meat	142.9	179.2	20.2	25.4	1.7	6.6
Fish and seafood	153.6	192.8	20.6	25.5	0.2	0.8
Bread and cereals	148.0	232.8	22.1	57.3	2.6	10.4
Fats and oils	156.8	200.6	33.4	27.9	0.3	1.1
Fruits and nuts	161.8	207.8	26.2	28.4	1.7	6.5
Vegetables, pulses, and vegetable products	173.2	212.8	18.0	22.9	1.0	4.1
Dairy products and eggs	144.0	177.6	20.7	23.3	0.8	3.1
Tobacco	140.7	167.8	22.6	19.3	0.1	0.4
Housing, water, electricity, gas, and other fuels	153.4	196.2	21.2	27.9	8.4	33.0
Rental value of non-owner occupied housing	153.9	197.9	21.2	28.6	1.7	6.9
Imputed rental value of owner-occupied housing	154.1	197.6	20.9	28.2	5.7	22.5
Maintenance and repair services	182.9	246.3	30.6	34.7	0.8	3.1
Water	114.0	127.7	10.8	12.0	0.0	0.2
Electricity, gas, and other fuels	116.3	126.5	11.2	8.8	0.1	0.4
Clothing and footwear	134.8	163.1	14.7	21.0	1.2	4.7
Furnishings, household equipment, and routine household maintenance	144.6	179.0	16.1	23.8	1.5	5.9
Transportation	126.7	149.0	13.5	17.6	1.8	7.0
Communication	97.1	96.9	-0.2	-0.2	0.0	0.0
Medical care	154.1	190.0	17.0	23.3	1.4	5.4
Recreation and culture	121.2	133.6	8.2	10.2	0.3	1.2
Education	163.5	187.5	14.0	14.7	0.3	1.4
Restaurants and hotels	145.6	189.0	17.0	29.8	0.5	2.0
Miscellaneous goods and services	148.7	184.3	16.4	23.9	0.8	3.1

slowest growth pace and Ilam and Lorestan provinces, with an inflation rate of 18.1 percent, the fastest growth pace in the general level of prices. Average inflation rate in all urban areas was 16.4 percent during the mentioned period.

In 1387, inflation rate was 27.6 percent in Tehran Province which, due to its population and share in total expenditures of urban households, had a relative weight of 33.05 percent in the general index. Increase in CPI in Tehran Province raised CPI's general index of all urban areas by 9.0 percentage points and had a share of 35.4 percent in the rise of the general index. Esfahan Province,

with 8.3 percent share, Fars Province, with 5.8 percent, and Khorasan Razavi Province, with 5.6 percent, ranked next in the increase of CPI in all urban areas.

Rural Areas

CPI for rural areas rose 26.7 percent in 1387 compared with the previous year. Inflation in rural areas is a result of growth in the price index of "goods" with 28.9 percent and "services" with 20.5 percent, compared with 1386. These two special groups, with relative weights of 76.3 and 23.7 percent in the general index, raised the general index by 79.7 and 20.3 percent, respectively.

Chapter 18 PRICE TRENDS

In the review year, price index of "food, beverages, and tobacco" rose by 35.6 percent compared with the previous year, mainly attributable to the rise in the price indices of "bread and cereals" and "meat, poultry, and their products". The shares of "food, beverages, and tobacco" and "non-edible goods and services" in the rise of general index were 59.9 and 40.1 percent, respectively.

Ranking next after "food, beverages, and tobacco", five groups namely, "housing, water, electricity, gas, and other fuels" (12.5 percent), "furnishings, household equipment, and routine household maintenance" (6.4 percent), "transportation" (6.1 percent), "clothing and footwear" (5.8 percent), and "medical care" (5.7 percent), had the highest shares in raising the general index. These six groups together accounted for 96.4 percent of the rise in the general index.

Producer Price Index (PPI)

Producer price index (PPI) increased by 21.8 percent compared with the previous

year. The growth rate of this index was 12.2 percent in 1385 and 16.8 percent in 1386. Among the major constituents of the PPI, "manufacturing", "agriculture, animal husbandry, and forestry", "real estate, renting, and business activities", and "transport, storage, and communications" groups made the highest contribution to raising the general index.

The price index of "manufacturing" group, with a relative weight of 45.2 percent in the general index and a growth rate of 19.7 percent, raised the general index by 34.4 percent.

The price index of "agriculture, animal husbandry, and forestry" rose 27.9 percent, compared with 19.3 percent previous year, and had a share of 30.1 percent in the growth of the general index.

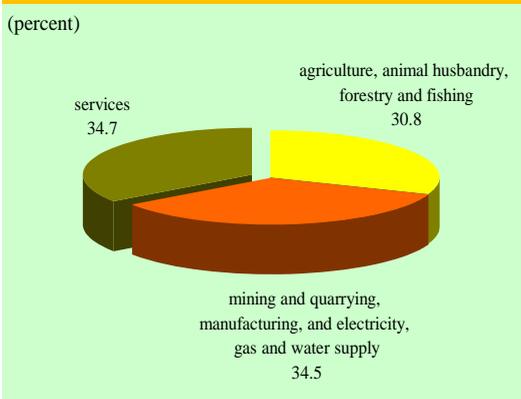
"Real estate, renting, and business activities" and "transport, storage, and communications" groups, with growth rates of 28.7 and 11.1 percent, made 19.2 and 5.6 percent contribution to raising the PPI general index, respectively. A major portion of the rise in

Annual Average Producer Price Index (1376=100)

	1386	1387	Percentage change		Contribution to the growth of general index in 1387	
			1386	1387	Percentage point	Percent
Special groups						
Agriculture, animal husbandry, forestry, and fishing	420.7	538.2	19.0	27.9	6.7	30.8
Mining and quarrying, manufacturing, and electricity, gas, and water supply	347.3	412.3	14.8	18.7	7.5	34.5
Services	518.9	628.9	17.6	21.2	7.6	34.7
General index	413.5	503.7	16.8	21.8	21.8	100.0
Major groups						
Agriculture, animal husbandry, and forestry	420.6	537.8	19.3	27.9	6.6	30.1
Fishing	429.3	563.3	6.3	31.2	0.1	0.6
Mining and quarrying	288.4	270.7	7.6	-6.1	0.0	-0.2
Manufacturing	349.2	417.9	15.4	19.7	7.5	34.4
Electricity, gas, and water supply	332.5	345.4	4.7	3.9	0.1	0.3
Repairing of motor vehicles	433.9	519.3	15.2	19.7	0.1	0.3
Hotels and restaurants	503.6	651.2	18.3	29.3	0.3	1.2
Transport, storage, and communications	432.4	480.6	15.0	11.1	1.2	5.6
Financial intermediations	886.6	938.3	4.8	5.8	0.1	0.7
Real estate, renting, and business activities	538.9	693.8	22.1	28.7	4.2	19.2
Education	700.1	804.7	15.6	14.9	0.1	0.7
Health and social work	605.7	761.9	21.6	25.8	0.8	3.9
Other community, social & personal services activities	516.4	683.4	13.9	32.3	0.7	3.2

"real estate, renting, and business activities" was due to the increase in the price index of "real estate and renting" by 28.8 percent.

Figure 18.3. Contribution of special groups to PPI changes in 1387



Reviewing the monthly changes of the producer price index reveals that this index followed an upward trend in all months except for Dey and Bahman. The highest increase was related to Tir and Mordad by 2.5 percent, and the highest decrease to Bahman by 0.5 percent.

Exportable Goods Price Index

Price index of "exportable goods" grew by 13.9 percent compared with the previous year, down from 17.4 and 16.3 percent in 1385 and 1386, respectively. Among the constituents of the price index of "exportable goods", the price index of "products of the chemical or allied industries" had the largest contribution to the growth of general index by 43.4 percent, mainly attributable to the increase in the price indices of most items in this group. The highest increase by 36.4 percent was related to "animal or vegetable fats and oils".

Total Returns on Assets

Comparison of total returns on assets (price movements and yields) with inflation rate indicates that, in 1387, the growth rates of "land price" and "rental value of non-owner occupied housing" indices were higher than the inflation rate and real rate of return on other assets was negative. Therefore, "land price" and "rental value of non-owner occupied housing" indices experienced the highest growth by 42.4 and 28.6 percent, respectively.

Annual Average Price Index of Exportable Goods

(1376=100)

			Percentage change		Contribution to the growth of general index in 1387	
	1386	1387	1386	1387	Percentage point	Percent
Animal products	594.4	684.1	8.5	15.1	0.3	2.1
Vegetable products	331.8	441.6	13.4	33.1	2.2	16.1
Animal and vegetable fats and oils	393.6	536.7	44.5	36.4	0.1	0.8
Prepared foodstuffs, beverages, and tobacco	491.4	623.0	11.1	26.8	2.1	15.0
Mineral products	1,558.5	1,386.7	22.6	-11.0	-3.0	-21.4
Products of the chemical or allied industries	614.8	831.8	19.6	35.3	6.0	43.4
Plastic & articles thereof, rubber & articles thereof	357.4	378.5	3.1	5.9	0.1	1.0
Raw hides and skins, leather, and articles thereof	470.2	512.5	29.5	9.0	0.3	1.9
Wood and articles of wood	630.9	839.9	94.0	33.1	0.1	0.8
Textiles and articles thereof	319.0	394.1	11.2	23.5	3.7	26.7
Footwear	312.4	343.9	0.4	10.1	0.1	0.8
Articles of stone	321.9	359.4	8.6	11.6	0.1	0.8
Base metals and articles of base metals	757.3	846.5	13.1	11.8	1.6	11.2
Mechanical appliances and electrical equipment	661.9	658.9	27.3	-0.5	0.0	0.0
Vehicles and transport equipment	209.0	211.6	5.3	1.2	0.0	0.0
Optical, precision, and medical instruments	418.3	498.1	19.3	19.1	0.1	0.8
General index	559.5	637.4	16.3	13.9	13.9	100.0

Total Returns on Assets (price movements + yields) (percent)

	1383	1384	1385	1386	1387	Average rate of return ¹	Standard deviation	Sharpe ratio ²
US dollar (parallel market)	5.1	3.4	2.0	1.4	3.3	3.0	1.4	-9.5
Price index of Pride automobiles ³	-3.1	0.9	2.2	4.3	9.7	2.7	4.7	-2.9
Euro (parallel market)	13.1	0.6	7.0	11.6	4.2	7.2	5.1	-1.8
Provisional profit of participation papers	17.0	15.5-17	15.5	15.5	18.0	16.5	1.2	0.0
Full Bahar Azadi gold coins (old design)	21.3	17.6	36.7	13.5	21.5	21.9	8.8	0.6
Price and cash dividend index	13.6	-12.7	14.7	17.6	-11.3	3.5	15.0	-0.9
Rental value of non-owner occupied housing ³	18.3	11.6	13.7	21.2	28.6	18.5	6.7	0.3
Land price index ³	22.0	11.5	12.8	53.3	42.4	27.3	18.6	0.6
Provisional profit on one-year investment deposits in public commercial banks (highest rate)	14.0	13.0	15.8	16.0	15.0	14.8	1.3	-1.4
Provisional profit on one-year investment deposits in private banks (highest rate)	18.0	18.0	17.5	17.5	17.3	17.7	0.3	3.4
Consumer price index of goods and services (annual average)	15.2	10.4	11.9	18.4	25.4	16.2	6.0	0

¹ Average return on assets (except for participation papers and investment deposits) is calculated through the geometric mean method.

² The Sharpe ratio, used to measure risk-adjusted performance, is calculated by dividing the difference between the returns on risky and risk-free assets by the standard deviation of return on risky assets. In these calculations, the risk-free assets are participation papers.

³ Base year for price index of Pride automobiles, rental value of non-owner occupied housing index, land price index, and consumer price index of goods and services is 1383, and base year for price and cash dividend index is 1369.

Velocity of Circulation of Money

Velocity of circulation of money during the course of 1383-87 was within the range of 5.3 to 6.4 and that of liquidity between 1.7 and 2.1. By definition, there exists a direct relationship between velocity of circulation of money/liquidity and inflation. Moreover, change in the composition of money and liquidity, due to improvements in banking services and the expansion of electronic and non-cash payment instruments, has impacts on velocity of circulation of money and that

of liquidity. In 1387, liquidity posted a growth of 15.9 percent, which was lower than the previous year. The velocity of circulation of notes and coins declined and that of money and liquidity went up. In Esfand 1387, consumer price index of goods and services had 17.8 percent growth compared with the respective month of the previous year; however, it declined compared with the corresponding figure of the previous year.

Velocity of Circulation of Monetary Aggregates (percent)

	1383	1384	1385	1386	1387
Notes and coins	32.5	36.6	36.8	35.8	21.4
Money	5.8	5.8	5.5	5.3	6.4
Liquidity	2.1	2.0	1.8	1.7	1.8
CPI changes (1383=100) (Esfand 1387 to Esfand 1386)	15.5	8.2	15.6	22.5	17.8