CHAPTER 4

MANUFACTURING AND MINING

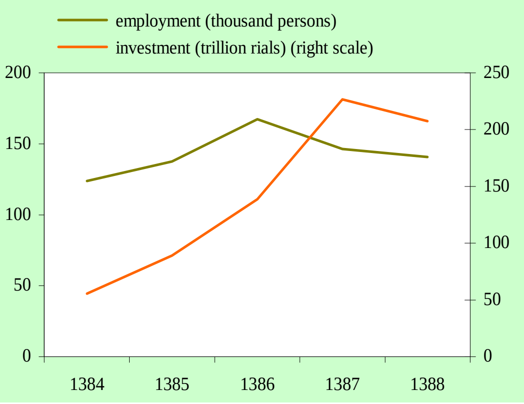
Manufacturing sector constitutes an important share of Iran's GDP and plays a major role in boom and bust cycles of the national economy. Based on government support policies in the form of tax exemptions and banks' policies in rescheduling outstanding debts of economic firms, manufacturing sector had a more favorable performance than other sectors in 1388. A 5.9 percent growth in the production index of large manufacturing establishments as well as 5.3 percent growth in the value-added of the manufacturing sector in the review year (at constant 1376 prices) is indicative of a better condition in this sector than the whole economy.

A review of the mining sector indices reveals that the value-added of this sector increased by 0.1 percent (at constant 1376 prices), lower than 11.1 percent growth in 1387. Based on the mining operation permits issued by the Ministry of Industries and Mines, investment in mining activities grew by 12.8 percent, lower than the investment growth of the year before (100.1 percent). Employment estimates based on mining operation permits declined by 14.0 percent. By and large, investment and production volatile trends in the manufacturing and mining sector over the past years indicate continuation of uncertain environment for producers in this sector.

Production

In this year, production index of large manufacturing establishments increased by 5.9 percent. "Motor vehicles, trailers, and semi-trailers", "chemical products", and "tobacco products", with a total relative weight of 37.4 percent in the mentioned index, grew by 10.5, 6.8, and 77.8 percent, respectively.

Figure 4.1. Investment and employment in manufacturing operation permits



Production of Selected Industries

In this year, the automotive industry raised the volume of its production. Manufacture of light and heavy vehicles increased by 9.7 percent to 1.42 million. Light passenger cars had a share of 97.4 percent in total vehicle manufacture, up by 10.1 percent compared with the year before.

In 1388, despite a relative recession in the housing sector, the production of crude steel,

Selected Manufacturing and Mining Products

					Percentage change	
		1386	1387	1388	1387	1388
Cement [1]	Thousand tons	40,000.0	44,400.0	52,173.0 [2]	11.0	17.5
Light vehicles [3]	Thousand	1,116.1	1,259.3	1,386.6	12.8	10.1
Crude steel [4]	Thousand tons	9,944.4	10,483.2	10,665.7	5.4	1.7
Copper (Cathode) [4]	Thousand tons	203.0	206.1	210.3	1.5	2.0
Aluminum bar [4]	Thousand tons	202.8	248.3	277.9	22.4	11.9

[1] Source: www.irancement.com

[2] Source: Cement Industry Report, 1388; Ministry of Commerce; Consumers and Producers Protection Organization; www.yaraneh.cppo.ir

[3] Source: Sapco (Supplying Automotive Parts Co.); it includes various types of passenger cars, pick-ups, vans, and double-differential cars.

[4] Source: Iran Mercantile Exchange - For crude steel, it only includes data on public sector and excludes private sector production.

copper (cathode) and aluminum bar indicated 1.7, 2.0, and 11.9 percent growth, respectively.

According to the National Petrochemical Company, petrochemical products (including the performance of privatized companies) amounted to 34.4 million tons in 1388, indicating 14.6 percent increase.

In the review year, petrochemical exports advanced 14.6 percent to 14.0 million tons. The value of petrochemical exports amounted to $9.1 billion, up by 16.6 percent compared with the previous year. Due to the growth in the exports of petrochemical products over the recent years, the share of these products in total non-oil exports rose from 22.2 percent in 1384 to 41.8 percent in 1388.

In this year, 7.9 million tons of petrochemical products were sold in the domestic market, indicating 4.0 percent growth compared with the previous year. Domestic sale of petrochemical products was well above the previous year's figure in terms of weight, however, the growth figure of this year was lower than that of the previous year (18.5 percent).

Government Investment

According to the Budget Law for 1388, government approved Rls. 2.3 trillion for the implementation and completion of acquisition of non-financial–national assets projects in manufacturing and mining sector and industrial research project, indicating 37.0 percent reduction compared with the corresponding

Performance of Petrochemical Industry

				Percentage change	
	1386	1387	1388	1387	1388
Production (thousand tons) [1]	**23,869**	**30,040**	**34,433**	**25.9**	**14.6**
Exports					
Volume (thousand tons)	9,530	12,254	14,039	28.6	14.6
Value (million dollars)	6,060	7,843	9,147	29.4	16.6
Domestic sale					
Volume (thousand tons)	6,383	7,566	7,865	18.5	4.0
Value (billion rials)	32,307	40,056	46,766	24.0	16.8

Source: National Petrochemical Company

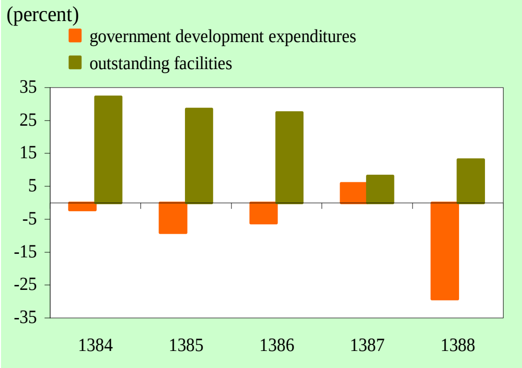
[1] Due to the utilization of several petrochemical products for intermediate consumption, the production volume of this sector is constantly higher than sum of exports and domestic sale. Meanwhile, some petrochemical products appear as change in stock.

figure of the previous year. According to the Treasury General of the Ministry of Economic Affairs and Finance, Rls. 1.9 trillion was allocated to the mentioned sector and project, showing 29.3 percent decrease compared with last year's performance.

In the review year, Rls. 18.2 billion was paid to the "industrial research project in the manufacturing and mining sector", in the framework of support for commercial and industrial research and development project, showing 33.6 percent fall.

A review of government budget performance in 1388 reveals that 83.9 percent of credits approved for the acquisition of non-financial–national assets projects in the manufacturing and mining sector and industrial research project were realized.

Figure 4.2. Change in outstanding facilities extended to non-public manufacturing & mining sector & government development expenditures



Banking Facilities

By end-1388, total outstanding facilities (net) extended to public and non-public manufacturing and mining sectors (excluding profit and revenue receivables) grew by 13.0 percent to Rls. 464.3 trillion compared with the previous year-end. Accordingly, the share of change in the outstanding debts of the non-public manufacturing and mining sector in total change in the outstanding facilities extended by banks and credit institutions to non-public economic sectors was 23.7 percent. Commercial banks accounted for 50.7 percent of total change in the outstanding facilities extended to the non-public manufacturing and mining sector.

Based on the executive by-law for the expansion of Small and Medium Enterprises (SMEs) approved in Azar 1384, agent banks continued the extension of facilities in 1388. As of the implementation of this by-law till end-1388, total value of paid facilities (excluding profit receivables) amounted to Rls. 229.0 trillion. In this year, 7.4 thousand projects valuing at Rls. 15.6 trillion were approved and a sum of Rls. 21.0 trillion was paid. The share of manufacturing and mining sector in total extended facilities was 59.0 percent.

Producer Price Index of Manufacturing Products

In the review year, the producer price index (1383=100) in manufacturing sector

Credits for Acquisition of Non-financial–National Assets in Manufacturing and Mining Sector and Industrial Research Project

(billion rials)

				Percentage change		Share (percent)		1388	
	1386	1387	1388	1387	1388	1387	1388	Approved	Realization (percent)
Manufacturing and mining	2,522.5	2,668.2	1,886.9	5.8	-29.3	99.0	99.0	2,244.8	84.1
Industrial research project	23.5	27.4	18.2	17.0	-33.6	1.0	1.0	26.7	68.2
Total	**2,546.0**	**2,695.7**	**1,905.0**	**5.9**	**-29.3**	**100.0**	**100.0**	**2,271.5**	**83.9**

Source: Treasury General, Ministry of Economic Affairs and Finance

Outstanding Facilities Extended by Banks and Credit Institutions to Manufacturing and Mining Sector[1]

(billion rials)

	Year-end		1388			
	1387	1388	Percentage change	Change in outstanding	Total change in outstanding[2]	Relative share (percent)
Non-public sector	**403,639.3**	**456,670.7**	**13.1**	**53,031.4**	**223,625.1**	**23.7**
Commercial banks	331,787.6	358,669.0	8.1	26,881.4	131,451.0	20.4
Specialized banks	21,137.9	32,641.1	54.4	11,503.2	70,686.7	16.3
Private banks and credit institutions	50,713.8	65,360.6	28.9	14,646.8	21,487.4	68.2
Public sector	**7,366.6**	**7,601.0**	**3.2**	**234.4**	**80,194.2**	**0.3**
Total	**411,005.9**	**464,271.7**	**13.0**	**53,265.8**	**303,819.3**	**17.5**

[1] Excludes profit and revenue receivables.

[2] It refers to the change in outstanding facilities extended by banks and credit institutions to all economic sectors.

reached 171.7, higher than the previous year by 3.0 percent and lower than the change in general index (7.4 percent).

Industrial Exports

The share of industrial exports in total non-oil exports increased from 70.5 percent in 1383 to 80.0 percent in 1387. This was mostly due to development projects carried on in the manufacturing and mining sectors, particularly the noticeable growth in petro-chemical products and exports. However, due to the recession prevailing the global economy and a lower demand for exportable products, this share slightly decreased to 77.7 percent in 1388. Total value of industrial exports in 1388 amounted to $17.0 billion, showing 16.1 percent growth compared with the previous year.

The unit value of industrial exports in this year was $507.8 per ton, indicating a reduction of 16.5 percent compared with the year before.

4th Five-Year Development Plan

Production

Petrochemical Industry

The petrochemical industry had a more favorable performance than other sectors during the past two decades, due to easy access to domestic raw materials which is also attributable to large-scale investments in the petrochemical industry. Average growth of petrochemical products (base year: 1383) was 18.0 percent during the 4th FYDP and that of petrochemical exports, 22.0 percent. Annual average growth of domestic sale of

Performance of Manufacturing and Mining Sector during 4th FYDP

(percent)

		1384	1385	1386	1387	1388	Average growth (1383 base year)
Total value-added	Target	7.1	7.4	7.8	8.4	9.3	8.0
	Performance	6.9	6.6	5.0	0.8	3.0	4.4
Value-added of manufacturing sector	Target	10.5	10.8	11.0	11.5	12.4	11.2
	Performance	13.6	10.7	0.7	2.4	5.3	6.4
Value-added of mining sector	Target	10.5	10.8	11.0	11.5	12.4	11.2
	Performance	3.8	15.2	12.1	11.1	0.1	8.3

these products was merely 10.0 percent during the course of the Plan, indicating heavy reliance of this sector on exports.

Share of petrochemical exports in total industrial exports followed an upward trend from 30.2 percent in the first year of the Plan to 53.7 percent in the final year.

Manufacture of Automobiles

During the 4th Plan, the production volume of automotive industry surged. Manufacture of light and heavy vehicles increased by 9.6 percent annually (on average) and reached 1.42 million in 1388. This was attributable to high domestic demand as well as restrictions on car imports.

Production of Basic Metals

Despite a noticeable domestic demand for various types of metals, especially steel, production of crude steel, copper (cathode), and aluminum bar experienced limited growth of 3.5, 6.6, and 5.5 percent, respectively. Given the fact that the 20-Year Vision Plan includes programs aimed at high economic growth and rapid development of various economic sectors, especially construction sector, and that these developments require basic metals as input, the production capacity of crude steel and other basic metals needs to grow as fast as possible.

Production of Cement

Cement is used widely as a major non-metallic material in various construction and housing activities. Cement production grew favorably during 1370s and early 1380s due to large installed capacity. During the course of the 4th Plan, production of cement grew annually by 10.3 percent on average and increased from 32.0 million tons in 1383 to 52.2 million tons in 1388.

Performance of Cement Industry

(thousand tons-percent)

	Production	Consumption	Export	Import
1383 (base year)	32,000	30,500	1,880	375
1384	32,500	31,000	1,813	280
1385	35,300	35,300	500	28
1386	40,000	40,200	600	450
1387	44,400	44,000	172	78
1388	52,173	47,424	4,749	0.5
Average growth (percent)	10.3	9.2	20.4	-73.6

Source: Data were drawn from www.irancement.com for 1383-1387 and for 1388, from Consumers and Producers Protection Organization

Industrial Investment

Facilities Extended by the Banking System to the Manufacturing and Mining Sector

During the course of the 4th FYDP, banks and credit institutions, in observation of the Cabinet and MCC approvals, increased the volume of their facilities extended to the manufacturing and mining sector. Net outstanding facilities extended by banks to this sector amounted to Rls. 464.3 trillion at end-1388, of which 98.4 percent was related to the non-public manufacturing and mining sector. Average growth of outstanding facilities extended to the non-public manufacturing and mining sector was 21.5 percent. Meanwhile, this sector accounted for 23.3 percent of total change in outstanding facilities extended by the banking system to the non-public sector of the economy.

Based on the executive by-law for the expansion of Small and Medium Enterprises (Cabinet approval) in 1384 (the first year of the Plan), agent banks extended facilities to SMEs and manufacturing and mining establishments. Furthermore, the Ministry of Industries and Mines formulated the spatial planning scheme of manufacturing and mining activities and introduced the prioritized projects to the banking system (Bank of Industry and Mine). The purpose of spatial planning was to allocate different projects to various provinces during 1387-1391, currently under operation with the sole agency of the Bank of Industry and Mine.

Executive By-law on Expansion of SMEs

The Cabinet approved the executive by-law on the expansion of SMEs in Azar 1384, based on Article 138 of the Constitution. As of the implementation date of this by-law (Bahman 1384) till end-1388, a sum of Rls. 229 trillion facilities were extended to various sectors of the economy. The manufacturing and mining sector, with a share of 52.0 percent, had the lion's share of the mentioned facilities, valuing at Rls. 119 trillion.

Government Investment

Acquisition of non-financial–national assets in the manufacturing and mining sector declined from Rls. 2,987.4 billion in the first year of the 4th FYDP to Rls. 1,905 billion in the final year, pointing to 9.0 percent decrease on average and 82.8 percent realization compared with the figure approved in annual budget laws (17.2 percent difference). Meanwhile, percentage of realization compared with the approved figures decreased from 103.5 percent in 1383 to 83.9 percent in 1388.

Reduction in credits allocated to the acquisition of non-financial assets in the manufacturing and mining sector was generally aimed at decreasing government undertakings.

Industrial Exports

Developments in the foreign trade sector over the course of the Plan led to an increase in the share of industrial exports in total non-oil exports. Furthermore, affected by the rise in the exports of "gas and oil products" and "organic chemicals", the share of industrial exports rose from 70.5 percent in 1383 to 77.7 percent in 1388. Of special note is that the target set in the 4th FYDP for the value of industrial exports in the final year of the Plan is $7.7 billion, and for the annual average growth of industrial exports 14.8 percent. Therefore, their actual growth by 28.7 percent is higher than the mentioned target by 13.9 percentage points.