

Budget Law for 1389 was drawn up with regard to the 4th FYDP achievements, in furtherance of the goals of the Islamic Republic of Iran's Constitution, the Twenty-Year Vision Plan, general policies of the 5th Plan, and mandates of the 5th Development Bill which outlined basic strategies and defined general orientation of the system as follows:

- Productivity enhancement of factors of production including labor, capital, and energy;
- Promotion of social justice and creation of equal opportunities for the public with the emphasis on reduction of economic inequality and development of rural areas;
- Improvement of business environment, promotion of competition, and support of private sector;
- Financial and fiscal discipline, balance between government non-oil revenues and current expenditures, and allocation of proceeds acquired from oil exports for productive investments;
- Qualitative and quantitative development of social security system with the emphasis on reforming the current structures;
- Emphasis on the adoption of the "healthy human" approach for the public health;
- Decentralizing administrative and executive bodies, encouraging accountability, showing respect as well as rendering better services to the public, improving living standards of civil servants, and boosting administrative integrity in organizations;
- Advancement of cultural environment, development of awareness and moral virtues, and strengthening of national unity and identity based on Islam, the Islamic Revolution, and the Islamic Republic of Iran's system;
- Strengthening of software, research, and technological progress movement;
- Higher efficiency of educational system for the training and provision of the required human resources;
- Strengthening the rule of law, social discipline, working values, self-belief, social networking, innovation, honesty, frugality, avoidance of extravagance, as well as quality enhancement of production;
- Strengthening of the Islamic Republic of Iran's role and position in the international arena;
- Advancement of defense potentialities and deterrence;
- Strengthening of the infrastructures for national unity and social cohesion to prevent and counter identity, social, cultural, and belief crises, as well as strengthening of youth national identity congruent with the Islamic Revolution's ideals;

- Revisiting the national and provincial authorities' mission aiming at reduction of direct intervention of government central agencies;
- Strengthening of family structure, and promotion of women's position in social, economic and cultural areas;
- Encouraging consumption of locally produced goods and enhancing of production and export potentialities;
- Reorganizing and mobilizing national facilities and potentialities to raise the Islamic Republic of Iran's share in world scientific production.

Budget (Implementation)

According to the Budget Law for 1389, the price of crude oil was set at \$65 per barrel, compared with \$55 in 1387 and \$37.5 in 1388. Based on the 4th Plan directives, the excess oil revenue was transferred to the OSF, to offset possible fluctuations in oil revenue resulting from oil price movements and to prevent the expansionary effects of the mentioned funds on the budget.

Budget Law for 1389 was set at Rls. 9,850 per dollar. However, foreign exchange receipts and payments were revalued at Rls. 10,335 per dollar (foreign exchange rate in interbank market) and deposited into Treasury General.

Based on the statistical tables of the 1389 Budget Law, current revenues, and receipts from disposal of non-financial and financial assets (approved) amounted to Rls. 1,179,897.6 billion, and current expenditures, and disbursements on the acquisition of non-financial and financial assets (approved) reached Rls. 1,179,897.6 billion. According to the Law on Increase in Credit Ceiling for Excess Special Revenues of Universities of Medical Sciences and Health Care Services, approved on Esfand 4, 1389, credit ceiling for excess

special revenues of universities of medical sciences and health care services increased from Rls. 4 trillion to Rls. 7 trillion. Thus, it was determined that a sum of Rls. 3 trillion should be deducted from the ceiling of the sources and uses of General Budget and be added to the ceiling of special revenues. Based on this Amendment, total sources and uses of the government general budget decreased from Rls. 1,179,897.6 billion to Rls. 1,176,897.6 billion.

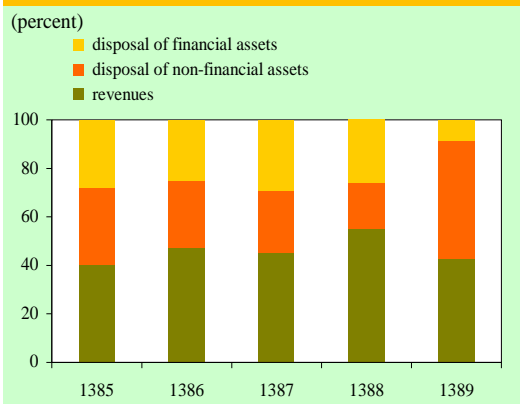
Based on the 1389 Budget Law and the Amendment thereto, approved revenues including taxes and other revenues (excluding special revenues) totaled Rls. 502,269.2 billion, and approved expenses (excluding special expenditures) reached Rls. 729,879.9 billion. Therefore, approved operating balance ran a deficit of Rls. 227,610.7 billion. Moreover, approved receipts and payments out of disposal and acquisition of non-financial assets (excluding special revenues and expenditures) amounted to Rls. 456,174 billion and Rls. 316,929.5 billion, respectively. Thus, approved operating and non-financial balance (sum of operating balance and net disposal of non-financial assets) posted Rls. 88,366.2 billion deficit, which was mostly financed out of net disposal of financial assets arising from privatization revenues.

The composition of sources of the approved government budget in 1389 (excluding special revenues) constituted 42.7 percent receipts from revenues, 38.7 percent from disposal of non-financial assets, and 18.6 percent from disposal of financial assets. Composition of uses of the approved government budget (excluding special expenditures) comprised 62 percent for expenses, 26.9 percent for the acquisition of non-financial assets, and 11.1 percent for the acquisition of financial assets.

Review of the figures related to budget performance in 1389 reveals that general budget sources (excluding special revenues)

were financed out of revenues by 42.9 percent, from disposal of non-financial assets by 48.6 percent, and from disposal of financial assets by 8.5 percent. Budget uses (excluding special expenditures) indicate allocation of 73.6 percent for expenses, 23.7 percent for acquisition of non-financial assets, and 2.7 percent for acquisition of financial assets.

Figure 10.1. Composition of government budget



Government revenues, including taxes and other revenues (excluding special revenues) amounted to Rls. 384,288 billion, representing a realization of 76.5 percent as compared with the approved figure and a reduction of 17.6 percent compared with the corresponding

figure of the previous year. Out of total revenues, Rls. 284,527.9 billion (74 percent) was received from taxes and Rls. 99,760.1 billion (26 percent) from other revenues, compared with respectively 64.3 and 35.7 percent in 1388.

Government expenses (current expenditures, excluding special expenditures) rose by 11 percent to Rls. 659,341.5 billion compared with the year before, representing 90.3 percent realization compared with the approved figure in the budget. Thus, based on the performance of government revenues and expenses in 1389, operating balance ran a deficit of Rls. 275,053.5 billion.

Figure 10.2. Government fiscal position

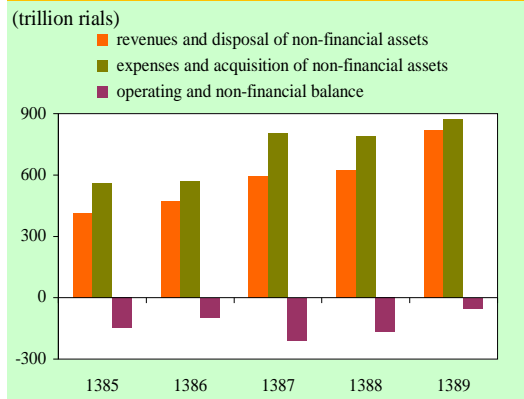


Table 10.1. Sources and Uses of Government General Budget¹

(billion rials-percent)

	Approved ²		Percentage change	Share in total		Performance		Percentage change	Share in total	
	1388	1389		1388	1389	1388	1389		1388	1389
Sources	892,132.8	1,176,897.6	31.9	100.0	100.0	845,273.2	896,073.8	6.0	100.0	100.0
Revenues	484,770.9	502,269.2	3.6	54.3	42.7	466,546.1	384,288.0	-17.6	55.2	42.9
Disposal of non-financial assets	169,837.9	456,174.0	168.6	19.0	38.8	158,613.3	435,780.2	174.7	18.8	48.6
Disposal of financial assets	237,524.0	218,454.5	-8.0	26.6	18.6	220,113.8	76,005.7	-65.5	26.0	8.5
Uses	892,132.8	1,176,897.6	31.9	100.0	100.0	845,273.2	896,073.8	6.0	100.0	100.0
Expenditures	608,260.1	729,879.9	20.0	68.2	62.0	593,783.9	659,341.5	11.0	70.2	73.6
Acquisition of non-financial assets	217,200.0	316,929.5	45.9	24.3	26.9	198,173.1	212,845.0	7.4	23.4	23.7
Acquisition of financial assets	66,672.6	130,088.3	95.1	7.5	11.1	53,316.2	23,887.4	-55.2	6.4	2.7

¹ Excludes special revenues and expenditures.

² Approved figures are revised based on budget amendments.

Chapter 10 FISCAL POLICY AND PERFORMANCE

Receipts from disposal of non-financial assets including sale of crude oil and oil products as well as movable and immovable assets amounted to Rls. 435,780.2 billion, showing 174.7 percent increase compared with the previous year and 95.5 percent realization compared with the approved figure in the budget. Disbursements on the acquisition of non-financial assets (development expenditures) went up by 7.4 percent to Rls. 212,845 billion, signifying 67.2 percent realization compared with the approved figure. Therefore, net disposal of non-financial assets posted a surplus of Rls. 222,935.2 billion in the review year.

Considering revenues and expenses as well as disposal and acquisition of non-financial assets, sum of operating balance and net disposal of non-financial assets ran a deficit of Rls. 52,118.3 billion, indicating 68.8 percent reduction compared with the corresponding figure for the previous year, and a realization of 59 percent compared with the

approved figure. In this year, disposal of financial assets was Rls. 76,005.7 billion and acquisition of financial assets, Rls. 23,887.4 billion. Therefore, net disposal of financial assets posted a surplus of Rls. 52,118.3 billion, out of which the deficit in the operating and non-financial balance was financed.

Figure 10.3. Ratio of selected budget items to GDP

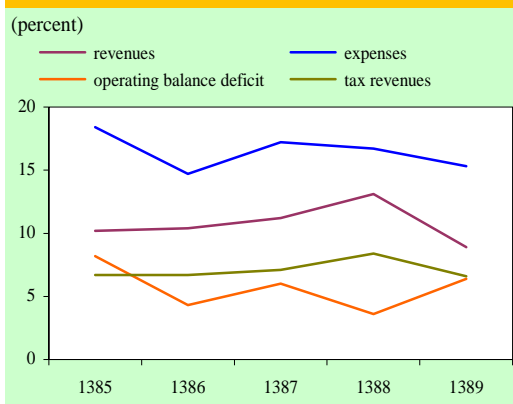
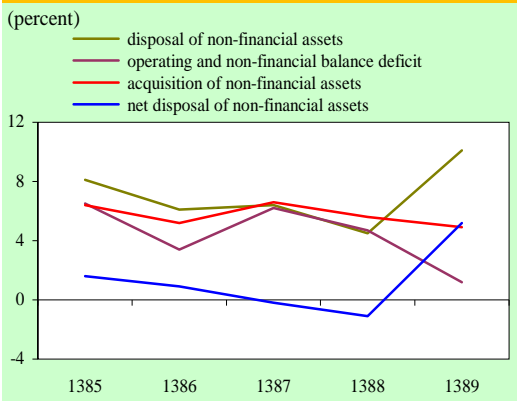


Table 10.2. Government Fiscal Position¹

				(billion rials)	
	1387	1388	1389	1388	1389
				Percentage change	
Revenues	379,338.4	466,546.1	384,288.0	23.0	-17.6
Taxes	239,741.4	300,035.5	284,527.9	25.1	-5.2
Other	139,597.0	166,510.6	99,760.1	19.3	-40.1
Expenses (current)	582,723.4	593,783.9	659,341.5	1.9	11.0
Operating balance	-203,385.1	-127,237.8	-275,053.5	-37.4	116.2
Disposal of non-financial assets	216,636.7	158,613.3	435,780.2	-26.8	174.7
Acquisition of non-financial assets (development expenditures)	223,018.7	198,173.1	212,845.0	-11.1	7.4
Net disposal of non-financial assets	-6,382.0	-39,559.8	222,935.2	▣	▣
Operating and non-financial balance	-209,767.0	-166,797.6	-52,118.3	-20.5	-68.8
Ratio to GDP					
	Percent			Percentage points	
Revenues	11.2	13.1	8.9	1.9	-4.2
Taxes	7.1	8.4	6.6	1.3	-1.8
Other	4.1	4.7	2.3	0.5	-2.4
Expenses (current)	17.2	16.7	15.3	-0.6	-1.4
Operating balance	-6.0	-3.6	-6.4	2.4	-2.8
Disposal of non-financial assets	6.4	4.5	10.1	-2.0	5.7
Acquisition of non-financial assets (development expenditures)	6.6	5.6	4.9	-1.0	-0.6
Net disposal of non-financial assets	-0.2	-1.1	5.2	-0.9	6.3
Operating and non-financial balance	-6.2	-4.7	-1.2	1.5	3.5

¹Excludes special revenues and expenditures.

Figure 10.4. Ratio of selected budget items to GDP

In line with the Twenty-Year Vision Plan, general policies of Article 44 of the Constitution, and the 4th Plan Law, State Tax Organization formulated the Tax System Reform Plan within the framework of three

national projects. The aim of these projects were defined as enhancement of transparency of the tax system; acceleration, precision and facilitation of tax administration; taxpayers' confidence building; strengthening of tax culture; modification and reengineering of the telecommunications networks; revision of technological and managerial programs as well as operational structures by making use of other countries' knowledge and expertise. Major measures adopted to meet the stated objectives included: design and pilot studies of the integrated tax system, creation of the Ministry of Economic Affairs and Finance stakeholders' database, information technology standards development, taxpayers' services definition and implementation, enhancement of communications and telecommunications networks, construction of data center building, data center implementation, organizational design, and refinement and alignment of human resources services.