CHAPTER 11

BALANCE OF PAYMENTS

The World Economy and the External Transactions of Iran

The world economy experienced the worst crisis since World War II in the aftermath of 2007-2008 financial meltdown. However, the world economic condition improved slightly during 1389. According to IMF reports, the world economic growth picked up from -0.6 percent in 2009 to 5.1 percent in 2010.

In 2010, advanced economies and developing countries of Asia experienced the lowest and highest growth rates by 3 percent and 9.5 percent, respectively. Thus, a balanced world economic growth seemed far-fetched.

Table 11.1. The Growth of World Economy and Selected Regions (percent)

	2009▲	2010▲	2011
World	-0.6	5.1	3.8
Advanced economies	-3.5	3.0	1.6
Emerging markets and developing economies	2.7	7.4	6.2
Developing countries in Asia	7.0	9.5	7.8
Middle East and North Africa (MENA)	2.6	5.0	3.3

Source: World Economic Outlook, IMF, October 2012

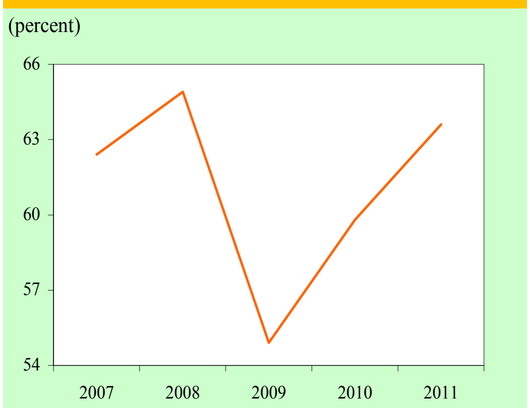
With fast recovery of world economy in 2010 compared to 2009, the world trade of goods and services flourished in this year. Based on IMF reports, world trade of goods and services increased by 12.6 percent, in terms of quantity, and international prices in terms of US dollar surged by 5.6 percent. Advanced economies enjoyed 12 percent rate of growth of exports, slightly higher than the 11.4 percent growth of their imports; resulting in a reduction in these countries' rates of current account deficit to GDP.

Table 11.2. World Trade Growth (percent)

	2009▲	2010▲	2011
Goods and services			
Quantity	-10.4	12.6	5.8
Price (in US$)	-10.8	5.6	11.2
Goods			
Quantity	-11.5	14.1	6.3
Price (in US$)	-12.0	6.6	12.6

Source: World Economic Outlook, IMF, October 2012

Figure 11.1. Ratio of world trade to world GDP (sum of exports & imports of goods & services)



Balance of Payments Developments

In 1389, favorable global economic conditions as well as the relative rise in crude oil prices improved Iran's balance of external payments. In this year, current account surplus tripled and the volume of traded goods rose 20 percent as compared with the previous year. Moreover, for the first time, the value of oil exports surpassed $90 billion.

Current Account

Current account surplus, which fell sharply in the preceding year, went up by 190.8 percent to reach $27,554 million in 1389. This rise was largely due to surge in the value of oil exports. Of note, with the exception of services account, other current account balance components witnessed a surplus.

In the review year, current account surplus to GDP ratio increased by 4 percentage points to 6.6 percent, compared with last year. In 2010, this ratio was lower than the economic growth rate of "Middle East and North Africa (the MENA region)" by 1.1 percentage points.

Figure 11.2. Current account balance components

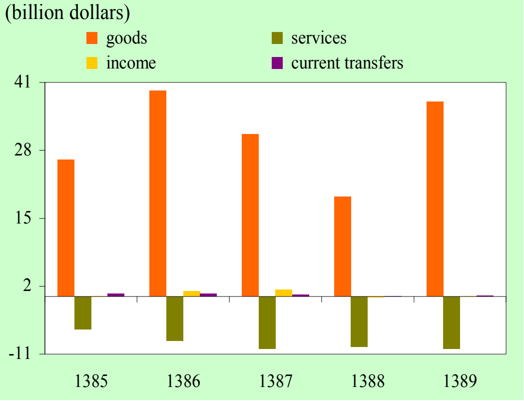


Figure 11.3. Ratio of current account balance to GDP

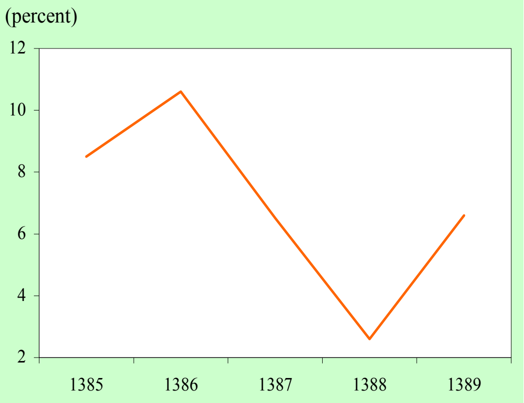
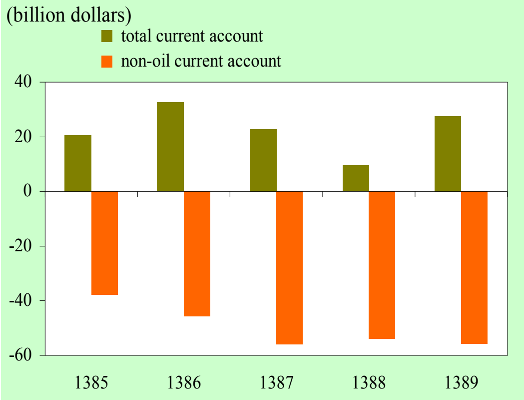


Table 11.3. Current Account Balance (million dollars)

				Percentage change	
	1387	1388	1389	1388	1389
Current account balance	**22,837**	**9,477**	**27,554**	**-58.5**	**190.8**
Goods	31,114	19,079	37,330	-38.7	95.7
Services	-9,974	-9,582	-10,040	-3.9	4.8
Income	1,335	-122	79	θ	θ
Current transfers	362	101	185	-72.1	83.0
Current account balance (non-oil) [1]	**-55,967**	**-53,883**	**-55,849**	**-3.7**	**3.6**

[1] Excludes value of exports of crude oil, oil products, natural gas, condensates and natural gas liquids (tariff codes: 2709, 2710, and 2711) by NIOC, NIGC, NIORDC, petrochemical companies and others (customs and non-customs).

Figure 11.4. Total and non-oil current account balance



In this year, despite the rise in non-oil exports and services exports value, increase in the deficit of non-oil trade balance and services account raised non-oil current account deficit by almost 3.6 percent. In 1389, non-oil foreign exchange earnings constituted 35.3 percent foreign exchange requirements of this account, up by nearly 3 percentage points compared with 1388[1].

Goods Account (trade balance)

In 1389, share of goods in Iran's international trade[2] was 87.2 percent, up by 1.2 percentage points compared with the preceding year. Moreover, Iran's share in world trade of goods remained relatively unchanged at 0.62 percent.

In the review year, price rise of oil and oil products highly raised goods account (trade balance) surplus by almost 96 percent to $37.3 billion, compared with the previous year. Therefore, goods account (trade balance) surplus to GDP ratio at current prices went up by 3.6 percentage points from 5.3 percent in 1388 to 8.9 percent in 1389. Moreover, goods export-import ratio rose by 21.9 percentage points to 149.5 percent compared with last year.

Review of non-oil trade balance in 1389 compared with the preceding year indicates that non-oil exports and imports rose by respectively $4 billion and $6 billion; therefore, non-oil trade balance deficit increased by 4 percent.

Figure 11.5. Ratio of external trade balance to GDP

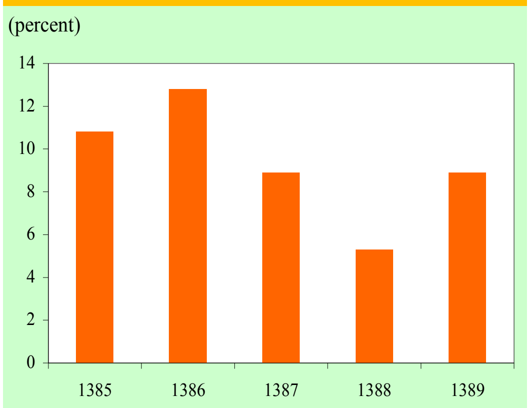
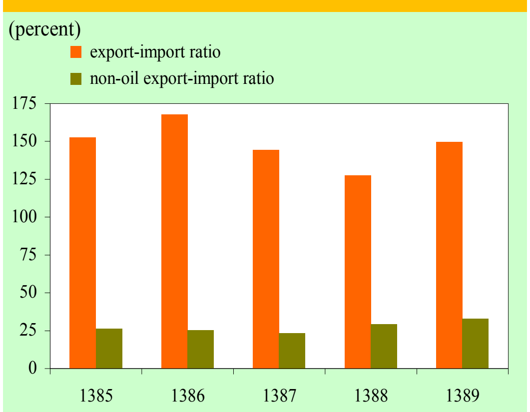


Figure 11.6. Export-import ratio



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[1] This ratio is calculated by dividing the sum of "non-oil exports, services exports, and credit entry of income and current transfers accounts" to the sum of "goods imports, services imports, and debit entry of income and current transfers accounts".

[2] This ratio is calculated by dividing the sum of "exports and imports of goods" to the sum of "exports and imports of goods and services".

Table 11.4. Goods Account (million dollars)

	1387	1388	1389	Percentage change 1388	Percentage change 1389
Goods account (trade balance)	**31,114**	**19,079**	**37,330**	**-38.7**	**95.7**
Exports	101,289	88,326	112,788	-12.8	27.7
Imports	70,175	69,247	75,458	-1.3	9.0
Non-oil goods account (trade balance)	**-47,690**	**-44,280**	**-46,073**	**-7.2**	**4.0**
Non-oil exports	14,670	18,369	22,596	25.2	23.0
Non-oil imports	62,360	62,649	68,670	0.5	9.6

Exports

In 1389, oil exports[1] and non-oil exports went up by 28.9 and 23 percent to $90 billion and $22.6 billion, respectively, compared with the year before.

In the review year, share of oil exports in total exports advanced by 0.8 percentage point to 80 percent, compared with 1388. Furthermore, exports to GDP ratio increased by 2.4 percentage points to 26.9 percent.

Table 11.6. Export Sector Indicators (percent)

	1387	1388	1389
Ratio of exports to GDP	28.9	24.5	26.9
Ratio of non-oil exports to total exports	14.5	20.8	20.0
Exports growth	3.7	-12.8	27.7
Oil exports growth	2.5	-19.2	28.9
Non-oil exports growth	11.5	25.2	23.0

Table 11.5. Exports (million dollars)

	1387	1388	1389	Percentage change 1388	Percentage change 1389
Exports of goods	**101,289**	**88,326**	**112,788**	**-12.8**	**27.7**
Oil exports	**86,619**	**69,957**	**90,191**	**-19.2**	**28.9**
Recorded in Customs data [1]	3,140	3,056	3,394	-2.7	11.1
Non-oil exports	**14,670**	**18,369**	**22,596**	**25.2**	**23.0**

[1] Includes value of exports of condensates and natural gas liquids, and oil products (tariff codes: 2710 and 2711) by petrochemical companies and others mentioned in Customs data.

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[1] Includes value of exports of crude oil, oil products, natural gas, condensates and natural gas liquids (tariff codes: 2709, 2710 and 2711) by NIOC, NIGC, NIORDC, petrochemical companies and others (customs and non-customs).

Imports

In 1389, imports (fob) reached $75,458 million, up by 9 percent compared with the respective figure for the previous year. The ratio of imports to GDP went down by 1.2 percentage points to 18 percent, however. The share of imports through Customs in total imports went up by almost 5.6 percentage points to 85.4 percent, compared with the preceding year. The ratio of oil imports to oil exports was 7.5 percent, and oil imports accounted for 9 percent of total imports.

Table 11.7. Import Sector Indicators (percent)

	1387	1388	1389
Imports to GDP	20.0	19.2	18.0
Share of imports through Customs in total imports	79.9	79.8	85.4
Share of imports of natural gas and oil products in total imports	11.1	9.5	9.0
Annual growth of imports	20.5	-1.3	9.0
Oil import-export ratio	9.0	9.4	7.5

Services Account

In the review year, services account deficit rose by 4.8 percent to $10,040 million, compared with the previous year. Services imports and exports reached $18,893 million and $8,853 million, up by 7 and 9.6 percent, respectively, compared with the corresponding figures for 1388.

Table 11.9. Services Sector Indicators (percent)

	1387	1388	1389
Services account deficit to GDP	-2.8	-2.7	-2.4
Share of services in Iran's international trade	13.0	14.0	12.8
Annual growth of services account deficit	18.3	-3.9	4.8
Annual growth of services exports	12.2	3.9	9.6
Annual growth of services imports	15.6	-0.5	7.0

Regarding the surge in exports and imports (fob), and the resulting increase in the share of goods in international trade, share of services in Iran's international trade[1] fell by almost 1.2 percentage points to 12.8 percent.

Table 11.10. Composition of Services Exports (percent)

	1387	1388	1389
Transportation	49.5	43.4	43.7
Travel	22.3	25.4	27.5
Construction (technical and engineering) services	19.2	20.6	18.1
Other services	9.0	10.5	10.7
Total	**100.0**	**100.0**	**100.0**

In 1389, "transportation" by 43.7 percent, "travel" by 27.5 percent, and "construction (technical and engineering) services" by 18.1 percent constituted the highest share in services sector exports by 89.3 percent. This shows about 0.2 percentage point reduction compared with the previous year.

Table 11.8. Imports (million dollars)

	1387	1388	1389	Percentage change 1388	Percentage change 1389
Total	**70,175**	**69,247**	**75,458**	**-1.3**	**9.0**
Gas and oil products[1]	7,815	6,598	6,788	-15.6	2.9
Other goods	62,360	62,649	68,670	0.5	9.6

[1] Includes value of imports of natural gas, condensates and natural gas liquids, and oil products (tariff codes: 2710 and 2711) by NIOC, NIGC, NIORDC, petrochemical companies and others (customs and non-customs).

[1] Ratio of sum of exports and imports of services to sum of exports and imports of goods and services

Moreover, "travel" by 51.1 percent, "transportation" by 19.5 percent, and "construction (technical and engineering) services" by 10.3 percent accounted for the lion's share in services imports. In the review year, restrictions imposed on oil and gas industry reduced imports of construction (technical and engineering) services by 37 percent. This decline in imports of technical services amounted to a sharp decline by 7.2 percentage points in the share of technical services imports.

Table 11.11. Composition of Services Imports (percent)

	1387	1388	1389
Transportation	23.7	20.9	19.5
Travel	42.6	44.2	51.1
Construction (technical and engineering) services	17.2	17.5	10.3
Other services	16.4	17.4	19.1
Total	**100.0**	**100.0**	**100.0**

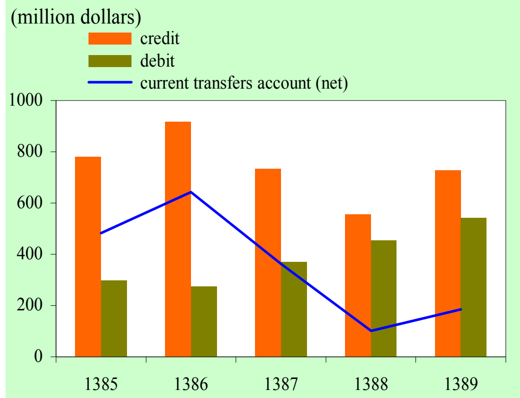
Income Account

Income account balance, which ran a deficit last year, posted $79 million surplus in 1389. This was largely due to 9 percent increase in the credit entry of income account, and 2.1 percent decrease in the debit entry of this account. In the review year, investment income went up by 7.5 percent to $1,636 million, and investment expenditure went down by 12.7 percent to $1,237 million.

Current Transfers Account

In 1389, the surplus of current transfers account, mainly workers' remittances and transfers of government, rose by nearly 83 percent to $185 million.

Figure 11.7. Current transfers account



Capital and Financial Account

In the review year, rise in the trade credits for exports (delay in foreign exchange receipts from exports) and increase in the net amount of foreign exchange deposits of the banking system as well as large repayments of external debt sharply raised capital and financial account deficit.

Table 11.12. Income Account (million dollars)

	1387	1388	1389	Percentage change 1388	Percentage change 1389
Income account	**1,335**	**-122**	**79**	**θ**	**θ**
Credit	**3,270**	**1,791**	**1,952**	**-45.2**	**9.0**
Compensation of employees, including border, seasonal workers	558	270	316	-51.6	17.2
Investment income	2,712	1,521	1,636	-43.9	7.5
Debit	**1,935**	**1,912**	**1,873**	**-1.2**	**-2.1**
Compensation of employees, including border, seasonal workers	324	496	635	53.2	28.2
Investment expenditure	1,611	1,417	1,237	-12.1	-12.7

Table 11.13. Capital and Financial Account (million dollars)

	1387	1388	1389	Percentage change 1388	Percentage change 1389
Capital and financial account	**-19,135**	**-6,460**	**-24,296**	**-66.2**	**276.1**
Capital account	-383	-744	-986	94.4	32.5
Financial account	-18,753	-5,716	-23,310	-69.5	307.8

Capital Account

In 1389, Iran's capital account posted $986 million deficit, up by 32.5 percent compared with the year before.

Financial Account

In the review year, financial account deficit went up by over 300 percent to $23.3 billion, compared with $5.7 billion deficit in 1388.

In the review year, foreign direct investment, portfolio investment, and other investments posted a deficit. It is of special note that 68 percent growth of trade credits for exports was the main factor affecting financial account balance.

Foreign Direct Investment (FDI)

In 1389, the amount of capital outflows (net foreign direct investment) reached $269 million.

FDI Inflows

According to the data released by the Organization for Investment, Economic and Technical Assistance of Iran (OIETAI), foreign direct investment, in the form of buy-back contracts of oil and gas sector and inflows under Foreign Investment Promotion and Protection Act, totaled $3.8 billion, up by about 39 percent compared with 1388. Approximately, four-fifths of total capital inflows in 1389 were in the form of buy-back contracts in the oil and gas sector.

Table 11.14. Financial Account (million dollars)

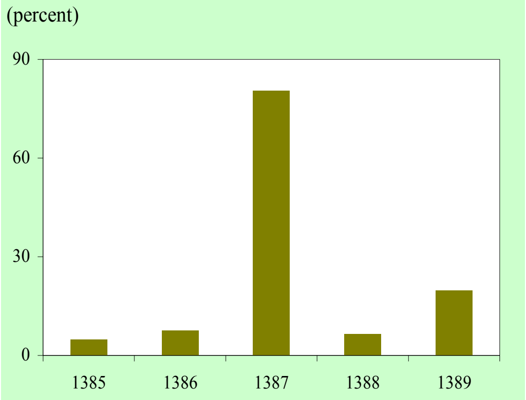
	1387	1388	1389	Percentage change 1388	Percentage change 1389
Financial account	**-18,753**	**-5,716**	**-23,310**	**-69.5**	**307.8**
Foreign direct investment (net)	-193	944	-269	θ	θ
Portfolio investment (net)	-981	-199	-1,257	-79.7	▣
Other investments (net)	-9,351	-13,729	-22,731	46.8	65.6
Reserve assets	-8,229	7,268	947	θ	-87.0

Table 11.15. Foreign Investment Inflows in the form of Foreign Direct Investment (million dollars)

	1387▲	1388▲	1389	Percentage change 1388	Percentage change 1389
Foreign direct investment	**1,791**	**2,718**	**3,774**	**51.7**	**38.9**
Under Foreign Investment Promotion and Protection Act	558	614	790	10.1	28.5
Buy-back oil and gas contracts	1,123	1,878	2,977	67.2	58.6
Others	110	226	7	105.1	-96.9

Source: Organization for Investment, Economic and Technical Assistance of Iran (OIETAI)

Figure 11.8. Ratio of capital inflows to approved investments



Portfolio Investment

The portfolio investment account ran $1,257 million deficit in 1389. The same amount has been added to Iran's foreign assets, in the form of foreign exchange securities and purchase of foreign bonds by banks.

Other Investments

Loans, credit facilities, and foreign exchange deposits are major components of other investments account. This account posted $22.7 billion deficit, mostly due to increase in trade credits for exports (delay in foreign exchange receipts from exports) and rise in foreign exchange deposits of the banking system as well as large repayments of external debt.

External Debt

Total foreign exchange obligations (actual and contingent obligations) went up by 4.7 percent to $46,496 million at end-1389 as compared with the respective figure for the previous year. Share of contingent obligations in total obligations went down by 0.6 percentage point from 51.5 percent in 1388 to 50.9 percent in the review year.

At end-1389, actual obligations (external debt) increased by 6.0 percent to $22.8 billion compared with 1388 year-end. The downward trend of long-term debt as well as the uptrend in short-term debt continued in 1389 as well. Thus, share of long-term debt in total external debt decreased by 10.1 percentage points to 49.1 percent.

Figure 11.9. Ratio of new letters of credit issued to imports through Customs

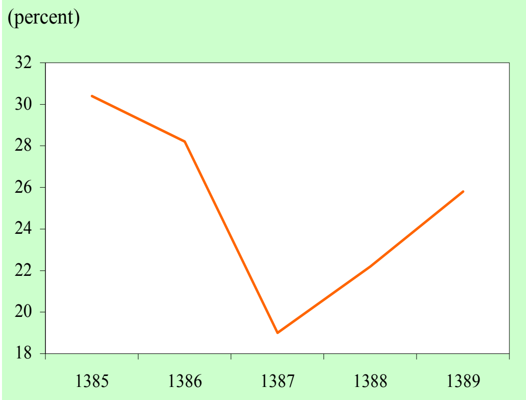


Table 11.16. Foreign Exchange Obligations (million dollars)

	1387	1388	1389	Percentage change 1388	Percentage change 1389
Actual obligations (external debt)	**21,502**	**21,526**	**22,814**	**0.1**	**6.0**
Medium- and long-term	14,903	12,739	11,201	-14.5	-12.1
Short-term	6,599	8,787	11,613	33.2	32.2
Contingent obligations	**27,537**	**22,900**	**23,682**	**-16.8**	**3.4**
Total	**49,039**	**44,426**	**46,496**	**-9.4**	**4.7**

Table 11.17. External Debt Profile (at end-1389) (million dollars)

Maturity	1390	1391	1392	1393	1394 onwards	**Total**
Amount	14,178	2,149	1,718	1,353	3,416	**22,814**
Percent	62.1	9.4	7.5	5.9	15.0	**100.0**

In 1389, all indicators of external debt sustainability, with the exception of the "share of short-term debt in total external debt", enjoyed a favorable position. This was due to the rise in export revenues and the fall in foreign financing.

Table 11.18. Indicators of External Debt Sustainability (million dollars)

	1387	1388	1389
External debt to GDP	6.1	6.0	5.4
Debt service ratio [1]	19.4	17.4	16.5
Share of short-term debt in total external debt (based on original maturity)	30.7	40.8	50.9
External debt to exports of goods and services	19.7	22.3	18.8

[1] Includes repayment of buy-back contracts of oil and gas sector.