CHAPTER 11

BALANCE OF PAYMENTS

World Economy and External Transactions of Iran

World economic fluctuations continued in 2011. In this year, world economic growth reached 4.1 percent, indicating 1.3 percentage points decline compared with 2010[1].

In 2011, developing economies enjoyed a high growth rate while advanced economies experienced a slow growing trend. Comparing economic growth of selected regions in 2011 with that of 2010 indicates that the growth rates of these economies in 2011 were positive, but lower than those of 2010.

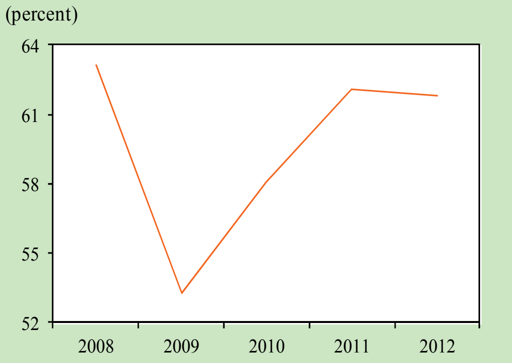
Table 11.1. Growth of World Economy and Selected Regions (percent)

	2010	2011	2012
World	5.4	4.1	3.4
Advanced economies	3.1	1.7	1.2
Emerging markets and developing economies	7.5	6.2	5.1
Developing countries in Asia	9.5	7.7	6.7
Middle East, North Africa, Afghanistan, and Pakistan	5.3	4.4	4.8

Source: World Economic Outlook, IMF, October 2014

[1] World Economic Outlook, IMF, October 2014

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



Based on IMF report, in 2011, world trade of goods and services increased by 6.7 percent, in terms of quantity, and their international price surged by 11.1 percent, in terms of US dollar. The current account of advanced economies, which was in equilibrium in 2010, again posted a deficit in 2011, which was roughly 0.2 percent of their GDP.

Table 11.2. World Trade Growth (percent)

	2010	2011	2012
Goods and services			
Quantity	12.6	6.7	2.9
Price (in US$)	5.7	11.1	-1.7
Goods			
Quantity	14.0	6.8	2.7
Price (in US$)	6.7	12.6	-1.8

Source: World Economic Outlook, IMF, October 2014

Balance of Payments Developments

Remarkable growth of the export revenue, which was mainly attributable to the rise in the value of oil exports, in tandem with the lower growth of imports compared with 1389, led to the noticeable increase of the surplus of both goods account and current account in 1390. Total FOB value of exports, surpassing $145 billion, set a high record in foreign trade.

Current Account

Current account posted a surplus of $59.8 billion in 1390, indicating 117.0 percent rise compared with the respective figure of the year before. This rise was largely due to surge in the export revenue and the surplus of goods account. Moreover, deficit of the services account decreased while the surplus of income and current transfers accounts increased compared with 1389.

Higher increase in non-oil exports compared to non-oil imports as well as the lower reduction in the exports of services compared with the imports of services reduced the non-oil current account deficit by 4.5 percent to $53.3 billion in 1390. Non-oil foreign exchange earnings constituted 39.0 percent[1] of foreign exchange requirements of this account, up by 3.7 percentage points compared with 1389.

Figure 11.2. Current account balance components

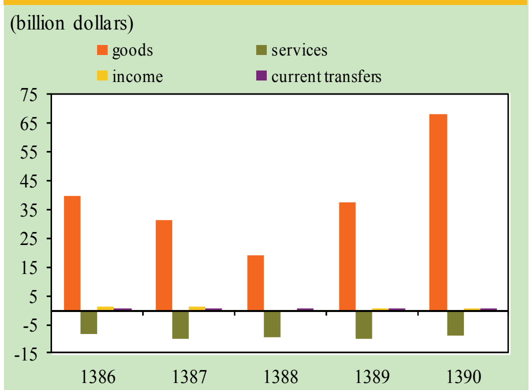


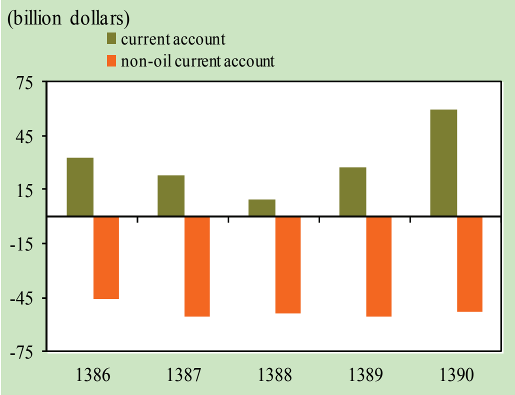
Table 11.3. Current Account Balance (million dollars)

	1388	1389	1390	Percentage change 1389	Percentage change 1390
Current account balance	**9,477**	**27,554**	**59,787**	**190.8**	**117.0**
Goods	19,079	37,330	67,789	95.7	81.6
Services	-9,582	-10,040	-8,731	4.8	-13.0
Income	-122	79	368	θ	365.8
Current transfers	101	185	361	83.0	95.1
Current account balance (non-oil) [1]	**-53,883**	**-55,849**	**-53,348**	**3.6**	**-4.5**

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

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

Figure 11.3. Total and non-oil current account balance



Goods Account (trade balance)

In 1390, share of goods in Iran's international trade was 89.9 percent, up by 2.7 percentage points compared with the preceding year. Moreover, Iran's share in world trade of goods remained relatively unchanged at 0.6 percent.

Goods account registered a surplus of $67,789 million, up by 81.6 percent when compared with $37,330 million of the year before. In this year, both oil and non-oil goods accounts improved compared with 1389. Growth of non-oil exports reduced the non-oil trade balance deficit by $727 million. Non-oil trade balance deficit decreased by 1.6 percent compared with 1389 and reached $45,347 million.

Figure 11.4. Ratio of external trade balance to GDP

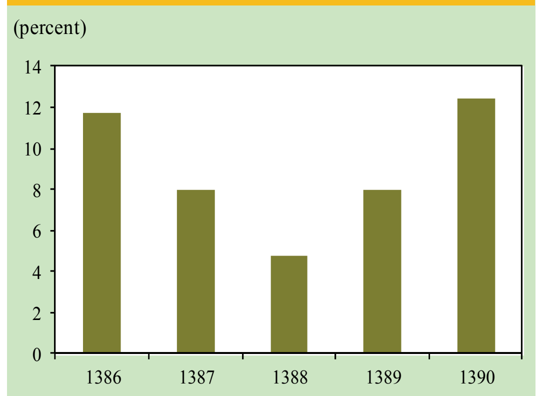


Figure 11.5. Export-import ratio

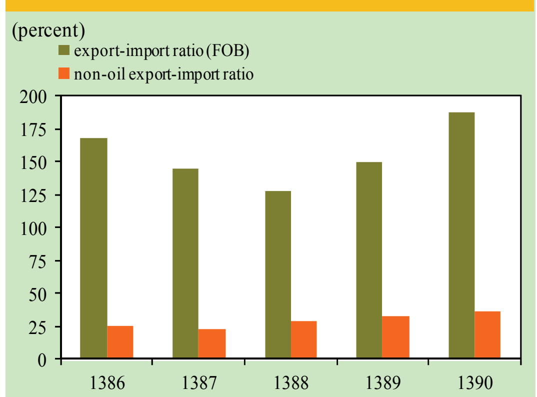


Table 11.4. Goods Account (million dollars)

				Percentage change	
	1388	1389	1390	1389	1390
Goods account (trade balance)	**19,079**	**37,330**	**67,789**	**95.7**	**81.6**
Exports (FOB)	88,326	112,788	145,518	27.7	29.0
Imports (FOB)	69,247	75,458	77,729	9.0	3.0
Non-oil goods account (trade balance)	**-44,280**	**-46,073**	**-45,347**	**4.0**	**-1.6**
Non-oil exports	18,369	22,596	26,656	23.0	18.0
Non-oil imports	62,649	68,670	72,003	9.6	4.9

FOB value of exports increased from $112.8 billion in 1389 to $145.5 billion in this year. Out of total increase in the FOB value of exports by $32.7 billion, share of oil exports was 87.6 and that of non-oil exports, 12.4 percent. Oil exports rose 31.8 percent to $118,861 million and non-oil exports experienced 18.0 percent increase and reached $26,656 million. Share of non-oil exports in total exports was 18.3 percent in 1390, indicating 1.7 percentage points decrease compared with the year before.

In 1390, the FOB value of imports reached $77,729 million, showing 3.0 percent increase compared with the respective figure for the previous year. Imports through Customs constituted 79.5 percent ($61,808 million) of total FOB value of imports.

The value of imports of gas and oil products decreased by 15.6 percent to $5,726 million while the value of imports of other goods rose 4.9 percent to $72,003 million in 1390. The ratio of oil imports to oil exports declined by 2.7 percentage points to reach 4.8 percent.

Following the remarkable rise in the value of exports in 1390, the ratios of current account, goods account, and exports of goods to GDP increased to respectively 10.9, 12.4, and 26.6 percent. The ratio of imports of goods to GDP, however, continued its downward trend and reached 14.2 percent, showing 2.1 percentage points decrease compared with 1389.

Table 11.7. Ratio of Current Account, Goods Account, Exports, and Imports of Goods to GDP[1] (percent)

	1388	1389	1390
Current account to GDP	2.4	5.9	10.9
Goods account to GDP	4.8	8.0	12.4
Exports of goods to GDP	22.3	24.3	26.6
Imports of goods to GDP	17.5	16.3	14.2

[1] At market price, current prices

Table 11.5. Exports (million dollars)

	1388	1389	1390	Percentage change 1389	Percentage change 1390	Share (percent) 1389	Share (percent) 1390
Exports of goods (FOB)	**88,326**	**112,788**	**145,518**	**27.7**	**29.0**	**100.0**	**100.0**
Oil exports[1]	**69,957**	**90,191**	**118,861**	**28.9**	**31.8**	**80.0**	**81.7**
Recorded in Customs data[2]	3,056	3,394	6,801	11.1	100.4	3.0	4.7
Non-oil exports	**18,369**	**22,596**	**26,656**	**23.0**	**18.0**	**20.0**	**18.3**

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

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

Table 11.6. Imports (million dollars)

	1388	1389	1390	Percentage change 1389	Percentage change 1390
Total imports (FOB)	**69,247**	**75,458**	**77,729**	**9.0**	**3.0**
Gas and oil products[1]	6,598	6,788	5,726	2.9	-15.6
Other goods (non-oil)	62,649	68,670	72,003	9.6	4.9

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

Services Account

Services account deficit fell by 13.0 percent, from $10,040 million in 1389 to $8,731 million in 1390. This was mainly attributable to 10.3 percent decrease in services imports. In this year, the value of services exports in most entries decreased. Therefore, total services exports reached $8,221 million, down by 7.1 percent. Share of services in Iran's foreign trade declined by 2.7 percentage points to 10.1 percent.

In 1390, "transportation", "travel", and "construction services" together accounted for 85.5 percent of services exports. In this year, "travel", "transportation", and "government services", with respectively 57.7, 19.9, and 4.4 percent, had the highest shares in services account's payments. Owing to the continuation of international sanctions on Iran's oil and gas industries, imports of construction services (technical and engineering services) fell noticeably when compared with other components of the services account. Furthermore, the ratio of the deficit of services account to GDP (at market price and current prices) decreased from 2.2 percent in 1389 to 1.6 percent in 1390.

Income Account

Considering the higher growth in the income received from Iranians' assets abroad compared to payments on assets of foreign investors in Iran, income account posted a surplus in 1390. Income received from Iranians' investment abroad reached $1,777 million which, compared with payments on foreign investment in Iran at $1,251 million, led to a net capital inflow of $526 million.

Table 11.8. Services Account (million dollars)

				Percentage change		Share (percent)	
	1388	1389	1390	1389	1390	1389	1390
Services account	**-9,582**	**-10,040**	**-8,731**	**4.8**	**-13.0**	**–**	**–**
Exports	**8,074**	**8,853**	**8,221**	**9.6**	**-7.1**	**100.0**	**100.0**
Transportation	3,505	3,867	3,196	10.3	-17.4	43.7	38.9
Travel	2,055	2,438	2,350	18.6	-3.6	27.5	28.6
Construction services	1,662	1,600	1,482	-3.7	-7.4	18.1	18.0
Other services	852	948	1,192	11.3	25.8	10.7	14.5
Imports	**17,656**	**18,893**	**16,952**	**7.0**	**-10.3**	**100.0**	**100.0**
Transportation	3,699	3,689	3,365	-0.3	-8.8	19.5	19.9
Travel	7,805	9,655	9,778	23.7	1.3	51.1	57.7
Government services	719	740	742	2.9	0.3	3.9	4.4
Other services	5,434	4,808	3,066	-11.5	-36.2	25.5	18.1

Table 11.9. Income Account (million dollars)

				Percentage change	
	1388	1389	1390	1389	1390
Income account	**-122**	**79**	**368**	**θ**	**365.8**
Credit	**1,791**	**1,952**	**2,138**	**9.0**	**9.5**
Compensation of employees, including border, seasonal workers	270	316	360	17.2	14.0
Investment income	1,521	1,636	1,777	7.5	8.7
Debit	**1,912**	**1,873**	**1,769**	**-2.1**	**-5.5**
Compensation of employees, including border, seasonal workers	496	635	519	28.2	-18.4
Investment expenditure	1,417	1,237	1,251	-12.7	1.1

Receipts from compensation of employees (including border, seasonal workers) increased by 14.0 percent and reached $360 million while payments amounted to $519 million, down by 18.4 percent compared with 1389. Therefore, income account surplus increased approximately 3.7 times and reached $368 million.

Current Transfers Account

In 1390, the surplus of current transfers account rose 95.1 percent to $361 million. This was mainly attributable to the reduction in the remittances of foreign workers in Iran, and the decrease in government transfers.

Capital and Financial Account

Net outflows in the capital and financial account increased by 59.1 percent in 1390. This was mainly due to the rise in CBI foreign assets by $21.4 billion, which was in turn attributable to the remarkable oil export receipts.

Capital Account

Capital account registered net outflows of $1,511 million in 1390, up by almost 53 percent compared with the last year figure of $986 million.

Financial Account

Net outflows in the financial account rose by 59.3 percent from $23.3 billion in 1389 to $37.1 billion in 1390. Net outflows in the "portfolio investment" and "other investments" accounts showed a reduction in this year. "Reserve assets", on the other hand, increased remarkably, leading to the mentioned increase in net outflows of the financial account by $14 billion.

Figure 11.6. Current transfers account

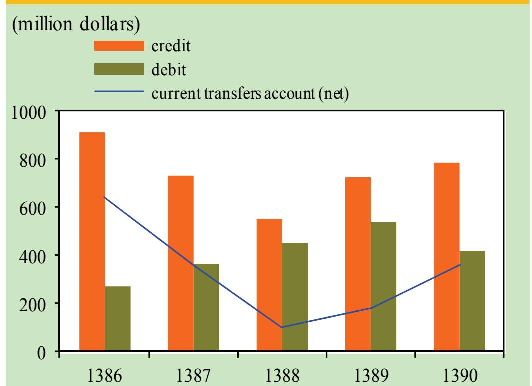


Table 11.10. Capital and Financial Account (million dollars)

	1388	1389	1390	Percentage change 1389	Percentage change 1390
Capital and financial account	**-6,460**	**-24,296**	**-38,650**	**276.1**	**59.1**
Capital account	-744	-986	-1,511	32.5	53.3
Financial account	-5,716	-23,310	-37,139	307.8	59.3

Table 11.11. Financial Account (million dollars)

	1388	1389	1390	Percentage change 1389	Percentage change 1390
Financial account	**-5,716**	**-23,310**	**-37,139**	**307.8**	**59.3**
Foreign direct investment (net)	944	-269	-509	θ	89.1
Portfolio investment (net)	-199	-1,257	-478	▣	-61.9
Other investments (net)	-13,729	-22,731	-14,716	65.6	-35.3
Reserve assets	7,268	947	-21,436	-87.0	θ

Foreign Direct Investment (FDI)

In 1390, net transactions under financial account (sum of Iran's net investment abroad and net foreign direct investment in Iran) led to capital outflows by $509 million.

FDI Inflows

According to data released by the Organization for Investment, Economic and Technical Assistance of Iran (OIETAI), FDI inflows totaled $4.3 billion in 1390. Approximately $1.2 billion of the mentioned amount was under the Foreign Investment Promotion and Protection Act, $2.8 billion in the form of buy-back oil and gas contracts, and $313 million in the form of construction, operation, partnership contracts, and foreign investment in the stock exchange.

Portfolio Investment

Transactions of portfolio investment (net) point to capital outflows by $478 million in 1390, indicating 61.9 percent fall compared with the year before.

Other Investments

Net outflows in the "other investments" account decreased by 35.3 percent from $22,731 million in 1389 to $14,716 million in this year. This was mainly attributable to the fall in banks' foreign currency cash and deposits as well as trade credits.

External Debt

Total foreign exchange obligations (actual and contingent obligations) amounted to $38,015 million at end-1390. Share of contingent obligations in total obligations was 54.4 percent ($20,675 million) and that of actual obligations was 45.6 percent ($17,340 million).

Of total value of external debt at $17.3 billion by end-1390, a sum of $8,865 million was in the form of medium- and long-term debt and $8,475 million was in the form of short-term debt, indicating 20.9 and 27.0 percent reduction, respectively.

Table 11.12. Foreign Investment Inflows in the form of Foreign Direct Investment (million dollars)

				Percentage change	
	1388	1389	1390	1389	1390
Foreign direct investment	**2,718**	**3,774**	**4,322**	**38.9**	**14.5**
Under Foreign Investment Promotion and Protection Act	614	790	1,175	28.5	48.8
Buy-back oil and gas contracts	1,878	2,977	2,834	58.6	-4.8
Others	226	7	313	-96.9	▣

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

Table 11.13. Foreign Exchange Obligations (million dollars)

				Percentage change	
	1388	1389	1390	1389	1390
Actual obligations (external debt)	**21,526**	**22,814**	**17,340**	**6.0**	**-24.0**
Medium- and long-term	12,739	11,201	8,865	-12.1	-20.9
Short-term	8,787	11,613	8,475	32.2	-27.0
Contingent obligations	**22,900**	**23,682**	**20,675**	**3.4**	**-12.7**
Total	**44,426**	**46,496**	**38,015**	**4.7**	**-18.2**

Source: Foreign Exchange Statistics and Liabilities Department, CBI, Khordad 1391

In 1390, share of medium- and long-term debt in total external debt was 51.1 percent, showing 2.0 percentage points increase compared with the respective figure in 1389 (49.1 percent). Considering the downward trend in the outstanding external debt as well as the rise in the production and exports of goods, indicators of external debt sustainability in 1390 were all lower than the corresponding figures of the year before.

Reserve Assets (CBI foreign assets)

Gross value of CBI foreign assets, which had experienced reduction in 1388 and 1389, registered $21,436 million growth in 1390. This was mainly attributable to the increase in export revenue. Reserve assets include foreign currencies, gold, assets held with the IMF, and Special Drawing Right (SDR).

Table 11.14. External Debt Profile (at end-1390) (million dollars)

Maturity	1391	1392	1393	1394	1395 onwards	**Total**
Amount	10,603	1,760	1,360	991	2,626	**17,340**
Percent	61.1	10.1	7.8	5.7	15.1	**100.0**

Source: Foreign Exchange Statistics and Liabilities Department, CBI, Khordad 1391

Table 11.15. Indicators of External Debt Sustainability (percent)

	1388	1389	1390
External debt to GDP [1]	5.4	4.9	3.2
Debt service ratio [2]	17.4	16.5	15.4
Short-term debt to total external debt ratio (based on original maturity)	40.8	50.9	48.9
External debt to exports of goods and services	22.3	18.8	11.3

[1] GDP is at market price and current prices.

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