

World Economy and External Transactions of Iran

In 1391 (2012/13), world economy experienced unfavorable conditions and the growth figures were not as optimistic as expected. Based on IMF WEO report¹, in 2012, world trade of "goods and services" increased by nearly 2.9 percent and world trade of "goods" rose by about 2.7 percent, in terms of quantity, lower than the corresponding figures of the year before. Negative growth in the prices of "goods and services" and "goods" (-1.7 and -1.8 percent, respectively) indicates a slowdown in trade transactions among different countries.

In 2012, due to the slowdown in trade transactions, the increasing trend in crude oil prices stopped and the average price of "non-oil raw materials" and "metals" decreased by about 10.0 and 16.8 percent, respectively. Moreover, in light of the fall in the weight of traded goods, the ratio of current account balance to GDP for countries facing both surplus and deficit in their current accounts was lower than the year before. Emerging market economies in Asia were the only group which experienced 1.0 percent growth in current account balance to GDP ratio. Based on IMF Report of October 2014, the share of the country's foreign trade in world GDP was almost 61.8 percent, in 2012, down by about 0.3 percentage point compared with 2011.

¹ World Economic Outlook, IMF, October 2014

Table 11.1. World Trade Growth (percent)

	2011	2012	2013
Goods and services			
Quantity	6.7	2.9	3.0
Price (in US\$)	11.1	-1.7	-0.3
Goods			
Quantity	6.8	2.7	2.7
Price (in US\$)	12.6	-1.8	-0.7

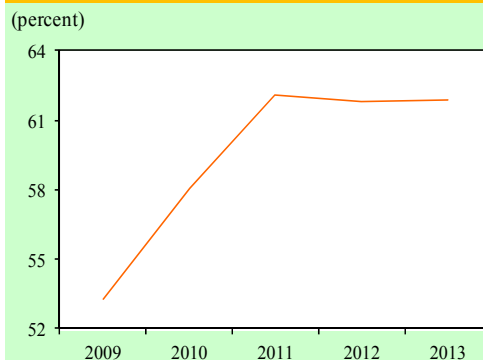
Source: World Economic Outlook, IMF, October 2014

Table 11.2. Ratio of Current Account to GDP (percent)

	2011	2012	2013
Advanced economies	-0.2	-0.1	0.4
Emerging market economies in Europe	-6.4	-4.6	-3.9
Commonwealth of Independent States	4.3	2.5	0.6
Emerging market economies in Asia	0.9	1.0	1.0
Middle East, North Africa, Afghanistan, and Pakistan	13.2	12.7	10.0

Source: World Economic Outlook, IMF, October 2014

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



Balance of Payments Developments

Noticeable decline in the oil export revenue, which was mainly related to sanctions imposed on oil transactions and the fall in the weight of oil and oil products exports, had the biggest impact on Iran's balance of payments in 1391. The value of oil exports decreased by 42.9 percent compared to 1390, which was an unprecedented decline since the year 1365. The restrictions on financial and banking transactions of the country were exacerbated during 1391, leading to notable decline in outstanding short-term external debt.

A. Current Account

Current account posted a surplus of \$23.4 billion in 1391, indicating 60.0 percent fall compared with the respective figure of the year before. This decline was largely due to decrease in the surplus of goods account. Moreover, deficit of the non-oil current account decreased by 23.5 percent to roughly \$42.0 billion. Continued upward trend in non-oil exports, fall in the imports of goods,

and decline in the deficit of services account were the major factors behind the decrease in the non-oil current account deficit. Non-oil foreign exchange earnings increased by 9.6 percent and constituted 48.3 percent of foreign exchange requirements of this account, up by 9.7 percentage points compared with 1390¹.

Figure 11.2. Current account balance components

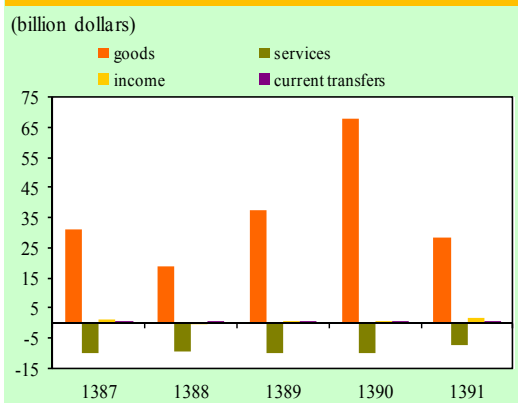


Table 11.3. Current Account Balance

(million dollars)

	1389	1390▲	1391	Percentage change	
				1390	1391
Current account balance	27,554	58,507	23,423	112.3	-60.0
Goods	37,330	67,779	28,559	81.6	-57.9
Services	-10,040	-9,771	-7,307	-2.7	-25.2
Income	79	93	1,661	17.6	▣
Current transfers	185	406	510	119.4	25.7
Current account balance (non-oil)¹	-55,849	-54,915	-41,983	-1.7	-23.5

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

¹This 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

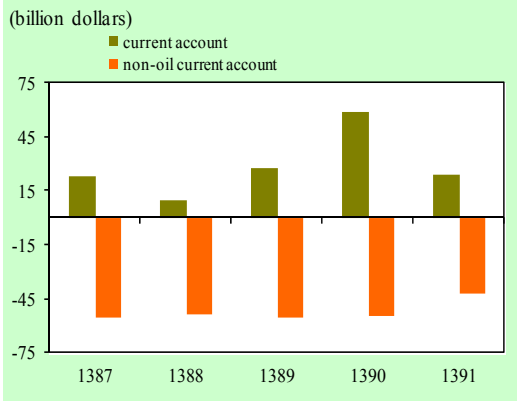
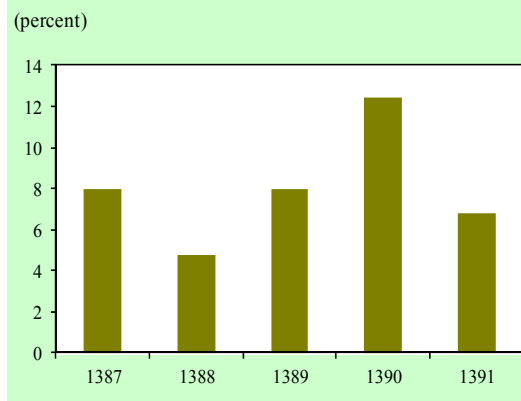


Figure 11.4. Ratio of external trade balance to GDP



Goods Account (trade balance)

In 1391, FOB values of the exports and imports of goods amounted to \$97,271 million and \$68,712 million, respectively. Therefore, goods account registered a surplus of \$28,559 million, down by 57.9 percent compared with the year before. This was mainly attributable to the unprecedented fall in the oil revenue. In 1391, the non-oil goods account had a favorable condition as non-oil exports grew and the FOB value of imports decreased. As a result, the deficit in the non-oil goods account declined by 19.3 percent, from \$45,643 million in 1390 to \$36,847 million in 1391.

Figure 11.5. Export-import ratio

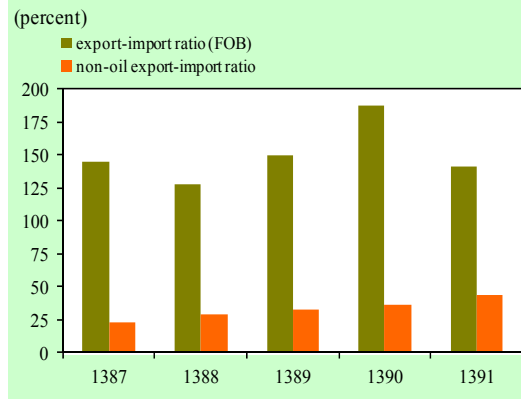


Table 11.4. Goods Account

(million dollars)

	1389	1390▲	1391	Percentage change	
				1390	1391
Goods account (trade balance)	37,330	67,779	28,559	81.6	-57.9
Exports (FOB)	112,788	145,806	97,271	29.3	-33.3
Imports (FOB)	75,458	78,027	68,712	3.4	-11.9
Non-oil goods account (trade balance)	-46,073	-45,643	-36,847	-0.9	-19.3
Non-oil exports	22,596	26,658	29,213	18.0	9.6
Non-oil imports	68,670	72,301	66,060	5.3	-8.6

Chapter 11 BALANCE OF PAYMENTS

In 1391, the FOB value of exports reached \$97,271 million and the value of oil exports amounted to \$68,058 million, showing respectively 33.3 and 42.9 percent decrease. On the other hand, the value of non-oil exports rose by 9.6 percent, from \$26,658 million in 1390 to \$29,213 million in 1391. The share of oil exports in total exports decreased by 11.7 percentage points in favor of non-oil exports, falling from 81.7 percent in 1390 to 70.0 percent in 1391. Oil exports through Customs decreased by 56.2 percent to \$2,980 million in this year.

The FOB value of total imports reached \$68,712 million in 1391, showing 11.9 percent decrease compared with the respective figure for the previous year. Of this figure, \$2,652 million (3.9 percent) was related to gas and oil products and \$66,060 million (96.1 percent), to other goods. In 1391, imports of gas and oil products experienced a higher decrease compared to other goods.

Current account surplus to GDP ratio decreased by 5.5 percentage points to 5.2 percent compared to 1390. Comparing the ratios of current account surplus to GDP in 1390 and 1391 (10.7 and 5.2 percent, respectively) with the corresponding figures for the "Middle East and North Africa" group by 13.2 and 12.7 percent in 2011 and 2012, respectively, is a good indicator of the negative impact of the decrease in the oil revenue on the current account. In 1391, the ratios of goods account and exports of goods to GDP were lower while the ratio of imports of goods to GDP was higher than the year before.

Table 11.7. Ratio of Current Account, Goods Account, Exports, and Imports of Goods to GDP¹ (percent)

	1389	1390▲	1391
Current account to GDP	5.9	10.7	5.2
Goods account to GDP	8.0	12.4	6.3
Exports of goods to GDP	24.3	26.6	21.4
Imports of goods to GDP	16.3	14.2	15.1

¹ At market price, current prices

Table 11.5. Exports (million dollars)

	1389	1390▲	1391	Percentage change		Share (percent)	
				1390	1391	1390	1391
Exports of goods (FOB)	112,788	145,806	97,271	29.3	-33.3	100.0	100.0
Oil exports¹	90,191	119,148	68,058	32.1	-42.9	81.7	70.0
Recorded in Customs data ²	3,394	6,801	2,980	100.4	-56.2	4.7	3.1
Non-oil exports	22,596	26,658	29,213	18.0	9.6	18.3	30.0

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

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

Table 11.6. Imports (million dollars)

	1389	1390▲	1391	Percentage change	
				1390	1391
Total imports (FOB)	75,458	78,027	68,712	3.4	-11.9
Gas and oil products ¹	6,788	5,726	2,652	-15.6	-53.7
Other goods (non-oil)	68,670	72,301	66,060	5.3	-8.6

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

Services Account

Services account deficit fell by 25.2 percent to \$7,307 million in 1391. Total services export receipts reached \$8,485 million, up by 0.5 percent. Conversely, services import payments fell by 13.3 percent to \$15,791 million. High growth in exchange rate in the parallel market contributed to rise in export receipts and fall in import payments of different categories of services in this year.

In 1391, "transportation", "travel", and "construction services" had the biggest impact on the credit and debit entries under the services account. These three groups together accounted for 87.1 percent of the value of exports and 78.5 percent of the value of imports of services. The corresponding figures of 1390 were 85.8 and 79.7 percent, respectively.

Income Account

Net transactions of the income account, including receipts and payments under the "compensation of employees, including border and seasonal workers' remittances" and "investment income and expenditure" led to a capital inflow of \$1,661 million. Receipts from "compensation of employees, including border and seasonal workers' remittances" decreased by 9.7 percent and reached \$320 million and payments amounted to \$417 million, down by 18.7 percent compared with 1390. The profit received from banking deposits and investment abroad came to \$2,804 million and the amount paid to foreign investors was \$1,046 million, indicating 57.8 percent increase and 31.4 percent decrease, respectively, compared with 1390.

Table 11.8. Services Account

(million dollars)

	1389	1390▲	1391	Percentage change		Share (percent)	
				1390	1391	1390	1391
Services account	-10,040	-9,771	-7,307	-2.7	-25.2	—	—
Exports	8,853	8,442	8,485	-4.6	0.5	100.0	100.0
Transportation	3,867	3,203	3,397	-17.2	6.0	37.9	40.0
Travel	2,438	2,348	2,345	-3.7	-0.1	27.8	27.7
Construction services	1,600	1,697	1,647	6.0	-2.9	20.1	19.4
Other services	948	1,194	1,096	26.0	-8.2	14.2	12.9
Imports	18,893	18,213	15,791	-3.6	-13.3	100.0	100.0
Transportation	3,689	3,365	2,945	-8.8	-12.5	18.5	18.6
Travel	9,655	9,775	7,825	1.2	-19.9	53.7	49.6
Construction services	1,944	1,370	1,634	-29.5	19.3	7.5	10.3
Other services	3,604	3,703	3,387	2.7	-8.5	20.3	21.5

Table 11.9. Income Account

(million dollars)

	1389	1390▲	1391	Percentage change	
				1390	1391
Income account	79	93	1,661	17.6	▣
Credit	1,952	2,132	3,124	9.2	46.5
Compensation of employees, including border, seasonal workers	316	354	320	12.1	-9.7
Investment income	1,636	1,777	2,804	8.7	57.8
Debit	1,873	2,039	1,463	8.9	-28.2
Compensation of employees, including border, seasonal workers	635	513	417	-19.3	-18.7
Investment expenditure	1,237	1,526	1,046	23.3	-31.4

Current Transfers Account

In 1391, the surplus of current transfers account amounted to \$510 million, indicating 25.7 percent increase compared with the surplus of this account in 1390.

B. Capital and Financial Account

Net outflows in the capital and financial account decreased by 50.7 percent to \$18.9 billion in 1391. This was mainly due to the transactions under the financial account. The capital account of the balance of payments mainly includes capital transfers (debt relief and immigrants' transfers). The financial account constitutes transactions under foreign direct investment, portfolio investment, other investments, and changes in CBI foreign assets (gross).

Capital Account

Capital account registered net outflows of \$815 million in 1391, down by almost 79.9 percent compared with last year.

Financial Account

Net outflows in the financial account fell by 47.3 percent to \$18.1 billion in 1391. Net figures of "other investments" and "portfolio investment" indicate capital outflows while "foreign direct investment" figures are indicative of net capital inflows. Furthermore, foreign assets of the Central Bank (reserve assets) increased by \$12.2 billion in 1391.

Foreign Direct Investment (FDI)

In 1391, net foreign direct investment¹ in Iran increased by 65.9 percent to \$869 million. Net foreign investment in oil and gas projects in the form of buy-back contracts is included under "foreign direct investment" heading.

FDI Inflows

According to data released by the Organization for Investment, Economic and Technical Assistance of Iran (OIETAI), FDI inflows totaled \$4.5 billion in 1391. Approximately \$687 million of the mentioned amount was under the Foreign Investment Promotion and Protection Act, down by 41.6 percent compared with 1390. A sum of

Figure 11.6. Current transfers account

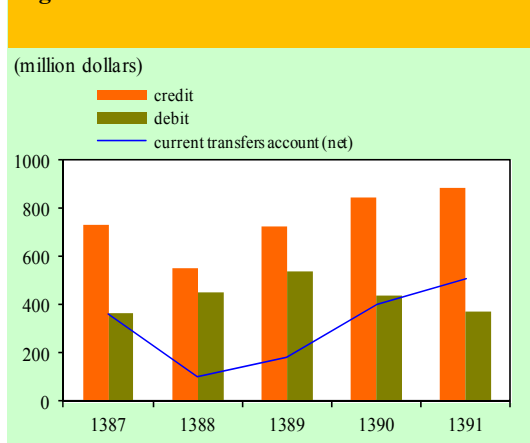


Table 11.10. Capital and Financial Account

	(million dollars)				
	1389	1390▲	1391	Percentage change	
				1390	1391
Capital and financial account	-24,296	-38,312	-18,877	57.7	-50.7
Capital account	-986	-4,050	-815	310.9	-79.9
Financial account	-23,310	-34,262	-18,062	47.0	-47.3

¹ Sum of receipts and payments, under foreign direct investment

\$3,466 million was in the form of buy-back oil and gas contracts, and \$336 million in the form of civil partnership contracts, construction, operation and transfer, buy-back contracts, and foreign investment in the stock exchange, up by respectively 22.3 and 7.3 percent.

Portfolio Investment

Total transactions under the portfolio investment heading indicate that a sum of \$26 million was invested abroad in 1391. These transactions were mainly in the form of purchase of company shares and securities in foreign currency.

Other Investments

Net outflows in the "other investments" account decreased by 48.0 percent to \$6,692

million in this year. In the area of export credit facilities, the amount of receipts was higher than payments, leading to a sharp decrease in net outflows under this account.

External Debt

Total foreign exchange obligations (actual and contingent obligations) amounted to \$15,851 million at end-1391. The value of contingent obligations was \$8,169 million, indicating a decrease of 60.5 percent compared with end-1390, and constituting a share of 51.5 percent in total obligations.

Total value of actual obligations (external debt) was \$7,682 million by end-1391, indicating 60.0 percent fall compared with 1390. Of this amount, \$6,739 million was related to medium- and long-term debt and \$943 million, to short-term debt.

Table 11.11. Financial Account

(million dollars)

	1389	1390▲	1391	Percentage change	
				1390	1391
Financial account	-23,310	-34,262	-18,062	47.0	-47.3
Foreign direct investment (net)	-269	524	869	0	65.9
Portfolio investment (net)	-1,257	-478	-26	-61.9	-94.5
Other investments (net)	-22,731	-12,871	-6,692	-43.4	-48.0
Reserve assets	947	-21,436	-12,213	0	-43.0

Table 11.12. Foreign Investment Inflows in the form of Foreign Direct Investment

(million dollars)

	1389	1390	1391	Percentage change	
				1390	1391
Foreign direct investment	3,774	4,322	4,489	14.5	3.9
Under Foreign Investment Promotion and Protection Act	790	1,175	687	48.8	-41.6
Buy-back oil and gas contracts	2,977	2,834	3,466	-4.8	22.3
Others	7	313	336	⊖	7.3

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

Chapter 11 BALANCE OF PAYMENTS

Reserve Assets (CBI foreign assets)

Transactions in foreign exchange between Iranian and foreign entities caused the gross value of CBI foreign assets to register

\$12,213 million increase in 1391, down by 43.0 percent compared with the previous year.

Table 11.13. Foreign Exchange Obligations

(million dollars)

	1389	1390▲	1391	Percentage change	
				1390	1391
Actual obligations (external debt)	22,814	19,185	7,682	-15.9	-60.0
Medium- and long-term	11,201	8,865	6,739	-20.9	-24.0
Short-term	11,613	10,320	943	-11.1	-90.9
Contingent obligations	23,682	20,675	8,169	-12.7	-60.5
Total	46,496	39,860	15,851	-14.3	-60.2

Table 11.14. External Debt Profile (at end-1391)

(million dollars)

Maturity	1392	1393	1394	1395	1396 onwards	Total
Amount	2,516	1,369	1,099	843	1,855	7,682
Percent	32.8	17.8	14.3	11.0	24.1	100.0