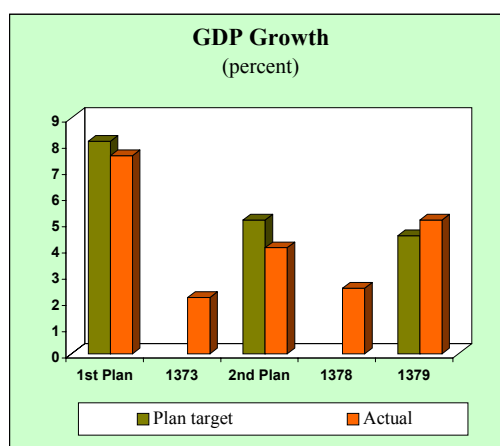


## CHAPTER TWO

### NATIONAL PRODUCT, EXPENDITURE AND INCOME<sup>(1)</sup>

The positive trend of major economic indicators during the first year of the 3<sup>rd</sup> FYDP is indicative of the improvement in overall general economic conditions. Preliminary estimates show that GDP, at constant 1369 prices, grew by 5.1 percent, which exceeded the projected target for the first year of the Plan by 0.6 percent and totaled Rls. 51,245 billion. This growth paved the way for realization of the objectives of the 3<sup>rd</sup> FYDP especially in curbing inflation and reducing unemployment.



The positive developments in the global crude oil market and gradual implementation of new foreign trade regulations within the framework of the 3<sup>rd</sup> FYDP directives led to an improvement in the BOP. Increase in global demand for oil, rise in Iran's quota in OPEC, and the consequent increase in production of crude oil and oil products are amongst the most important factors behind the economic boom. Despite the continuation of drought in some regions, more favorable weather conditions in the second half of the year improved farming sector performance and in turn the agriculture group as a whole. This helped slow the downward trend of the previous year and the value-added for the agriculture group only registered a 0.1 percent decline. Increase in foreign exchange revenues and improvement in government fiscal position triggered greater activity in the manufacturing and mining sectors as compared to 1376-1377. The increase in investment in the construction sector also helped the rise in the value-added for this sector in this period. Moreover, all sub-groups of the services sector with the exception of public services, showed positive and noticeable growth.

	GDP GROWTH BY ECONOMIC SECTORS				(percent)
	1376	1377	1378	1379	
Agriculture	2.5	7.4	-6.9	-0.1	
Manufacturing and mining	4.8	-0.9	9.9	7.9	
Oil and gas	-4.8	1.8	-6.0	8.4	
Services	3.1	4.1	4.2	5.2	
GDP	2.4	3.6	2.5	5.1	

(1) National accounts statistics have been revised and the new base year has changed to 1369 (1990/91).

## National Product

On the basis of preliminary estimates, GDP at base price grew by 5.1 percent and amounted to Rls. 51,245 billion at constant 1369 (1990/91) prices. Major factors contributing to the economic growth in this year were the growth in manufacturing and mining of 7.9 percent, oil and gas of 8.4 percent, and services of 5.2 percent with their respective shares in the GDP being of 19, 18.6, and 49.9 percent.

## Agriculture

On the basis of preliminary data released by the Ministry of Agriculture Jihad, the value-added for the farming sub-group, despite continued drought conditions in central and southeastern regions, grew by 0.2 percent at 1369 constant prices. This is to be regarded as an enormous improvement when compared to the 11.9 percent reduction recorded in the previous year. This growth resulted from an increase in the production of major farming crops such as rice, grain, potato, cotton, sugar cane, grape, and dried fruits. However, production of wheat, barley, onion, and tomato declined in the year under review. The value-added for the animal husbandry and hunting sub-group declined by 1.4 percent despite an increase in production of major livestock products such as red meat, poultry, eggs, and milk, due to the relatively mild increase in intermediate expenses. Harvesting of sea products and cultivation of various fishery products also grew by 3 percent. The value-added for the forestry sub-group grew by 18.7 percent, at constant 1369 prices, in comparison to 1378, due to increase in the harvesting of various forestry products and production of charcoal. The percentage share of farming, animal husbandry, fishing, and forestry sub-groups in the GDP were 9.2, 4.9, 0.2 and 0.1 percent respectively in the year under review.

### VALUE-ADDED IN THE AGRICULTURE GROUP

(At Constant 1369 Prices)

(billion rials)

			Percentage change		Share (percent)	
	1378	1379	1378	1379	1378	1379
Farming	5,022.0	5,031.8	-11.9	0.2	62.9	63.1
Animal husbandry and hunting	2,755.1	2,716.4	3.1	-1.4	34.5	34.0
Fishing	113.6	117.4	3.0	3.0	1.4	1.5
Forestry	91.4	108.5	1.7	18.7	1.2	1.4
<b>Agriculture group</b>	<b>7,982.1</b>	<b>7,973.7</b>	<b>-6.9</b>	<b>-0.1</b>	<b>100.0</b>	<b>100.0</b>

## Oil

Following the adoption of constructive policies by OPEC, not only the price of crude oil increased substantially, but the level of OPEC production raised in 1379. The global increase in the demand for crude oil along with Iran's quota increase led to an increase in crude oil and oil product exports. The result of this chain of events, was an 8.4 percent growth for the value-added for the oil and gas sector, at constant 1369 prices for the year under review. Production of crude oil grew by 8.5 percent in 1379 and topped 3,661 thousand b/d, while crude oil exports grew by 12.8 percent and reached 2,345 thousand b/d<sup>(1)</sup>.

## Manufacturing and Mining

Preliminary data suggests that the manufacturing and mining sector enjoyed a 7.9 percent growth at constant 1369 prices. Increase in foreign exchange revenues, and

(1) Includes export of crude oil and net export of oil products.

improvement in the government's overall fiscal position helped stimulate activity in manufacturing and mining sectors which led to further development in 1379. According to data released by the Ministry of Industry, the value-added for the manufacturing sector grew by 8 percent at constant 1369 prices.

On the basis of data provided by the Ministry of Energy and the National Iranian Oil Products Distribution Company, the value-added for public utilities i.e. electricity, gas, and water, grew by 2.2 percent as a whole at constant 1369 prices in the year under review. Electricity and gas respectively showed a 7.2 and 3.8 percent growth while water registered a 4.4 percent reduction. The amount of electricity produced in 1379 amounted to 114,976 million kwh. During this period, 63,510 million cubic meters of natural gas was also drawn out.

The value-added for the construction sector, with approximately 5 percent share in GDP, grew by 10.4 percent. This growth was due to both a rise in investment in this sector and increase in the number of construction permits issued and the projected amount of new construction.

**VALUE-ADDED IN THE MANUFACTURING AND MINING GROUP**  
(At Constant 1369 Prices)

			Percentage change		Share (percent)	
	1378	1379	1378	1379	1378	1379
Manufacturing	6,240.4	6,737.3	8.9	8.0	63.5	63.4
Mining	499.1	520.5	21.6	4.3	5.1	4.9
Electricity, gas and water	745.7	761.9	5.3	2.2	7.6	7.2
Construction	2,368.4	2,613.8	12.1	10.4	24.0	24.5
<b>Manufacturing &amp; mining group</b>	<b>9,853.6</b>	<b>10,633.5</b>	<b>9.9</b>	<b>7.9</b>	<b>100.0</b>	<b>100.0</b>

### Services

The services sector which had 49.9 percent share in GDP at current prices, grew by 5.2 percent in 1379 at constant prices, with all its constituents showing positive growth, excepting the public services sub-group.

**VALUE-ADDED IN THE SERVICES GROUP**  
(At Constant 1369 Prices)

			Percentage change		Share (percent)	
	1378	1379	1378	1379	1378	1379
Trade, restaurant and hotel	7,826.9	8,180.7	0.4	4.5	28.5	28.4
Transportation, warehousing and communication	5,859.6	6,390.8	9.4	9.1	21.4	22.1
Monetary and financial institutions services	580.1	630.6	4.4	8.7	2.1	2.2
Real estate, professional and specialized services	8,079.3	8,598.8	7.5	6.4	29.5	29.8
Public services	4,002.2	3,942.2	-3.3	-1.5	14.6	13.7
Social, personal and household services	1,071.6	1,096.3	11.2	2.3	3.9	3.8
<b>Services group</b>	<b>27,419.7</b>	<b>28,839.4</b>	<b>4.2</b>	<b>5.2</b>	<b>100.0</b>	<b>100.0</b>

The increase in foreign exchange reserves stimulated the activities of the industrial sector by enabling the purchase of their required raw materials and capital goods imports and gave rise to a general increase in imports. These developments also had a positive effect on the value-added for trade, transportation, and warehousing sub-groups. The trade, restaurant, and

hotel sub-group, with a share of 14.9 percent in GDP, grew by 4.5 percent, at constant 1369 prices. This was largely due to increase in the amount of goods transacted by the retail and wholesale trade sub-groups as compared to the previous year. The value-added for transportation, warehousing, and communications, which held a 6.6 percent share in GDP, grew by 9.1 percent. During this period real estate, professional, and specialized services with a large percentage share in GDP, grew by 6.4 percent. The net profit received by banks led to 8.7 percent growth in monetary and financial institution services for the year, while the value-added of public services decreased by 1.5 percent and dampened growth of the services sector as a whole.

### **National Expenditure**

Review of the gross domestic expenditure is indicative of growth in all its components. On the basis of preliminary data, private consumption expenditures, with the highest share of 47.3 percent in gross domestic expenditure, showed 4.8 percent growth, at constant 1369 prices, and totaled Rls. 29,696.4 billion. Increase in ‘food, beverages, and tobacco’ and ‘housing and utility’ expenses, which together make up the lion’s share of household consumption expenditures, was considered to be the main reason for this increase. During the year under review, governmental consumption expenditures, including all those of the ministries, affiliated institutions, municipalities, and social welfare organizations, grew by a moderate 0.3 percent due to the success in measures undertaken by these bodies to economize their expenses in comparison to the previous year. The percentage share of governmental consumption expenditures in gross domestic expenditure was 14.4 percent and amounted to Rls. 5,765.6 billion at constant 1369 prices.

Gross fixed capital formation, with 31.1 percent share in gross domestic expenditures, grew by 9.3 percent at constant 1369 prices. Gross fixed capital formation for machinery and construction registered growths of 12.8 and 6.0 percent respectively. Increase in the export of goods and non-factor services at current and constant prices made the net export of goods and services positive. Export of goods and services amounted to Rls. 9,034.9 billion in 1379 while import of goods and services amounted to Rls. 5,645.3 billion at constant prices.

Taking into account the performance of all sectors, gross domestic expenditure grew by 5 percent at constant prices, and national income increased by 5.2 percent. These respectively amounted to Rls. 39,971.6 billion at constant 1369 prices and Rls. 429,595.6 billion at current prices.

In this year, per capita income increased by 29.8 percent and amounted to Rls. 6,722.9 thousand.