CHAPTER EIGHT

FISCAL POLICY

The 1379 budget was designed within the context of the 3rd FYDP (1379-1383). Given the improvement in international crude oil prices, and in conformity with the policies and strategies set out in the 3rd FYDP Law, the budget was designed with zero financing from the banking system. The budget's emphasis was focused on lowering unemployment and supporting the vulnerable groups of society, whilst maintaining a logical balance between revenues and expenditures.

The approved 1379 budget, in terms of the government's general revenues and expenditures, excluding special revenues and expenditures, were, respectively Rls. 107,020.2 billion and Rls. 111,335.5 billion. This budget was submitted to the Parliament at a time when international oil prices, following the drastic decline in 1377, showed signs of improvement at the beginning of 1378. Although the probable extent of improvement in international oil prices in 1379 was largely foreseeable, both government and Parliament projected 1379 oil revenue receipts on the basis of relatively lower oil prices.

In the Iranian month of Mehr 1379 (Sept.-Oct. 2000) Parliament approved an amendment to the 3rd FYDP and Budget Law. This amendment called for the setting up of an Oil Stabilization Fund (OSF) to be held in an account at the CBI. The Fund was to be financed from surplus foreign exchange revenues received from oil export in excess of the figures projected in annual budgets, and to use the surplus foreign exchange revenues for other projected activities set out in the 3rd FYDP.

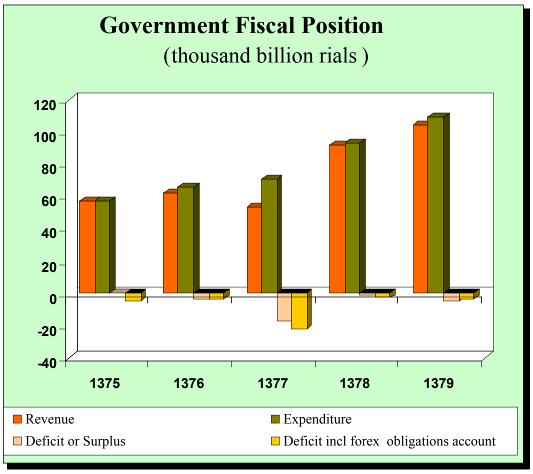
According to this amendment, revenues and expenditures in the 1379 budget remained unchanged. Consequently the government ran a budget deficit of Rls. 4,315.3 billion, in line with the approved and projected figures for revenues and expenditures.

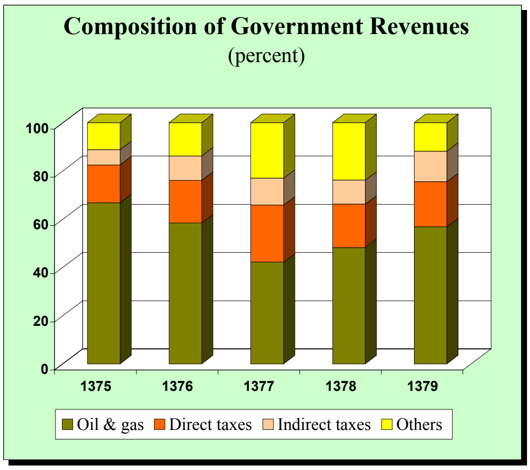
In the budget law for 1379, special revenues and expenditures were estimated at Rls. 16,480.6 billion. In practice special revenues registered a 38.1 percent growth compared with the previous year and was realized by Rls.15,988.6 billion. The greater part of special revenues were allocated to budgetary programs for workers' social insurance amounting to Rls. 5,232.5 billion and health programs of Rls. 2,690.9 billion.

In the review year, the government realized 97.8 percent of the approved budget figure for its projected revenues, excluding special revenues. This figure registered a 13.4 percent rise compared with the previous year to total Rls. 104,640.8 billion. The composition of government revenues indicates that 56.8 percent, or Rls. 59,448.5 billion, of total government revenues was derived from sales of foreign exchange receipts, 31.4 percent, or Rls. 32,842.1 billion from tax revenues, and 11.8 percent, or Rls. 12,350.2 billion, from other government revenues. It is worth-noting that 66.1 percent of oil revenues and 37.6 percent of total government revenues were derived from the sale of foreign exchange. The corresponding figures in the previous year were 41.7 and 20.1 percent, respectively.

GOVERNMENT FISCAL POSITION (billion rials)

	1377	1378	1379
Revenues	**53,626.0**	**92,315.7**	**104,640.8**
Oil and gas	22,619.9	44,487.6	59,448.5
Taxes	18,686.6	25,831.3	32,842.1
Other	12,319.5	21,996.8	12,350.2
Expenditures	**70,970.3**	**93,242.9**	**109,407.1**
Current	53,545.6	68,219.3	85,847.3
Development	17,424.7	25,023.6	23,559.8
Budget deficit	**-17,344.3**	**-927.2**	**-4,766.3**
Deficit (including deficit of foreign exchange losses)	**-22,421.0**	**-2,739.8**	**-2,985.9**
in percent of GDP (at current prices)			
Revenues	**16.9**	**21.7**	**19.0**
Oil	7.1	10.5	10.8
Taxes	5.9	6.1	6.0
Other	3.9	5.2	2.2
Expenditures	**22.4**	**21.9**	**19.9**
Current	16.9	16.1	15.6
Development	5.5	5.9	4.3
Budget deficit	**-5.5**	**-0.2**	**-0.9**
Deficit (including deficit of foreign exchange losses)	**-7.1**	**-0.6**	**-0.5**





In the review year, government payments grew moderately when compared to the previous year's growth, i.e. 17.3 percent against 31.4 percent. These payments totaled Rls. 109,407.1 billion in 1379, against Rls. 93,242.9 billion in 1378. This amount was 98.3 percent of the amount projected for payments in the approved budget bill. The share of current and development payments, out of total government payments, was 78.5 and 21.5 percent, respectively. Thus, current and development payments of government budget were realized at Rls. 85,847.3 billion and Rls. 23,559.8 billion, respectively.

In 1379 the increase in government expenditures as compared to its revenues, brought about a budget deficit of Rls. 4,766.3 billion. However, for the first time since the establishment of the OSF, government allocated resources for the repayment of some portion of its indebtedness to the CBI, that had arisen from foreign exchange losses. The outstanding balance in this account at year-end fell by Rls.1,780.4 billion in comparison to the previous year. As a result, by taking into account the payment through the OSF, the government's budget deficit was limited to Rls. 2,985.9 billion. This figure represents 0.5 percent of GDP.

Revenues

Government general revenues, excluding special revenues, rose 13.4 percent compared with the previous year to reach Rls. 104,640.8 billion. This was 2.2 percent less than the projected figure of Rls. 107,020.2 billion in the approved budget. The major factor in the shortfall of government general revenues was the shortfall in other revenues. However, oil export proceeds was realized by 3.2 percent more than the figure projected in the budget law.

The composition of government revenues was such that, by including revenues received from the sale of foreign exchange through oil revenue sales, government's dependence on oil revenues increased and thereby raised the share of oil revenues in total government revenues from 48.2 percent in 1378 to 56.8 percent in 1379. Nonetheless, the share of crude oil revenues in total general revenues fell from 23.6 percent in 1378 to 19.2 percent in the review year. This was mainly due to annual adjustment of other components of revenues, including, sale of foreign exchange, tax revenues, and other revenues. These adjustments were calculated taking into account the domestic inflation rate and non-adjustment of revenues received from oil export earnings in rials, as well as effects of international markets on pricing and stabilization of the exchange rate parity of Rls. 1,750 per one U.S. dollar. The share of tax revenues in total government revenues went up from 28 percent in 1378 to 31.4 percent in 1379.

In the Budget Law for 1379, oil revenue receipts were projected at Rls. 20,125 billion, which remained unchanged in the amended budget. In practice, however, realized oil revenues were in excess of this projection. Nevertheless in accordance with the 3rd FYDP Law and amendment thereto, the excess foreign exchange revenue received from crude oil export receipts was deposited into the OSF. In 1379, no revenue was projected from the export of fuel oil and other oil products in the budget. Owing to the provisions of the 3rd FYDP Law, revenues received from export of oil products and gas were considered as revenue of the National Iranian Oil Company and Iran Gas Company. These revenues were to be utilized by these corporations for foreign exchange expenses for their current activities, including the import of oil products and natural gas, and the implementation of investment projects approved by Parliament. Thus, in 1379, revenues and expenditures from this source were not taken into account. Revenues received from export of oil products was realized by $ 2,630.4 million.

Figures provided by the Ministry of Petroleum indicate that the daily average of exported oil increased by 266 thousand b/d to reach 2,345 thousand b/d in comparison with the preceding year. In the 1379 Budget Law, the average price for a barrel of crude oil was projected to be $15.71. However, in practice, $25.26 per barrel was realized. Revenues received from the export of crude oil equaled $20,830.2 million. In 1379, the total revenues received from crude oil export, oil products, and gas, amounted to $23,460.6 million.

In 1379, the revenues received from export of crude oil, including the sale of foreign exchange, rose by 33.6 percent compared with the corresponding figure for the previous year, and equaled Rls. 59,448.5 billion. The ratio of oil revenue to total government general expenditures indicates that there was a marked increase in this type of revenue, this ratio becoming 54.3 percent in 1379, against 47.7 percent in 1378.

In the review year, non-oil revenues fell by 5.5 percent as compared to 1378 to total Rls. 45,192.3 billion, which accounted for 43.2 percent of total government general revenues. The share of this portion of revenue in total government revenues in 1378 was 51.8 percent. It is noteworthy that, in the course of the past three years, the non-oil revenue share of total government revenues has declined and the share of oil revenues including the sale of foreign exchange therefrom has increased. The main reason for this was the marked rise in revenue received from the sale of foreign exchange during the 1377-1379, resulting in both the proportionate shares of oil revenues and total government revenues to markedly increase. These percentage shares were 41.7 and 20.1 percent in 1378, and 66.1 and 37.6 percent, respectively, in 1379.

The main component in non-oil revenues in the government's general budget became tax revenues. In this year, the share of tax revenues in total non-oil revenues equaled 72.7 percent and the share of other revenues, including revenues received from government monopolies and ownership, sale of goods and services, return on loans and government investments abroad, and miscellaneous revenues, was 27.3 percent. The corresponding figures in the previous year were 54 and 46 percent, respectively.

In 1379, tax revenues, with 27.1 percent growth compared to 1378, and a 3.3 percent shortfall as per the approved budget projections, reached Rls. 32,842.1 billion, making up 31.4 percent of total government general revenues, as against 28 percent in 1378. The increase in tax revenues in 1379 was mainly due to increases of 8.3 percentage points in the tax on imports, and 7.2 percentage points in tax on consumption and sales.

GOVERNMENT GENERAL REVENUES

(Excluding Special Revenues) (billion rials)

			Percentage change		Share (percent)	
	1378	1379	1378	1379	1378	1379
Oil	**44,487.6**	**59,448.5**	**96.7**	**33.6**	**48.2**	**56.8**
Non-oil	**47,828.1**	**45,192.3**	**54.3**	**-5.5**	**51.8**	**43.2**
Tax	25,831.3	32,842.1	38.2	27.1	28.0	31.4
Other	21,996.8	12,350.2	78.6	-43.9	23.8	11.8
Total	**92,315.7**	**104,640.8**	**72.1**	**13.4**	**100.0**	**100.0**

During the review year, the ratio of tax revenues to GDP equaled 6.0 percent at current prices, showing a slight fall compared with the corresponding figure of the previous year (6.1 percent). Moreover, in this year, 38.3 percent of government current expenditures was financed from tax revenues, indicating a relative improvement in this government fiscal position index, compared with the 37.9 percent in the previous year.

In 1379, compared with the approved figures in the budget, receipts from direct taxation registered a shortfall of 10.3 percent, while a 9.4 percent surplus in receipts from indirect taxes was recorded. The major reason that direct taxes were under-realized was due to a shortfall of projected tax receipts from corporations of Rls. 1,603.1 billion or 12.4 percent less than the figure projected in the budget. Tax receipts from petrochemical corporations were Rls. 672 billion short of projections, and were the main component of this shortfall in tax revenues. In addition, there was a decline in the expected tax receipts from the real estate sector due to the implementation of a tax exemption law for rental housing units of less than 120 square meters size. Receipts from direct and indirect taxes as compared with the previous year went up by 18.1 and 43.4 percent, respectively. This led to the resultant share of indirect taxes in total tax revenues increase from 35.8 percent in 1378 to 40.4 percent in 1379. In the review year, out of overall tax revenues paid into the treasury, 34.4 percent was from tax on corporations, 24.2 percent from tax on imports, 20.8 percent from personal income tax, 16.2 percent from sale and consumption tax and 4.4 percent from wealth tax.

In 1379, corporate tax revenues grew by 12.4 percent, compared with the previous year and reached Rls. 11,295.5 billion. This was however 12.4 percent less than the projected figure in the approved budget. Receipts from tax on public legal entities, registered a 0.6 percent fall compared with the previous year to Rls. 4,899.2 billion. Out of total tax revenues received from public legal entities, 11.5 percent was collectively derived from petrochemical industries (Rls. 351.7 billion) and the CBI (Rls. 211.2 billion). Moreover, in this tax group, Rls. 6,396.3 billion from non-public legal entities went to the Treasury.

During the review year, receipts from tax on imports amounted to Rls. 7,947.7 billion, showing a marked growth of 36.9 percent compared with the previous year, owing mainly to receipts from commercial profits and order registration fees. In this year, receipts from tax on imports were more than the projected figure in the budget, so that this group of revenue was 15.2 percent in excess of the forecasted figures. Among the main constituents of the tax on imports, custom duty receipts, totaling Rls. 49.2 billion, was realized by 6.6 percent less than, while the other main constituents was realized in excess of, projected figures in the approved budget. According to Customs data, in 1379, the sum value of all imported goods was valued at $14,346.9 million, showing a 13.1 percent growth compared with the previous year. The increase in the value of imports was partially responsible for the surplus in tax revenues realized on imports in this year.

During the course of 1379, the Treasury received revenues of Rls. 3,480.1 billion from order registration fees(1), Rls. 3,457.1 billion from commercial profit, Rls. 700.8 billion from customs duties, and Rls. 309.7 billion from other components of the tax on import revenues.

In the review year, receipts from income tax amounted to Rls. 6,834 billion, showing a 27 percent growth compared with 1378. In this tax group, Rls. 3,413.5 billion derived from tax on salaries went into the Treasury, which was 0.4 percent more than the figure projected in the budget. Receipts from professions tax grew 20.7 percent as compared with the previous year to reach Rls. 2,926.9 billion. This figure was 16.4 percent less than the projected budget figure.

Receipts from consumption and sales tax totaled Rls. 5,309.8 billion, registering a substantial 54.3 percent growth compared with the previous year. The marked rise in this indirect tax group, despite the non-collection of Rls. 1,180 billion of tax on imported cigarettes which was included in this tax group projections in the 1379 Budget Law, was mostly due to the marked increase of 10 percent(2) in automobile tax and other items outlined in the 1379 Budget Law.

Under the consumption and sales tax category, Rls. 406.3 billion was derived from subscription fees from direct-dial telephones and international telecommunication services. An overall figure of Rls. 1,849.2 billion was collected from various taxes levied on automobiles, inclusive of number plate, fixed tax, and automobile transfer fees. These two taxes showed 20.2 and 31.8 percent increase, respectively compared with the previous year. Tax levied on cigarette sales fell by 3.6 percent, to a figure of Rls. 101.7 billion.

In the review year, collected wealth tax equaled Rls. 1,455.1 billion, showing a 26.3 percent rise compared with the previous year, which was 2 percent greater than the forecasted budget figure.

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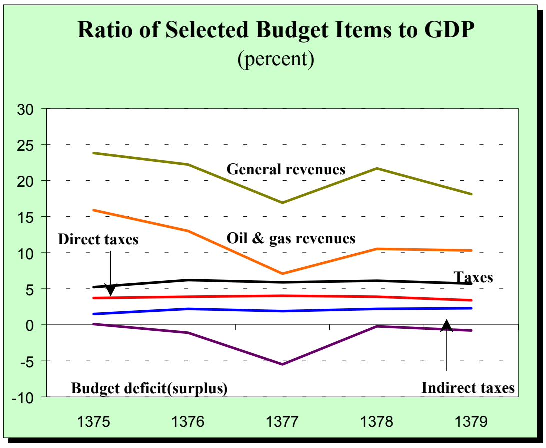
(1) According to 1379 Budget Law, order registration fee of basic goods imported by government and paper were exempted and for other goods, it was determined at Rls. 275 per dollar or its equivalent in other currencies.

(2) According to 1379 Budget Law, automobile manufacturing companies excluding taxi, bus, minibus, truck, and van, were obliged to obtain 10 percent of selling price as indirect tax and deposit into Treasury.

During 1379, other government revenues, mostly from governmental companies in the productive and service fields, declined by 43.9 percent as compared with the previous year, to total Rls. 12,350.2 billion. This was 20 percent, or Rls. 3,084.5 billion, less than the figure projected in the approved budget. Other major reasons behind shortfalls in projected government revenues were related to the shortfall of revenues received from the sale of goods and services amounting to Rls. 2,010.7 billion, and that of miscellaneous revenues of Rls. 1,099.9 billion.

In the review year, revenues received from government monopolies and ownerships amounted to Rls. 439.9 billion, which was 6.3 percent more than the projected budget figure. Nonetheless, this revenue group fell by 69 percent, compared with the previous year, due to changes decreed in the 1379 Budget Law with regard to public corporation income from that of the 1378 Budget Law. In 1378, Treasury receipts from this revenue group amounted to Rls. 1,089.2 billion. Among the major constituents of revenues from government monopolies and ownerships is revenue received from paid-out dividend income of public corporations, which amounted to Rls. 247.3 billion. This figure was 17.4 percent more than the projected budget figure and recorded a 55.9 percent growth in comparison with the year before.



In 1379, revenues received from the sale of goods and services, with a 32.8 percent rise as compared with the previous year, totaled Rls. 6,615.3 billion. In this year, a total of Rls. 2,429.8 billion out of revenues received from sale of goods and Rls. 4,185.5 billion from revenues received from the provision of services, went to the Treasury. The major portion of revenues received from the sale of goods and service provision, consisted of Rls. 613.5 billion in revenues of the Aviation Organization for airport services; Rls. 928.6 billion from the State Deeds and Documents Organization for registration services; Rls. 1,083.6 billion from the Ministry of Education for education councils charges; and Rls. 1,346.6 billion from sale of military service exemptions.

During 1379, miscellaneous revenues, registered a 66.1 percent decline as compared with the previous year, to amount to Rls. 5,294.7 billion. This was mostly due to the elimination of charges on four main oil products namely, petrol, kerosene, gas oil, and fuel oil, and gas, electricity, and telecommunication, all as per the requirements of the 2nd and 3rd FYDP Laws.

During the review year, according to the budget law, energy sector companies were obliged to deposit revenues collected under the headings of 'duties for consumption optimization of energy' and 'excess revenues received from modification of energy bearers prices', into general revenues of the Treasury.

The collected components of these revenues, which were classified under miscellaneous revenues in the budget for 1379, were respectively Rls. 1,366.9 billion and Rls. 698.3 billion. Moreover, in this group, Rls. 671 billion in revenues, collected from the Organization for Protection of Consumers and Producers according to the budget law [1], was also deposited into government general revenues.

(1) Organization for Protection of Consumers and Producers was required to deposit all revenues received from differentials under its Articles of Association to Treasury. According to 1379 Budget Law, the differential deposited by this Organization was tax exempted.

In this year, revenue received from interest on loans and government investments abroad equaled Rls. 0.3 billion, which remained unchanged over the previous year, and were in line with projected budget figures.

Expenditures

In the 1379 Budget Law government general expenditures, excluding special expenditures were projected at Rls. 111,335.5 billion, and remained unchanged in the amended budget. In reality, government general expenditures rose by 17.3 percent as compared to the previous year, to reach Rls. 109,407.1 billion. This figure was 1.7 percent less than the approved figure in the budget bill. Current expenditures grew by 25.8 percent and government development expenditures fell by 5.8 percent. In 1379, government current expenditure reached Rls. 85,847.3 billion, which was approximately one percent, or Rls. 882.1 billion, more than the projected figure. The major portion of the increase in current expenditures was due to a rise in government employee salaries.

In the review year, out of total current expenditures, Rls. 3,764.4 billion went for defense purposes registering a 31.8 percent growth as compared with 1378.

In the Budget Law of 1379, Rls. 8,453.1 billion was earmarked for subsidy payments on basic goods and fertilizers. Of this amount, Rls. 7,950 billion was paid for basic goods, Rls. 473.1 billion for fertilizers, and Rls. 30 billion was paid to subsidize the export of services. During the review year, Rls. 8,118.7 billion was earmarked for subsidy payments by the Management and Planning Organization, of which Rls. 8,118.4 billion was actually paid out. Out of total subsidies paid, Rls. 7,105 billion was paid for basic goods and Rls. 543.1 billion for fertilizers. Furthermore, Rls. 259 billion was paid out in subsidy for medicine and powdered milk. Additionally, in accordance to the 3rd FYDP Law, the Organization for Protection of Consumers and Producers received Rls. 272 billion from price differential payments on special imported goods which was then allocated to essential goods and services.

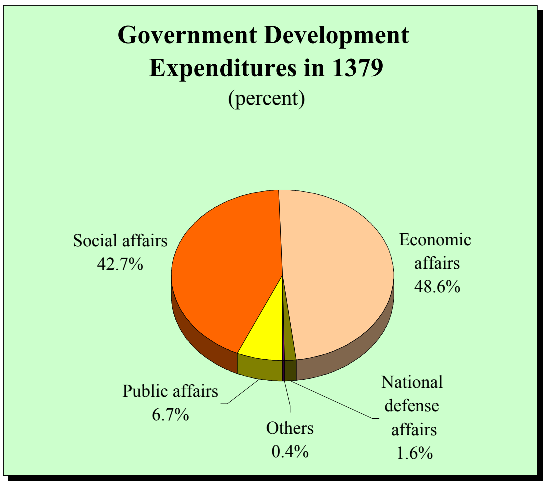
The total subsidy paid out in 1379 for goods and services equaled Rls. 8,390.5 billion. Of this figure, 69.5 percent or Rls. 5,835 billion was related to the subsidy paid to State Grain Organization for the purchase of wheat grain. In the 1379 budget law, Rls. 30 billion was earmarked for the payment of subsidies for the export of services. However, in fact this figure was not utilized.

The ratio of overall subsidy payments to total current expenditures was 9.8 percent and to total government general expenditures 7.7 percent. The ratio of subsidy paid to GDP at current prices equaled 1.5 percent, showing a decline compared with the corresponding figure for the previous year of 1.8 percent.

In 1379, out of total government current expenditures, 46.3 percent was paid out for social affairs, 20.2 percent went to national defense affairs, 12.7 percent to public affairs, and 2.5 percent for economic affairs. Moreover, 13.3 percent of total government current expenditures was paid for miscellaneous expenditures. Data for government current expenditures by affairs and chapters of the budget, indicate that the highest share in current expenditures was related to public education, which made up 19.9 percent of total government current expenditures. Additionally, 12.6 percent went to social security and welfare, 6 percent to law and security, and 5.3 percent to health, medical care, and nutrition.

During 1379, total government development expenditures were projected at Rls. 26,370.3 billion in the approved budget. In practice this figure fell to Rls. 23,559.8 billion or 89.3 percent of the projected budget figure.

Government development expenditures decreased by 5.8 percent compared to the previous year and its share declined to 21.5 percent of total government general expenditures. Till the end of 1378, according to the 2nd FYDP Law, duties levied on major oil products, gas, electricity, and post and telecommunication services were to be collected by the relevant organizations and deposited in the treasury public revenue account. These revenues were then returned to the relevant organization for their use on development projects in oil, gas, electricity and telecommunication sectors. In the 3rd FYDP (1379-1383), this was changed in that these organizations could directly utilize the collected charges for their development projects. Therefore, the main reason for reduction in development expenditures in 1379, as compared with the previous year, were changes in the law and elimination of the requirements called for under the 2nd FYDP Law in the 3rd FYDP Law. This was generally true for the reduction in development expenditures for oil and gas production, and particularly so for electricity and gas transfer programs. In accordance with the 1379 Budget Law, government was authorized to issue up to a maximum of Rls. 2,000 billion participation papers to accelerate implementation of development projects. During 1379, Rls. 2,049.8 billion worth of participation papers were sold, and the proceeds paid into the Treasury. Of this amount, Rls. 49.8 billion was raised from sale of participation papers in 1378.



Out of total government development expenditures in 1379, 48.6 percent was paid for investment in economic affairs, 42.7 percent in social affairs, 6.7 percent in public affairs, and 1.6 percent in national defense affairs. Government development expenditure figures indicate that the highest proportion of these development expenditures was in respect of road and transportation sector expenditures, registering a 16 percent share in total development expenditures as against 11.6 percent in the previous year. Water resources with 15.5 percent ranked next, followed by urban development with 8.9 percent, rural development with 8.5 percent, agriculture and natural resources with 7.7 percent and public education with 6.3 percent. These affairs made up 63 percent of total government development expenditures.

The major portion of development expenditures allocated to various chapters was as follows: for development of the railway network, construction and renovation of airports, main roads, and freeways, Rls. 2,152.9 billion; water provision programs and construction of irrigation networks, Rls. 2,662 billion; traffic improvement and construction and development of drainage systems, Rls. 1,170 billion; energy production programs and nuclear studies, Rls. 796.3 billion; and agricultural, environmental, and industrial resource research programs of Rls. 616.7 billion.

Budget Deficit and Its Finance

The 1379 budget ran a deficit of Rls. 4,766.3 billion due to government expenditures exceeding its revenues. However, in this year, for the first time after the establishment of the OSF, the government repaid part of its indebtedness to the CBI, and following certain changes in some items of this account, the outstanding debit balance of this account was reduced by Rls. 1,780.4 billion, compared with the beginning of 1379. By including this reduction in the outstanding of the OSF and reduction of Rls. 2.8 billion in government indebtedness to the CBI for rewards on government bonds, the adjusted government budget deficit in 1379 equaled

Rls. 2,983.1 billion. This was Rls. 240.5 billion more than the adjusted budget deficit for the previous year.

The government's budget deficit in 1379, was financed from revenues received from the following sources: sale of participation papers amounting to Rls. 2,049.8 billion; returns, prepayments and other accounts of Rls. 1,287.2 billion; receipts from foreign facilities of Rls. 175 billion; receipts from government guaranteed loans of Rls. 162.6 billion; and receipts from the principal of government loans abroad and revenues from the sale of public corporations of Rls. 0.9 billion, and other resources of Rls. 1,090.8 billion.

BUDGET DEFICIT AND ITS FINANCE (billion rials)

	1377	1378	1379
General government budget deficit (-) or surplus (+)	**-17,344.3**	**-927.2**	**-4,766.3**
Plus:			
Foreign exchange losses	-5,076.7	-1,812.6	1,780.4
Increase in government indebtedness for government bonds rewards	-67.3	-2.8	2.8
Adjusted budget deficit	**-22,488.3**	**-2,742.6**	**-2,983.1**
Deficit financing (+) or surplus use (-)	**22,488.3**	**2,742.6**	**2,983.1**
Domestic finance	**16,781.4**	**2,570.9**	**2,807.4**
Use of Central Bank resources (1)	11,780.0	1,815.4	-1,783.2
Sale of participation papers	2,500.0	1,884.3	2,049.8
Returns, prepayments and other accounts	479.0	640.0	1,287.2
Principal and interest on loans of public corporations and institutions	187.2	195.5	162.6
From government guaranteed loans (2)			
Hadj advance receipts	2,338.7	0	0
Privatization receipts	0	4.2	0.2
Other	-503.5	-1,968.5	1,090.8
Foreign finance	**5,706.9**	**171.7**	**175.7**
Principal of government loans abroad	1.2	17.7	0.7
Receipt from foreign facilities	135.7	154.0	175.0
Oil pre finance	5,570.0	0	0

(1) Includes use of Central Bank resources for financing deficit due to foreign exchange loss account and rewards on bonds.

(2) The breakdown by interest and principal of loan is not available.

The ratio of the budget deficit to GDP increased to 0.9 percent against 0.2 percent in 1378. The adjusted ratio for this budget deficit was 0.5 percent.

In the review year, the net effects of monetary expansion due to public sector operations was Rls. 7,749.6 billion less than the figure for the previous year. This was mostly due to a marked rise in the outstanding balance of public sector funds and deposits with the banking system. This increase resulted in the reduction of Rls. 4,819.3 billion in the banking system's net claims on the public sector in 1379. In this year, the net foreign exchange receipts for the public sector reached Rls. 19,696.1 billion.

INITIAL EXPANSIONARY EFFECT OF PUBLIC SECTOR OPERATIONS

(billion rials)

	1377	1378	1379
Net expansion	**28,879.8**	**22,626.4**	**14,876.8**
Net foreign exchange receipts of public sector	3,847.5	19,488.2	19,696.1
Changes in net banking system claims on public sector	25,032.3	3,138.2	-4,819.3
Changes in outstanding of banking system claims on public sector	**29,279.5**	**7,140.8**	**5,668.4**
Changes in outstanding of banking system claims on government (1)	18,134.0	2,873.5	-2,155.7
Changes in outstanding of banking system claims on public corporations and institutions (2)	11,138.5	4,267.3	7,824.1
Less:			
Funds and deposits with the banking system	**4,240.2**	**4,002.6**	**10,487.7**
Changes in outstanding of deposits and funds of public sector	6,901.4	4,290.0	1,910.6
Changes in outstanding of prepayment of letters of credit with public sector	-2,661.2	-287.4	-422.9

(1) Includes changes in the deficit of oil stabilization fund.

(2) Includes facilities extended by the Central Bank to public corporations for financing foreign exchange losses.

Government Bonds

The then Ministry of Finance issued the first government bonds in 1348 (1969), according to the law for issuance of treasury bills and bonds as approved by the Parliament in 1348 (1969) at Rls. 4.5 billion. Until the end of 1353 (1975), taking into account all bond issues in various phases, the total value of issued government bonds had reached Rls. 300 billion. Since the beginning of 1354 (1975), new bonds were issued mainly in order to replace the due ones in circulation. This process was continued until 1370 (1991), which was the last time 7-year bonds were issued to replace those that were overdue. Since then, the issuance of the substitute bonds has not taken place.

At the end of 1379, 2.4 percent or Rls. 65.9 billion of the outstanding balance of the referenced bonds belonged to public institutions, mainly insurance companies, and 97.6 percent was held at the CBI and amounted to Rls. 2,635.7 billion, which together totaled Rls. 2,701.6 billion. The composition of the maturity of these now overdue bonds indicates that 2.7 percent were valid for three years, 8.6 percent for five years, and 15.7 percent for seven years. The rate of return on 3, 5, and 7-year bonds was respectively 6, 6.5, and 7 percent per annum.