CHAPTER NINE

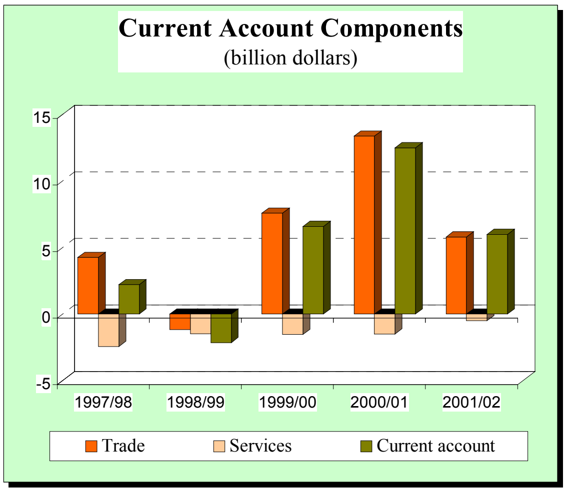
FOREIGN EXCHANGE AND TRADE POLICY

The boom in crude oil prices in international markets during the past three years affected the balance of payments and helped the repayment of external debt and improvement in foreign reserves in 1380 (2001/02). However, signs of recession in the US economy at the end of 1999 and its aggravation in the aftermath of September 11 events, in tandem with recession in Japan economy reduced the global economic growth rate, and as a result the demand for energy. Thus, crude oil export price declined by 15.4 percent, as compared with the respective period of the previous year, and the trade balance surplus fell dramatically.

During the year under review, foreign exchange and trade policies were aimed at trade facilitation and deregulation of external sector. Elimination of banks' obligation to receive real estate collateral against issuing insurance and credit guarantees, reduction in the rate of extending foreign exchange facilities from OSF, extension of rewards and subsidies to exporters and expansion of public banks' activities in foreign exchange transactions were among the major developments in this area. Moreover, stability in foreign exchange market, despite international developments and regional threats, supported domestic economy against unprecedented shocks or events, and was considered as an effective factor to achieve economic growth (non-oil) by 5.8 percent.

Balance of Payments

Balance of payments was greatly affected by developments in international oil market. The 15.4 percent reduction in oil price and the decline in crude oil exports resulted in a slump of 20.4 percent in export revenues.



Non-oil exports, with 9.2 percent rise, reached $ 4,565 million in 1380, against $ 4,181 million in 1379. Despite reduction in the export revenues to $ 23,904 million, relaxation in foreign trade regulations led the imports to grow by 20.2 percent, thus the trade balance enjoyed $ 5,775 million surplus.

The balance of payments' receipts and payments from the services sector grew by 73.4 and 13.9 percent, respectively. The balance of services account registered $ 495 million deficit in 1380.

Capital account, after two years of deficit, showed a $ 1,150 million surplus. Government long-term account faced $ 2,455 million surplus, owing to $ 286 million new debt (net) in 1380. Moreover, a sum of $ 300 million was allocated to the repayment of buy-back contracts' obligations, and $ 2,469 million new obligations were made in the form of contracts. Government short-term capital account also ran a deficit of $ 1,211 million. The CBI's foreign assets and the OSF account rose by $ 3,406 and $ 1,354 million, respectively, showing $ 4,760 million surplus in the overall balance of the BOP.

Foreign Exchange Obligations

Foreign exchange obligations, from $20 billion (including interest and contingent obligations) at the beginning of 1380 reached $ 21.8 billion by the end of the year, up by 8.5 percent(1). This increase led to changes in the composition of foreign exchange obligations, so that the share of contingent obligations rose from 56.8 percent at the end of 1379 to 63.2 percent at the end of 1380. The change in the composition of foreign exchange obligations and the higher share of contingent obligations provided more flexibility in foreign obligations than in the previous year. In this period, external debt reached $ 7,215 million, against $ 7,953 million in the previous year, registering 9.3 percent reduction.

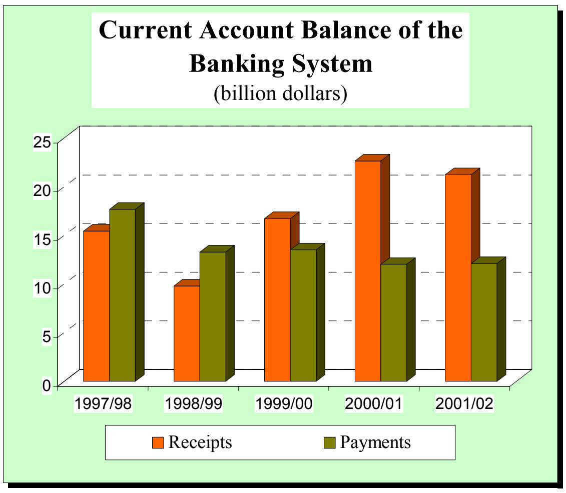
In 1380, short-term debts fell by $ 1,026 million and medium- and long-term debts increased by $ 288 million, which in sum led to a reduction in external debts to reach a maximum of $ 7,215 million. In this period, net obligations of oil prefinance, with $ 482 million rise, had the highest share in increasing long-term debts.

COMPOSITION OF FOREIGN DEBTS (million dollars)

	1379▲	1380	Percentage change
Contingent obligations	11,404	13,749	20.6
External debts	7,953	7,215	-9.3
Interest	713	803	12.6
Total obligations	**20,070**	**21,767**	**8.5**

Foreign Exchange Balance of the Banking System

The current foreign exchange receipts of the banking system, with a 6.3 percent fall, was limited to $ 21,224 million, owing mostly to the reduction in the oil and gas export revenues. Foreign exchange current payments rose by 0.8 percent to reach $ 12,100 million. Thus, the net current account of foreign exchange balance registered $ 9.1 billion surplus.



In this year, the net capital account and unclassified items in the foreign exchange balance ran a deficit of $ 5,097 million. Thus, the overall balance faced a surplus of $ 4 billion.

(1) According to 3rd FYDP Law, Article 85, the ceiling of permitted obligations (net), (after deducting CBI's foreign exchange reserves), excluding buy-back contracts is $ 25 billion.

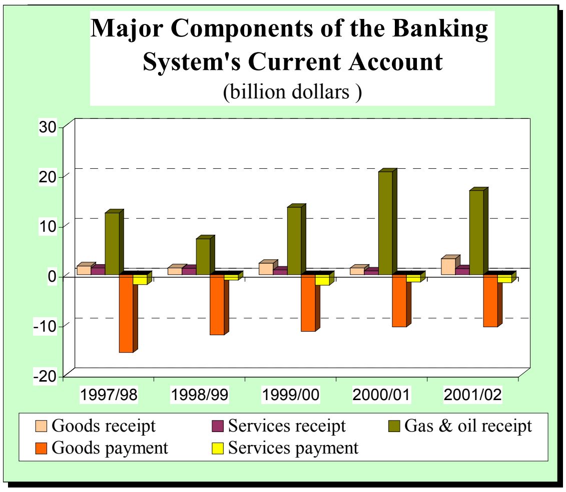
Current Receipts

The current foreign exchange receipts of the banking system, with $ 1.4 billion decrease compared with 1379, was limited to $ 21.2 billion in 1380. In this year, the reduction in oil prices in international markets and Iran's production cut according to OPEC decisions resulted in 18.4 percent reduction in oil export revenues to reach $ 16,553 million.

In this year, due to adoption of certain policies in easing the export process, the foreign exchange purchased from export of non-oil items went up, so that the mentioned receipts, with 151.5 percent rise compared with the previous year, amounted to $ 3,238 million. This constituted 70.9 percent of total value of non-oil exports for 1380. Foreign exchange receipts from the services sector reached $ 1,233 million in 1380, against $ 755 million in 1379, up by 63.4 percent. The banking systems' interest receipts increased by 79.6 percent to reach $ 926 million.

Current Payments

In 1380, the foreign exchange current payments of the banking system went up by 0.8 percent compared with the previous year to reach $ 12,100 million, 86.4 percent of which was related to import of goods. Foreign exchange payments for non-public sector imports fell by 8.8 percent to reach $ 5,300 million in 1380, against $ 5,812 million in 1379. In the review year, current payments for services, with 11.1 percent rise compared with the previous year, reached $ 1,640 million. The public sector share of these payments was 51.3 percent. The amount of interest payments reached $ 562 million in 1380.



Foreign Exchange and Trade Policies

The relatively stable value of rial, the favorable situation of foreign exchange reserves and positive outlook for international energy markets led the policymakers to adopt measures in deregulation and relaxation of administrative routines existed in foreign trade process as the main factor in paving the way for developments in external sector. Tariffication of non-tariff barriers and gradual reduction of tariffs, exemption of non-oil exports from any levies and charges, facilitation of opening LCs, and finally increase in the variety of hard currencies transacted on the TSE were among the major developments in this sector.

In order to promote non-oil exports and to enhance the role of private sector, the Cabinet approved the by-law recommended by the Ministry of Commerce concerning establishment of private export promotion funds, and the mechanisms of supporting such funds. The objective behind establishment of the mentioned funds is to render services in transportation, insurance, customs affairs, export guarantee, consultation, marketing, propagation and launching international exhibitions.

In order to consolidate policy making and planning of non-oil export affairs aiming at deregulating export activities, Articles of Association of the "High Council of Non-oil Export Promotion" was designed by the Ministry of Commerce and approved by the Cabinet.

Exports Policies

On the basis of the Cabinet approval, export of all goods and services was exempted from any levies and charges (direct and indirect) since the beginning of 1380. Moreover, banks and financial institutions were required to issue insurances and credit guarantees based on the average annual performance of exporters, without receipt of real estate collateral. The High Council of Exports, through its approval, exempted the export of all goods and services from foreign exchange surrender requirement. This was done to ease foreign trade and deregulate non-oil export process.

Imports Policies

Improvement in foreign exchange revenues from crude oil exports facilitated imports and led to its growth in 1380. Moreover, exchange rate stability and reduction in marginal exchange rate in official (TSE) and unofficial markets reduced the incentives to import out of customs entries. After noticeable reduction in the prepayment for opening LC for import of goods by the private sector in 1379, banks were authorized to open sight letters of credit without prior confirmation of the CBI, upto a ceiling of $ 900 thousand(1). Endorsement of shipping documents of LCs opened at CD rate was also authorized(2). The regulations for the depositing of 10 percent prepayment for opening LCs or order registration for bill was generalized to some government corporations and institutions(3). In order to enhance transparency in commercial transactions, the conditions for importing goods and services to and from free-trade and industrial, and special economic zones to the mainland in the framework of opening LC, or order registration for bill was announced by the CBI(4). Moreover, the CBI announced the conditions for opening LCs and issuing relevant guarantees out of short-term facilities extended by Islamic Development Bank at CD rate.

Foreign Exchange Policies

Following reduction in the number of exchange rates and in order to pave the way to implement exchange rate unification regime, two rates were applied in 1380, namely CD and negotiated rates. Attempts to control fluctuations and reduce the demand in parallel foreign exchange market resulted in the more depreciation of rial against dollar in unofficial market, and the standard deviation of dollar to be less than the corresponding period in the previous year. In 1380, foreign exchange market experienced a relatively stable situation. Utilization from the OSF account, and financial and budgetary discipline contributed greatly to this achievement.

The Board of Trustee of OSF facilitated the conditions for extending foreign exchange facilities, in view of developments in international economy after September 11 events and the economic slump during the past two years. On this basis, the lending rate (on foreign exchange facilities) was reduced from 7.5 percent per annum to LIBOR plus 2 percent.

Moreover, sale of foreign exchange to exporters of technical and engineering services to purchase tender documents and provide marketing expenses was authorized, subject to the confirmation of the Investment and Economic and Technical Aids Organization of Iran. At the beginning of this year, in order to facilitate foreign trade, transaction of CDs on the TSE was authorized to be traded in Swiss franc, Sterling pound, Japanese yen, and UAE dirham in addition to dollar and euro.

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(1) Circular No. 60/1000 dated 7.1.1380 of the CBI
(2) Circular No. 60/1005 dated 29.1.1380 of the CBI
(3) Circular No. 60/1078 dated 19.6.1380 of the CBI
(4) Circular No. 60/1098 dated 16.7.1380 of the CBI

Foreign Trade Performance

Adoption of policies aimed at facilitating trade resulted in growth in imports and exports in 1380. The value of exports (excluding oil, gas and electricity) grew by 12.3 percent compared with the previous year to reach $ 4,224.0 million. The weight of non-oil exports, with 13.5 percent growth compared with the previous year, reached 16,214.1 thousand tons. Thus, the unit value of exports with a negligible change amounted to $ 261 per ton.

In 1380, the cif value of imported goods went up remarkably by 22.9 percent to reach $ 17,626 million. This was largely due to improvement in foreign exchange revenues in the wake of favorable condition in international energy market, allocation of more foreign exchange to imports, and deregulation of foreign trade. The adjusted cif value of imports (after deduction of the cost of order registration fee) kept its upward trend and reached $ 16,228 million in 1380,against $ 13,187 million in 1379. The weight of imports also grew by 5.7 percent in the review period. The unit value of imported goods reached $ 642 in 1380, against $ 552 in 1379, up by 16.3 percent.

FOREIGN TRADE
(excluding oil, gas and electricity)

						Percentage change		Share (percent)	
	1376	1377	1378	1379	1380	1379	1380	1379	1380
Amount (million $)									
1. Imports	14,196	14,323	12,683	14,347	17,626	13.1	22.9		
2.Adjusted imports (1)	13,633	13,708	11,972	13,187	16,228	10.1	23.1	77.8	79.3
3. Exports	2,876	3,013	3,362	3,763	4,224	11.9	12.3	22.2	20.7
Deficit (3-2)	-10,757	-10,695	-8,610	-9,424	-12,004				
Total (3+2)	**16,509**	**16,721**	**15,334**	**16,950**	**20,452**	**10.5**	**20.7**	**100.0**	**100.0**
Weight (thousand tons)									
1. Imports	21,845	16,297	21,549	25,980	27,464	20.6	5.7	64.5	62.9
2. Exports	8,690	14,460	17,567	14,281	16,214	-18.7	13.5	35.5	37.1
Total (1+2)	**30,535**	**30,757**	**39,116**	**40,261**	**43,678**	**2.9**	**8.5**	**100.0**	**100.0**

(1) In foreign trade statistics, the value of imports includes value of goods plus order registration fee; therefore, order registration receipts have been deducted from the value of imports and have come under adjusted imports.

Imports

In 1380, about 27 million tons of goods valued at $ 17.6 billion were imported, showing 5.7 percent rise in weight and 2.9 percent increase in value, respectively.

The composition of imports indicates a decline in the share of import of raw materials and intermediate goods. However, imports of the mentioned items grew by 11.2 percent to reach $ 8,228 million, and imports of capital goods rose by 47.4 percent to reach $ 7,127 million, against $ 4,834 million in 1379. In the review year, the share of consumer goods out of total imports declined, albeit a growth of 7.5 percent in its value.

According to international classification of goods, the value of machinery and transportation vehicles imports, with 42.9 percent share out of total imports in 1380, had the greatest weight of imports and grew by 46.2 percent to reach $ 7,565 million. Second to this, imports of non-electric machinery with a share of 23 percent out of total non-oil imports and with 36.1 percent rise compared with the previous year reached $ 4,051 million. Moreover, imports of basic manufactured goods grew by 4.2 percent to reach $ 3,319 million in 1380, against $ 3,185 million in 1379 which constituted 18.8 percent of total imports.

Distribution of imports by countries shows that the top five exporting countries to Iran were Germany, United Arab Emirates, France, Italy and South Korea which together accounted for 37 percent of total imports in 1380.

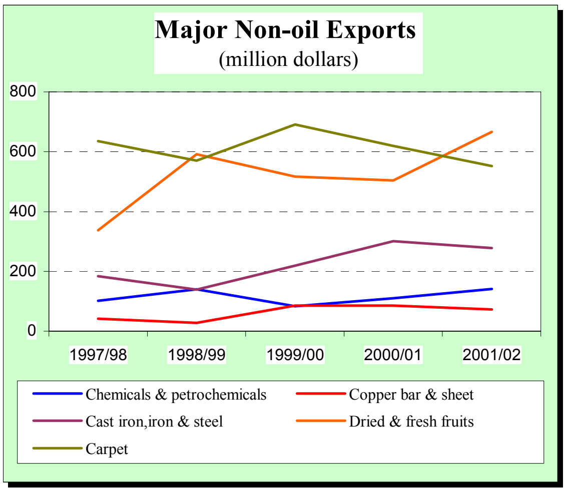
Distribution of imports according to continents indicates higher share for Europe and Asia as markets of origin for Iran. Thus, the total value of imports from these continents to Iran reached $ 15,193 million, which constituted 86.2 percent of total imports.

Non-oil Exports

In 1380, a total of 16,214 thousand tons of non-oil goods valued at $ 4,224 million were exported, showing 13.5 and 12.3 percent rise in weight and value, respectively, compared with the previous year. Taking into account the cross border and shuttle exports valued at $ 173 million and $ 64 million, respectively, the total value of non-oil exports (excluding oil, gas, and electricity) reached $ 4,461 million. The share of export value of industrial products kept its upward trend in the review year.

The export value of agricultural and traditional goods grew by 9.4 percent compared with the previous year to reach $ 1,603 million in 1380. The value of exported fresh and dried fruits, with a significant rise of 32.2 percent amounted to $ 666 million.

The value of industrial goods grew by 12.6 percent to reach $ 2,543 million, which constituted 60.2 percent of non-oil foreign exchange export earnings. The export of chemical and petrochemical products increased significantly, and export proceeds from these items amounted to $ 1,052.7 million in 1380.

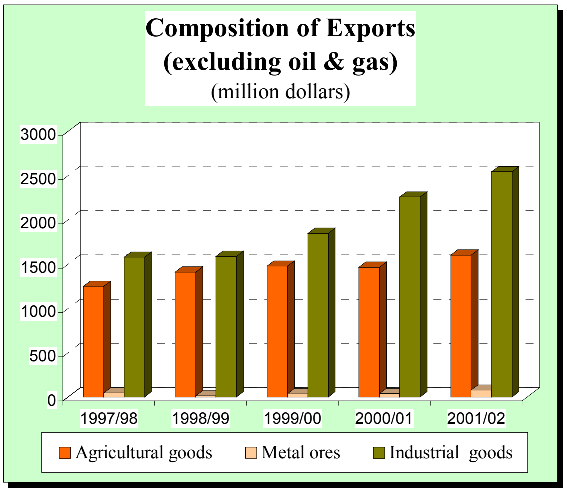


The geographical distribution of non-oil exports indicates that the first five trade partners of Iran (UAE, Azerbaijan, Germany, Japan and Italy) with $ 1,697.4 million, acquired a share of 40.2 percent of total non-oil exports. The first two trade partners namely UAE and Azerbaijan had an increasing trend of imports from Iran. However, Qatar with $ 63.3 million imports from Iran, had the highest amount of imports from Iran in 1380, and Turkey with a reduction of 64.8 percent in the value of imports from Iran, showed the highest decrease in the value of imports from Iran.

VALUE OF EXPORTS
(excluding oil, gas and electricity) (million dollars)

			Percentage change		Share (percent)	
	1379	1380	1379	1380	1379	1380
Agricultural & traditional goods	1,466	1,603	-0.8	9.4	39.0	38.0
Metallic mineral ores	38	77	3.9	105.0	1.0	1.8
Industrial goods	2,259	2,543	22.3	12.6	60.0	60.2
Total	**3,763**	**4,224**	**11.9**	**12.3**	**100.0**	**100.0**

The geographical distribution of exports according to continents indicates that the intensity of geographical concentration of exports is very high, in that 93.9 percent of Iran's exports went to Asia and Europe. The growth of exports to USA and Africa declined dramatically and in total these two continents only imported $ 247 million from Iran.



Bilateral Trade

Barter transactions in 1380 were carried out within the framework of clearing transactions, special account transactions and the Asian Clearing Union. In this year, receipts from special and clearing accounts amounted to $166.0 million, $119.2 million of which came from special account transactions, which showed a decline of 57.9 percent compared to the previous year. During this year, the total amount of barter transaction payments decreased by 76.7 percent to $ 136.8 million.

In 1380, the volume of transactions through the Asian Clearing Union reached $ 1,645.6 million, which included interest received and paid, registering a one percent increase compared to the previous year. Thus, in the framework of ACU transactions, Iran faced a trade surplus of $ 1,207.1 million, which showed a one percent growth when compared to trade surplus of the previous year. This surplus was due to receipts of $ 1,426.3 million from exports and $ 219.3 million payment for imports. Iran stood first in terms of the amount of her trade surplus among the ACU member countries, while in terms of volume of total exports ranked second after India. In the review year, the member countries were permitted to carry out swap transactions up to a maximum of $ 588.6 million, $ 42.9 million of which belonged to Iran.

Transit Transactions

In 1380, a total of 3,044.6 thousand tons of goods transited into the country, showing 16.1 percent decrease compared with the previous year. Out of total transit goods, 2,672 thousand tons or 87.8 percent were transported by truck and rail, and the remaining 12.2 percent, consisting of 373 thousand tons of oil products, was transported through swap arrangements. The shares of oil and non-oil goods out of total transit goods entering the country (excluding the swap) were 12.3 and 87.7 percent, respectively. If the oil product swap arrangements were taken into account, the share of oil products transiting the country would increase to 23 percent. Transited goods entering the country excluding swap transactions were transported as follows: sea to land 38.6 percent, land to land 29.6 percent, and rail transport 20.9 percent.