

The year 1395, the 12th year of the 20-Year Vision Plan, was the last year of the 5th FYDP, which actually had an extension of one year. The Budget Law for this year was formulated in light of the 20-Year Vision Plan, the General Policies of the Islamic Republic of Iran, and the major policies of the 5th FYDP Law.

Budgetary Performance

According to Paragraph (A), Note 1, Single Article of Budget Law for 1395, the share of the public company affiliated to the Ministry of Petroleum in total foreign exchange earnings from oil (subject of Paragraph (A), Article 1, Law of Annexing Articles to the Act on Adjustment of Part of Government Financial Regulations (2) approved on Esfand 4, 1393) is set at 14.5 percent, in which the government should have a zero share.

Based on Paragraph (B), Note 1, Single Article of Budget Law for 1395, the share of the NDFI from oil export earnings (Subject of Paragraph (B), Article 1, Law of Annexing Articles to the Act on Adjustment of Part of Government Financial Regulations (2)) is determined at 20 percent.

According to the 1395 Budget Law, total sources and uses of government general

budget were approved at Rls. 2,943.9 trillion. Performance figures of sources and uses of budget were Rls. 2,831.6 trillion for the same year.

Based on the 1395 Budget Law, approved revenues, including taxes and other revenues (excluding special revenues), totaled Rls. 1,573.8 trillion and approved expenses (excluding special expenditures) totaled Rls. 2,137.6 trillion. Therefore, the operating balance of the budget was projected to have a deficit of Rls. 563.8 trillion. Moreover, approved receipts and payments out of disposal and acquisition of non-financial assets account (excluding special revenues and expenditures) were Rls. 790.5 trillion and Rls. 574.8 trillion, respectively. Thus, the approved operating and non-financial balance (sum of approved operating balance and net disposal of non-financial assets) for 1395 posted Rls. 348.1 trillion deficit, which was to be financed out of net disposal of financial assets, mainly received from sales of Islamic financial instruments.

The composition of sources of the approved government budget in 1395 (excluding special revenues) constituted 53.5 percent receipts from revenues, 26.9 percent from disposal of non-financial assets, and 19.7 percent from disposal of financial assets. Uses of the approved government budget (excluding special expenditures) comprised expenses by 72.6 percent, acquisition of non-financial

assets by 19.5 percent, and acquisition of financial assets by 7.9 percent.

Review of the figures related to the Budget performance¹ in 1395 reveals that general budget sources (excluding special revenues) were financed out of revenues by 51.6 percent, from disposal of non-financial assets by 26.2 percent, and from disposal of financial assets by 22.2 percent. Budget uses (excluding special expenditures) indicate allocation of 73.2 percent for current expenses, 13.7 percent for acquisition of non-financial assets, and 13.2 percent for acquisition of financial assets.

Government revenues, including taxes and other revenues (excluding special revenues), amounted to Rls. 1,460.7 trillion, indicating 30.0 percent increase compared with 1394 and 92.8 percent realization compared with the approved figure. Out of total revenues, Rls. 1,014.7 trillion was received from taxes and Rls. 446.0 trillion from other revenues.

In 1395, government expenses (current expenditures, excluding special expenditures) grew by 21.4 percent compared with the year before to reach Rls. 2,072.3 trillion. This was 3.1 percent lower than the figure approved in the budget. Thus, based on the performance of government revenues and expenses in 1395, operating balance ran a deficit of Rls. 611.7 trillion.

Receipts from disposal of non-financial assets, including sales of crude oil and oil products as well as movable and immovable assets, increased by 10.3 percent compared with the year before to reach Rls. 742.8 trillion in 1395. This was 6.0 percent lower

than the figure approved in the Budget. Disbursements on the acquisition of non-financial assets (development expenditures) rose 42.1 percent to Rls. 386.6 trillion, signifying 67.3 percent realization compared with the approved figure. Therefore, net disposal of non-financial assets posted a surplus of Rls. 356.2 trillion in 1395.

Figure 10.1. Composition of government budget

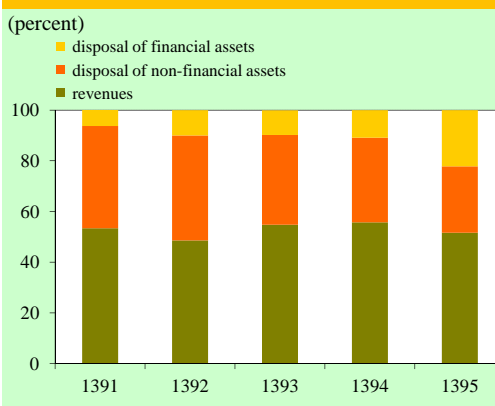
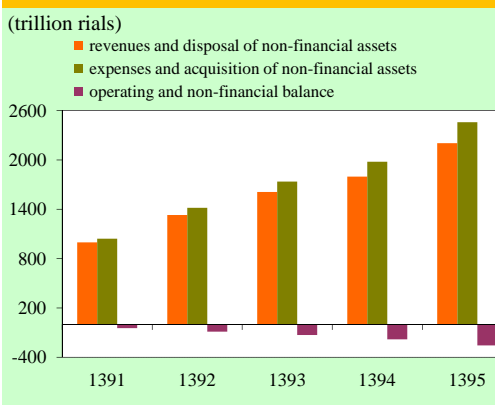


Figure 10.2. Government fiscal position



¹ Wherever "approved" is not specified, figures refer to the government's performance.

Considering revenues and expenses as well as disposal and acquisition of non-financial assets, the operating and non-financial balance (sum of operating balance and net disposal of non-financial assets) ran a deficit of Rls. 255.5 trillion in 1395, indicating 40.7 percent increase compared with the year before. This was 26.6 percent lower than

the figure approved in the Budget. Moreover, disposal of financial assets amounted to Rls. 628.1 trillion and acquisition of financial assets totaled Rls. 372.7 trillion. Therefore, net disposal of financial assets posted a surplus of Rls. 255.5 trillion, covering the deficit in the operating and non-financial balance.

Figure 10.3. Ratio of selected budget figures to GDP

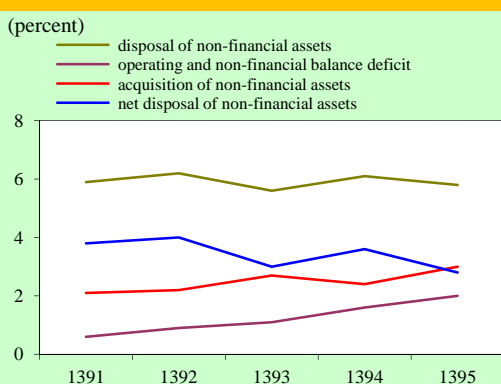


Figure 10.4. Ratio of selected budget figures to GDP

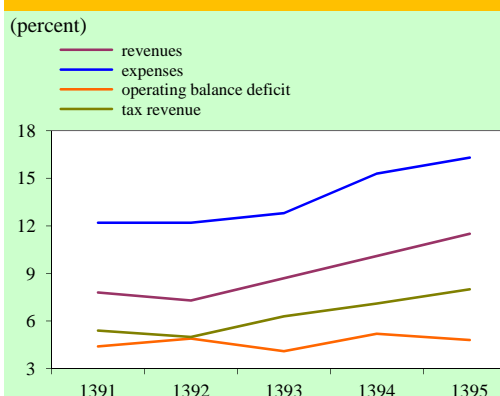


Table 10.1. Sources and Uses of Government General Budget¹

(trillion rials-percent)

	Approved					Performance				
	Approved		Percentage change	Share in total		Performance		Percentage change	Share in total	
	1394	1395		1394	1395	1394	1395		1394	1395
Sources	2,200.4	2,943.9	33.8	100.0	100.0	2,017.1	2,831.6	40.4	100.0	100.0
Revenues	1,288.5	1,573.8	22.1	58.6	53.5	1,123.7	1,460.7	30.0	55.7	51.6
Disposal of non-financial assets	564.8	790.5	40.0	25.7	26.9	673.6	742.8	10.3	33.4	26.2
Disposal of financial assets	347.0	579.6	67.0	15.8	19.7	219.8	628.1	185.8	10.9	22.2
Uses	2,200.4	2,943.9	33.8	100.0	100.0	2,017.1	2,831.6	40.4	100.0	100.0
Expenses	1,630.2	2,137.6	31.1	74.1	72.6	1,706.9	2,072.3	21.4	84.6	73.2
Acquisition of non-financial assets	473.9	574.8	21.3	21.5	19.5	272.0	386.6	42.1	13.5	13.7
Acquisition of financial assets	96.3	231.5	140.4	4.4	7.9	38.2	372.7	⊖	1.9	13.2

Source: Annual Budget Laws, Ministry of Economic Affairs and Finance.

¹ Excludes special revenues and expenditures.

Table 10.2. Government Fiscal Position¹

				(trillion rials)	
	1393	1394	1395	Percentage change	
				1394	1395
Revenues	977.6	1,123.7	1,460.7	15.0	30.0
Tax revenue	709.7	791.9	1,014.7	11.6	28.1
Other government revenues	267.9	331.9	446.0	23.9	34.4
Expenses (current)	1,438.3	1,706.9	2,072.3	18.7	21.4
Operating balance	-460.7	-583.1	-611.7	26.6	4.9
Disposal of non-financial assets	631.9	673.6	742.8	6.6	10.3
Acquisition of non-financial assets (development expenditures)	299.5	272.0	386.6	-9.2	42.1
Net disposal of non-financial assets	332.4	401.6	356.2	20.8	-11.3
Operating and non-financial balance	-128.3	-181.6	-255.5	41.5	40.7

	Ratio to GDP (current prices)			(1390=100)	
	Percent			Change (percentage points)	
Revenues	8.7	10.1	11.5	1.4	1.4
Tax revenue	6.3	7.1	8.0	0.8	0.9
Other government revenues	2.4	3.0	3.5	0.6	0.5
Expenses (current)	12.8	15.3	16.3	2.6	1.0
Operating balance	-4.1	-5.2	-4.8	-1.1	0.4
Disposal of non-financial assets	5.6	6.1	5.8	0.4	-0.2
Acquisition of non-financial assets (development expenditures)	2.7	2.4	3.0	-0.2	0.6
Net disposal of non-financial assets	3.0	3.6	2.8	0.7	-0.8
Operating and non-financial balance	-1.1	-1.6	-2.0	-0.5	-0.4

Source: Ministry of Economic Affairs and Finance.

¹Excludes special revenues and expenditures.

5th Five-Year Development Plan (1390-1395)

Government fiscal policy, as drafted under the 5th FYDP, was prepared within the framework of the general policies declared by the Supreme Leader, aimed at actualization of the targets of the 20-Year Vision Plan. According to the General Policies of the 5th FYDP, the executive, judicial, and legislative bodies were required to adopt appropriate measures to formulate a development model based on the Iranian and Islamic values, with a focus on just and equal opportunities for human development whereby fair and well-distributed social and economic opportunities would be materialized. Part of these issues were addressed through economic policies, mainly focusing on sustainable economic growth and social justice. In this respect,

the 5th FYDP casts a special look on the subject of oil revenue on which the Iranian government budget is highly reliant. Thus, for the purpose of increasing production as well as domestic and foreign investment, the creation of National Development Fund of Iran (NDFI) was projected in the 5th FYDP (to be implemented in the 1st year of the Plan), aimed at lowering the reliance of government current expenses on oil and gas income and better allocation of facilities to the public, private, and cooperative sectors.

Some of the important measures adopted in the course of the 5th Plan were the creation of the NDFI, recognition of the need for securitization of public sector debt, revision

of the Direct Tax Law, implementation of the Health Sector Evolution Plan, continuation of the Targeted Subsidy Plan, and removal of some high-income groups from the list of cash payment receivers. As quantitative targets for economic variables and the government budget were not stipulated in the 5th FYDP (contrary to previous plans), a comparison of budget performance figures with the Plan targets is not plausible. In fact, the performance figures may only be compared with the approved budget figures for each year. Over the years of the 5th FYDP, the annual average growth rates of budget performance figures were in most cases higher than the approved figures. The projected annual average growth rate for approved budget sources was 16.5 percent for instance, while the performance figures indicated an annual average increase of 21.1 percent.

An annual average of Rls. 606.9 trillion of government general budget sources was received from sales of crude oil and oil products during the course of the 5th FYDP, indicating 92.2 percent realization. The share of sales of crude oil and oil products in total government sources decreased from 48.4 percent in 1390 to 26.1 percent in 1395. This share was 35.2 percent on average during the course of the Plan.

A review of government revenue performance over the years of the 5th FYDP shows that Rls. 627.5 trillion of government general budget sources resulted from tax collection, on an annual average basis. This indicated 93.2 percent realization. The share of tax revenue in total budget sources rose from 30.6 percent in the first year of the Plan to 35.8 percent in the last year of the 5th FYDP, averaging at 36.4 percent.

Table 10.3. Comparison of Approved and Performance Figures of Budget Law during the 5th FYDP

(trillion rials-percent)

	Plan average		Annual average growth		Share in total sources/uses		Realization (percent)
	Approved	Performance	Approved	Performance	Approved	Performance	
Sources	1,994.3	1,724.7	16.5	21.1	100.0	100.0	86.5
General revenues	993.0	898.7	21.0	24.9	49.8	52.1	90.5
Tax revenue	673.3	627.5	19.8	23.6	33.8	36.4	93.2
Other government revenues	319.8	271.2	23.5	28.3	16.0	15.7	84.8
Expenses (current)	1,393.9	1,363.8	19.6	21.0	69.9	79.1	97.8
Operating balance	-400.8	-465.1	16.3	14.2	-	-	116.0
Disposal of non-financial assets	681.0	609.8	9.6	9.3	34.1	35.4	89.5
Sales of crude oil and oil products	658.6	606.9	9.4	9.3	33.0	35.2	92.2
Receipts from sales of movable and immovable assets	14.0	2.9	-5.4	20.5	0.7	0.2	20.4
Disposal of projects related to acquisition of non-financial assets	8.3	—	0	0	0.4	*	*
Acquisition of non-financial assets (development expenditures)	437.0	269.9	10.4	10.5	21.9	15.6	61.8
Net disposal of non-financial assets	244.0	339.9	7.6	8.1	-	-	139.3
Operating and non-financial balance	-156.9	-125.3	25.7	30.3	-	-	79.9
Net disposal of financial assets	156.9	125.3	25.7	30.3	-	-	79.9
Disposal of financial assets	320.2	216.3	17.7	42.2	16.1	12.5	67.5
Acquisition of financial assets	163.4	91.0	10.1	58.1	8.2	5.3	55.7

Source: Annual Budget Laws, Ministry of Economic Affairs and Finance.

Chapter 10 FISCAL POLICY AND PERFORMANCE

Table 10.4. Development Trend of Certain Budget Components during the 5th FYDP

(percent)

	1390		1395		Plan average	
	Approved	Performance	Approved	Performance	Approved	Performance
Analytical ratios						
General revenues to total sources	39.5	46.3	53.5	51.6	49.8	52.1
Tax revenue to total sources	26.2	30.6	35.3	35.8	33.8	36.4
Tax revenue to expenses	45.0	41.0	48.6	49.0	48.3	46.0
Revenues from sales of crude oil and oil products to total sources	36.9	48.4	25.3	26.1	33.0	35.2
Revenues received from sales of crude oil and oil products to expenses	63.6	64.7	34.9	35.7	47.3	44.5
Expenses to total uses	58.1	74.7	72.6	73.2	69.9	79.1
Acquisition of non-financial assets to total uses	22.6	24.6	19.5	13.7	21.9	15.6
Operating and non-financial balance to total sources	-3.0	-4.5	-11.8	-9.0	-7.9	-7.3
Ratio to GDP						
Budget sources to GDP	24.3	18.5	23.1	22.3	20.4	17.7
General revenues to GDP	9.6	8.6	12.4	11.5	10.2	9.2
Tax revenue to GDP	6.4	5.6	8.2	8.0	6.9	6.4
Revenues received from sales of crude oil and oil products to GDP	9.0	8.9	5.9	5.8	6.7	6.2
Expenses to GDP	14.1	13.8	16.8	16.3	14.3	14.0
Acquisition of non-financial assets to GDP	5.5	4.5	4.5	3.0	4.5	2.8
Operating and non-financial balance to GDP	-0.7	-0.8	-2.7	-2.0	-1.6	-1.3

Source: Annual Budget Laws, Ministry of Economic Affairs and Finance.