CHAPTER 11

BALANCE OF PAYMENTS

Balance of Payments Developments

With the slight increase in international prices of crude oil and the rise in the volume of crude oil exports in light of the implementation of the JCPOA, value of Iran's oil exports improved in 1395, which in turn led to an increase in the current account surplus of the country. On the other hand, the non-oil current account deficit widened in this year.

A. Current Account

Current account posted a surplus of $16.4 billion in 1395, indicating a remarkable rise compared with the respective figure in 1394. This increase was largely due to the growth in the surplus of goods account, which was in turn attributable to the increase in the value of oil exports. Moreover, the deficit of the non-oil current account increased by 31.1 percent to roughly $38.0 billion, mainly attributable to the increase in the imports of non-oil goods, reduction in non-oil exports, and rise in the deficit of services account. Non-oil foreign exchange earnings fell by 7.3 percent and constituted 51.5 percent[1] of foreign exchange requirements, indicating 8.1 percentage points decrease compared with 1394.

Table 11.1. Current Account (million dollars)

	1393	1394	1395□	Percentage change 1394	Percentage change 1395
Current account	**13,571**	**1,237**	**16,388**	**-90.9**	**□**
Goods	18,060	5,354	20,843	-70.4	289.3
Services	-6,877	-4,785	-5,941	-30.4	24.2
Income	1,845	241	928	-86.9	285.1
Current transfers	543	427	558	-21.4	30.6
Non-oil current account [1]	**-39,239**	**-28,972**	**-37,976**	**-26.2**	**31.1**

[1] "Non-oil" in this chapter refers to the exclusion of 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) reflected in the data on imports and exports.

[1] This ratio is calculated by dividing the sum of "non-oil exports, exports of services, and credit entries of income and current transfers accounts" to the sum of "imports (FOB), imports of services, and debit entries of income and current transfers accounts" times 100.

Figure 11.1. Components of current account

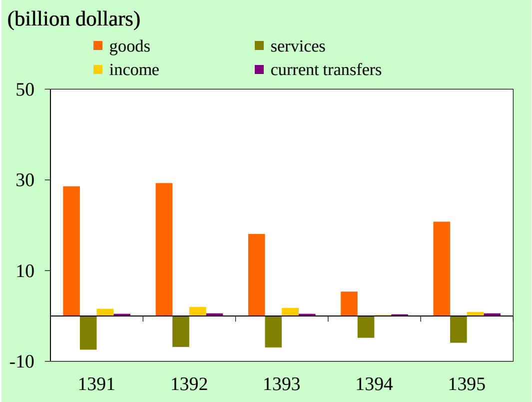
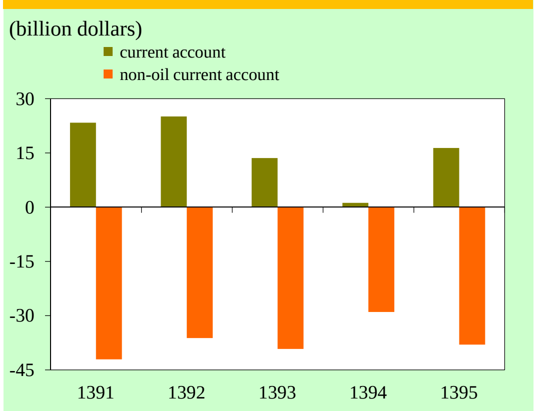


Figure 11.2. Total and non-oil current account balance



Goods Account (trade balance)

In 1395, the value of exports and imports of goods (FOB) amounted to $83,978 million and $63,135 million, respectively. Therefore, goods account registered a surplus of $20,843 million, up by 289.3 percent compared with 1394. The remarkable increase in the weight of crude oil exports and the ensuing rise in the value of oil exports led to the growth of goods account surplus in 1395. The 9.4 percent fall in the exports of non-oil goods and the 10.3 percent rise in the imports of these commodities, in terms of value, raised the non-oil goods account deficit by 34.9 percent to $33.5 billion.

The share of oil exports in total exports of goods rose 15.8 percentage points compared with 1394 to 66.4 percent. Oil exports through Customs reached $5,710 million in 1395, indicating 28.8 percent increase compared with the year before.

Figure 11.3. Ratio of external trade balance to GDP

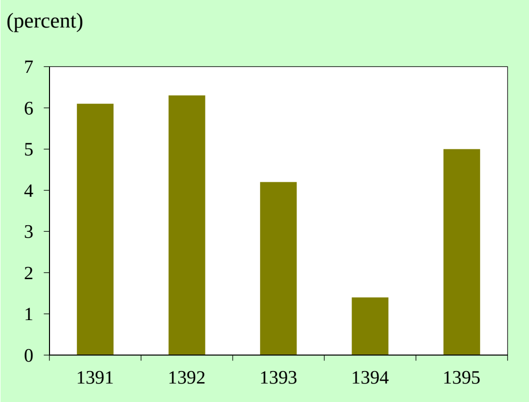


Table 11.2. Goods Account (million dollars)

				Percentage change	
	1393	1394	1395□	1394	1395
Goods account (trade balance)	**18,060**	**5,354**	**20,843**	**-70.4**	**289.3**
Exports (FOB)	88,976	62,995	83,978	-29.2	33.3
Imports (FOB)	70,915	57,641	63,135	-18.7	9.5
Non-oil goods account (trade balance)	**-34,749**	**-24,856**	**-33,521**	**-28.5**	**34.9**
Non-oil exports	33,569	31,147	28,226	-7.2	-9.4
Non-oil imports	68,318	56,003	61,747	-18.0	10.3

The total value of goods' imports (FOB) reached $63,135 million in 1395, up by 9.5 percent compared with the previous year. Of this figure, $1,388 million (2.2 percent) was related to gas and oil products and $61,747 million (97.8 percent), to other goods.

The current account to GDP ratio rose 3.6 percentage points compared with 1394, to reach 3.9 percent. Meanwhile, the ratios of goods account and the exports of goods to GDP were higher than the year before, mainly attributable to the remarkable increase in the value of oil exports.

Figure 11.4. Export-import ratio

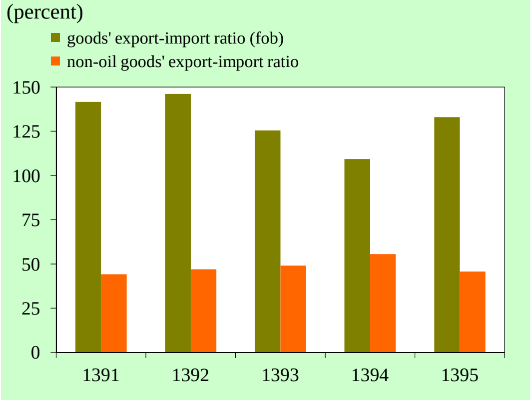


Table 11.3. Exports (million dollars)

	1393	1394	1395□	Percentage change 1394	Percentage change 1395	Share (percent) 1394	Share (percent) 1395
Exports of goods (FOB)	**88,976**	**62,995**	**83,978**	**-29.2**	**33.3**	**100.0**	**100.0**
Oil exports[1]	**55,406**	**31,848**	**55,752**	**-42.5**	**75.1**	**50.6**	**66.4**
Recorded in Customs data[2]	4,654	4,432	5,710	-4.8	28.8	7.0	6.8
Non-oil exports	**33,569**	**31,147**	**28,226**	**-7.2**	**-9.4**	**49.4**	**33.6**

[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 11.4. Imports (million dollars)

	1393	1394	1395□	Percentage change 1394	Percentage change 1395
Total imports (FOB)	**70,915**	**57,641**	**63,135**	**-18.7**	**9.5**
Gas and oil products[1]	2,597	1,639	1,388	-36.9	-15.3
Other goods (non-oil)	68,318	56,003	61,747	-18.0	10.3

[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).

Table 11.5. Ratio of Current Account, Goods Account, and Exports and Imports of Goods to GDP[1] (percent)

	1393	1394	1395□
Current account to GDP	3.1	0.3	3.9
Goods account to GDP	4.2	1.4	5.0
Exports of goods to GDP	20.5	16.3	20.0
Imports of goods to GDP	16.3	14.9	15.1

[1] At market price, current prices.

Services Account

Services account deficit increased by 24.2 percent to $5,941 million in 1395. Total receipts from the exports of services declined by 9.2 percent while the imports of services went up by 0.8 percent. "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 88.1 percent of the value of exports and 82.5 percent of the value of imports of services. Corresponding figures for 1394 were 86.6 and 83.8 percent. The main factors contributing to the rise in the services account deficit were the reduction in the exports of "travel" services resulting from fewer foreign travelers into Iran, rise in the imports of travel services, and a remarkable increase in the imports of "construction services". Cost rises related to buyback contracts of oil projects were the main reason behind the increase in the imports of construction services in 1395 compared with the year before.

Income Account

Net transactions under the income account, including receipts and payments under the "compensation of employees, including border and seasonal workers" and "investment income and expenditure" led to a capital inflow of $928 million in 1395. Related receipts from non-resident entities increased by 14.4 percent and reached $404 million while payments to border and seasonal workers decreased by 14.5 percent to $391 million. The profit received from investment abroad went up by 33.9 percent to $2,132 million while investment expenditure decreased by 2.4 percent, compared with 1394, to reach $1,217 million.

Table 11.6. Services Account (million dollars)

				Percentage change		Share (percent)	
	1393	1394	1395□	1394	1395	1394	1395
Services account	**-6,877**	**-4,785**	**-5,941**	**-30.4**	**24.2**	–	–
Exports	**10,572**	**11,085**	**10,060**	**4.9**	**-9.2**	**100.0**	**100.0**
Transportation	4,617	3,930	3,754	-14.9	-4.5	35.4	37.3
Travel	3,841	4,388	3,713	14.3	-15.4	39.6	36.9
Construction services	740	1,284	1,397	73.5	8.8	11.6	13.9
Other services	1,375	1,483	1,197	7.9	-19.3	13.4	11.9
Imports	**17,450**	**15,870**	**16,001**	**-9.1**	**0.8**	**100.0**	**100.0**
Transportation	3,656	3,781	2,453	3.4	-35.1	23.8	15.3
Travel	9,452	8,992	9,437	-4.9	4.9	56.7	59.0
Construction services	1,026	534	1,315	-47.9	146.2	3.4	8.2
Other services	3,316	2,564	2,797	-22.7	9.1	16.2	17.5

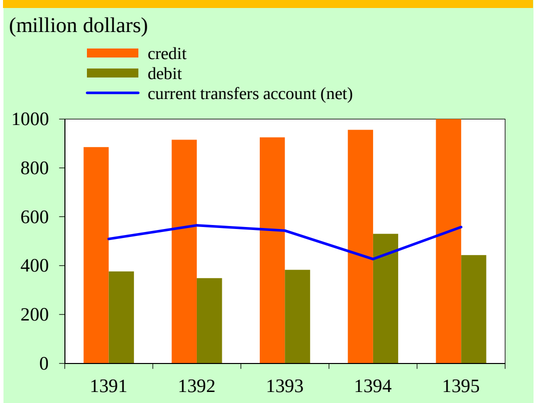
Table 11.7. Income Account (million dollars)

				Percentage change	
	1393	1394	1395□	1394	1395
Income account	**1,845**	**241**	**928**	**-86.9**	**285.1**
Credit	**3,478**	**1,946**	**2,536**	**-44.1**	**30.4**
Compensation of employees, including border, seasonal workers	384	354	404	-7.9	14.4
Investment income	3,094	1,592	2,132	-48.5	33.9
Debit	**1,633**	**1,705**	**1,608**	**4.4**	**-5.7**
Compensation of employees, including border, seasonal workers	292	458	391	56.8	-14.5
Investment expenditure	1,341	1,247	1,217	-7.0	-2.4

Current Transfers Account[1]

In 1395, the surplus of current transfers account amounted to $558 million, indicating 30.6 percent increase compared with the surplus of this account in 1394.

Figure 11.5. Current transfers account



B. Capital and Financial Account

Outflows under the capital and financial account amounted to $10.6 billion in 1395, mainly due to the transactions under the financial account. The capital account of the balance of payments mainly includes capital transfers (debt relief or immigrants' transfers). The financial account constitutes transactions under foreign direct investment, portfolio investment, other investments, and changes in the gross value of CBI foreign assets.

Capital Account

Capital account registered outflows of $709 million in 1395, up by 63.6 percent compared with the year before.

Financial Account

Financial account outflows amounted to $9.9 billion in 1395, mainly attributable to outflows under "other investments" account by $18.0 billion.

Foreign Direct Investment (FDI)

In 1395, net[2] capital inflows under the FDI, including investments done based on Law on Foreign Direct Investment as well as investments in oil and gas projects in the form of buyback, Build-Operate-Transfer (BOT), and partnership contracts, grew by about 5.4 percent to $429 million.

Table 11.8. Capital and Financial Account (million dollars)

				Percentage change	
	1393	1394	1395□	1394	1395
Capital and financial account	**-8,002**	**113**	**-10,622**	**θ**	**θ**
Capital account	-664	-433	-709	-34.8	63.6
Financial account	-7,337	547	-9,913	θ	θ

[1] When an entry in the balance of payments records that a resident entity in one economy has provided a non-resident entity with a real resource (goods and services) or a financial item, the double-entry system requires that an offsetting entry be made which, in case of not consisting of the provision of a real resource or a financial item, is designated as a transfer. Transferred items are consumed in the receiving economy within a short period of time after the transfer phase.

[2] Refers to sum of receipts and payments under foreign direct investment.

FDI Inflows

The sanctions relief following the nuclear energy deal led to positive developments in capital account of BOP, manifesting itself in improved capital inflows into Iran in 1395. According to the data released by the Organization for Investment, Economic and Technical Assistance of Iran (OIETAI), FDI inflows increased by 241.0 percent to $3,223 million in 1395. A sum of $2,155 million of the mentioned amount was under the Foreign Investment Promotion and Protection Act, indicating a remarkable increase compared with the year before. It is also important to note that a sum of $870 million out of the $3,223 million FDI inflows in this year was in the form of oil and gas buyback contracts, showing 40.7 percent increase compared with the year before. Moreover, a sum of $198 million was in the form of other investments (including partnership, BOT, and buyback contracts, as well as portfolio investment), showing 190.9 percent rise compared with 1394.

Portfolio Investment

Total transactions under the portfolio investment heading indicate net outflows of $20 million in 1395, down by 8.6 percent compared with 1394. These transactions were mainly in the form of purchase of company shares and securities in foreign currency.

Other Investments

"Other investments" account recorded outflows of $18 billion in 1395. Notable out-flows under the "trade credits" heading on the assets side were the main factor behind the outflows of "other investments" account, the major part of which was attributable to credit sales of crude oil.

Reserve Assets (CBI foreign assets)

Transactions in foreign exchange between Iranian and foreign entities caused the gross value of CBI foreign assets to decrease by $7.7 billion in 1395.

Table 11.9. Financial Account (million dollars)

				Percentage change	
	1393	1394	1395□	1394	1395
Financial account	**-7,337**	**547**	**-9,913**	**θ**	**θ**
Foreign direct investment (net)	256	407	429	58.9	5.4
Portfolio investment (net)	466	-22	-20	θ	-8.6
Other investments (net)	501	2,395	-17,988	377.9	θ
Reserve assets	-8,561	-2,233	7,666	-73.9	θ

Table 11.10. Foreign Investment Inflows in the form of Foreign Direct Investment (million dollars)

				Percentage change	
	1393	1394	1395□	1394	1395
Foreign direct investment	**1,394**	**945**	**3,223**	**-32.2**	**241.0**
FDI inflows under Foreign Investment Promotion and Protection Act	169	258	2,155	53.2	▣
Oil and gas buyback contracts	1,093	618	870	-43.4	40.7
Others	132	68	198	-48.4	190.9

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

External Debt

Foreign exchange obligations (actual and contingent) totaled $29,204 million at end-1395. The value of contingent obligations grew by 49.8 percent to $20,722 million, constituting a share of 71.0 percent in total. The value of actual obligations (external debt) increased by 13.5 percent to $8.5 billion of which, $5.2 billion was related to medium- and long-term debt and $3.3 billion, to short-term debt.

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

Over the course of the 5th FYDP, the balance of payments position of the country and the trading of goods and services were mainly influenced by the developments of global crude oil prices and the ups and downs in the interactions of the Iranian economy with the outside world, which was in turn affected by the intensification of economic sanctions against Iran and later the nuclear agreement.

The remarkable increase in the price of crude oil in the international markets in 1390 raised the value of oil exports compared to 1389, leading to a noticeable increase in the current account surplus. However, with the escalation of economic sanctions, especially on the Central Bank and crude oil sales as of late-1390 on the one hand and the downward trend of crude oil prices on the other, the value of oil exports started to decrease during the 1392-1394 period. Comparing the value of oil exports in the 5th FYDP years with corresponding figures in the 4th Plan indicates that the average value of oil exports decreased during the course of the 5th FYDP.

Despite the decline in the average value of crude oil exports during the 5th Plan years compared with the 4th FYDP, the average value of non-oil exports increased in light of the adoption of certain support policies to strengthen industrial exports, including the removal of some restrictions on the exports of petrochemical products. As a result, the average value of the exports of goods reached $95.3 billion during the 5th Plan, up from $85.6 billion in the 4th FYDP period.

Imports of goods had large fluctuations during the course of the 5th FYDP, mainly attributable to the escalation of sanctions over the initial years of the Plan and later the positive expectations of importers following the concluding of the nuclear deal and the liberalization of Iran's frozen assets in 1393. The annual average value of goods' imports increased from $58.2 billion during the 4th FYDP to $67.0 billion over the course of the 5th Plan. A comparison of exports and imports of services during the 5th FYDP shows a relatively higher increase in the average value of exports than that of imports compared with the 4th FYDP.

Table 11.11. Foreign Exchange Obligations (million dollars)

				Percentage change	
	1393	1394	1395	1394	1395
Actual obligations (external debt)	**5,108**	**7,476**	**8,481**	**46.3**	**13.5**
Medium- and long-term	4,676	5,456	5,170	16.7	-5.2
Short-term	432	2,019	3,311	367.5	64.0
Contingent obligations	**15,665**	**13,829**	**20,722**	**-11.7**	**49.8**
Total	**20,773**	**21,304**	**29,204**	**2.6**	**37.1**

The value of oil exports underwent an annual average decline of 7.7 percent during 1390-1395 while the value of non-oil exports grew by an annual average rate of 3.8 percent. Given the high share of oil exports in total exports of goods, the value of the exports of goods fell by an annual average rate of 4.8 percent.

The annual average growth of the exports of services stood at 2.2 percent over the course of the 5th FYDP which, compared with the previous Plan, indicates much lower growth. Imports of services, on the other hand, being affected by the imports of goods, foreign exchange market developments, and imports of construction services, experienced an annual average decline of 2.7 percent over the 5th FYDP years.

With the decline in the average value of oil exports and rise in the average value of non-oil exports in the years of 5th Plan compared with the 4th Plan period, the ratio of non-oil exports to total exports of goods increased from 15.5 percent during the 4th Plan to 33.3 percent, on average, during the 5th FYDP years. Accordingly, the ratio of non-oil exports to imports of goods increased by 21.9 percentage points to 44.6 percent. Moreover, the contraction of GDP in some years led to a rise in the average ratio of non-oil exports to GDP from 4.0 percent during the 4th FYDP years to 6.6 percent in the course of the 5th FYDP.

Table 11.13. Comparison of Annual Average Growth of Exports & Imports of Goods & Services in 4th and 5th Plans (percent)

	Performance	
	4th Plan	5th Plan
Exports of goods	**15.0**	**-4.8**
Oil exports	13.3	-7.7
Non-oil exports	23.5	3.8
Imports of goods	**12.3**	**-2.9**
Exports of services	**12.7**	**2.2**
Imports of services	**11.7**	**-2.7**

Table 11.14. Non-oil Exports Compared with Exports and Imports of Goods and GDP (percent)

	Performance	
	4th Plan	5th Plan
Ratio of non-oil exports to total exports of goods	15.5	33.3
Ratio of non-oil exports to imports of goods	22.6	44.6
Ratio of non-oil exports to GDP	4.0	6.6

Table 11.12. Performance of Exports and Imports of Goods and Services during the 5th FYDP (million dollars)

	4th Plan average	Year						5th Plan average
		1390	1391	1392	1393	1394	1395□	
Exports of goods (FOB)	**85,600**	**145,806**	**97,296**	**92,910**	**88,976**	**62,995**	**83,978**	**95,327**
Oil exports	72,307	119,148	68,083	64,540	55,406	31,848	55,752	65,796
Non-oil exports	13,292	26,658	29,213	28,369	33,569	31,147	28,226	29,531
Imports of goods (FOB)	**58,206**	**78,027**	**68,734**	**63,584**	**70,915**	**57,641**	**63,135**	**67,006**
Exports of services	**6,689**	**8,442**	**8,483**	**9,374**	**10,572**	**11,085**	**10,060**	**9,670**
Imports of services	**14,697**	**18,213**	**15,843**	**16,194**	**17,450**	**15,870**	**16,001**	**16,595**

Balance of Payments

Comparing the current account position in the 5th FYDP years with that of the 4th Plan indicates improvements in the surplus of the current account, mainly attributable to the average rise in the surplus of goods account and an average decrease in the deficit of services account. The gross value of CBI foreign assets experienced an annual average increase of $8.3 billion, as against $8.4 billion during the 4th Plan.

External Debt Position

External debt position was one of the major issues addressed in the 5th FYDP. Based on this Law, the government was obligated to set the external debt repayment timeline in a way that annual repayments, excluding commitments arising from buyback contracts, would not exceed 30.0 percent of government foreign exchange revenues by the end of the 5th Plan[1]. Meanwhile, the government was required to determine the amount of external debt guaranteed by the government and the Central Bank during the 5th FYDP in a manner that the net present value of public debt (excluding commitments arising from contracts subject of Paragraph (B), Article 3, Foreign Investment Promotion and Protection Act[2]) would not exceed $50 billion in the last year of the 5th FYDP[3].

Accordingly, the average value of external debt decreased from $21.5 billion at the end of the 4th FYDP period to $8.5 billion at the end of the 5th Plan. With the escalation of financial restrictions, especially on the Central Bank, the Iranian economy faced restrictions in terms of adding new debt, leading to the sharp decline of short-term debt from $10,320 million in 1390 to $943 million in 1391. This declining trend continued until 1393. With the implementation of the JCPOA, the mentioned trend improved and the country's short-term debt increased to respectively $2,019 million and $3,311 million in 1394 and 1395. Meanwhile, the outstanding long-term debt decreased from $12,739 million at the end of the 4th FYDP period to $5,170 million at the end of the 5th Plan.

Table 11.15. Balance of Payments Position during 4th and 5th FYDP Years (million dollars)

	4th Plan average	Year						5th Plan average
		1390	1391	1392	1393	1394	1395 □	
Current account	**20,177**	**58,507**	**23,362**	**25,105**	**13,571**	**1,237**	**16,388**	**23,028**
Goods	27,394	67,779	28,563	29,326	18,060	5,354	20,843	28,321
Services	-8,007	-9,771	-7,359	-6,820	-6,877	-4,785	-5,941	-6,926
Income	374	93	1,649	2,034	1,845	241	928	1,132
Current transfers	417	406	509	565	543	427	558	501
Capital and financial account	**-17,375**	**-40,741**	**-22,161**	**-22,510**	**-8,002**	**113**	**-10,622**	**-17,320**
Reserve assets	-8,434	-21,436	-12,213	-13,189	-8,561	-2,233	7,666	-8,328

Table 11.16. External Debt Position during 4th and 5th FYDP Years (million dollars)

	Outstanding amount by end of 4th Plan	Year					Outstanding amount by end of 5th Plan
	1389	1390	1391	1392	1393	1394	1395
Actual obligations (external debt)	**21,526**	**19,185**	**7,682**	**6,655**	**5,108**	**7,476**	**8,481**
Medium and long-term debt	12,739	8,865	6,739	5,878	4,676	5,456	5,170
Short-term debt	8,787	10,320	943	777	432	2,019	3,311

[1] 5th FYDP Law, Article 81, Paragraph (B), Section (1).

[2] Approved on Esfand 19, 1380.

[3] 5th FYDP Law, Article 81, Paragraph (B), Section (2).