CHAPTER 11

BALANCE OF PAYMENTS

Balance of Payments Developments

The year-end balance of payments indicated a reduction in current account surplus and a rise in the deficit of capital and financial account in 2017/18. Despite an increase in both oil and non-oil exports, the current account surplus decreased compared with 2016/17, mainly due to the rise in goods' imports and the sharp increase in the deficit of services account. The non-oil current account deficit also increased. Moreover, notable outflows under "other investments" account were the major factor behind the deficit in the capital and financial account.

A. Current Account

Current account posted a surplus of $15.8 billion in 2017/18, indicating 3.5 percent decrease compared with the year before. The decrease was largely due to the growth in the imports of goods and the increase in the deficit of services account. Moreover, the deficit of the non-oil current account increased by 24.4 percent to roughly $47.2 billion in 2017/18. Non-oil foreign exchange earnings rose by 10.4 percent in this year and constituted 48.0 percent[1] of total foreign exchange requirements. This indicated 3.5 percentage points decrease compared with 2016/17.

Table 11.1. Current Account (million dollars)

				Percentage change	
	2015/16	2016/17□	2017/18□	2016/17	2017/18
Current account	**1,237**	**16,388**	**15,816**	▣	**-3.5**
Goods	5,354	20,843	22,596	289.3	8.4
Services	-4,785	-5,941	-7,916	24.2	33.2
Income	241	928	669	285.1	-27.9
Current transfers	427	558	467	30.6	-16.3
Non-oil current account [1]	**-28,972**	**-37,976**	**-47,237**	**31.1**	**24.4**

[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) from the data on imports and exports.

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

Figure 11.1. Current account components

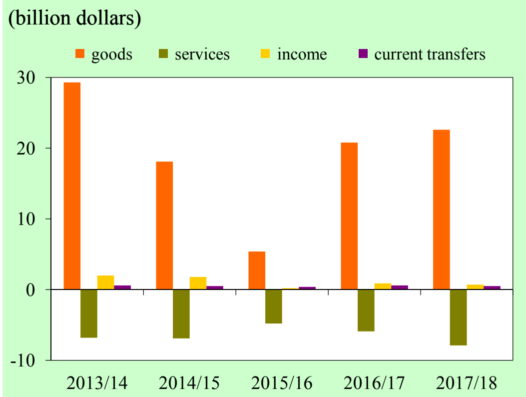
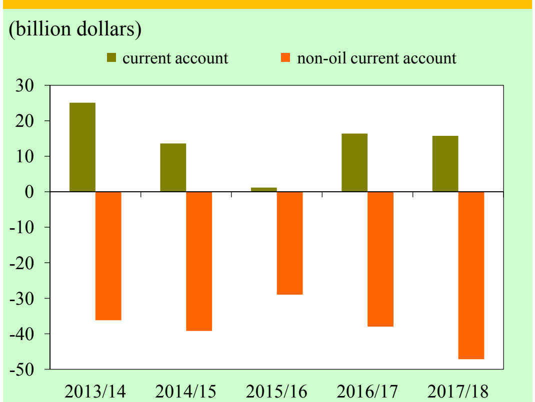


Figure 11.2. Current account and non-oil current account



Goods Account (trade balance)

In 2017/18, the value of exports and imports of goods (FOB) amounted to $98.1 billion and $75.5 billion, respectively. Therefore, goods account registered a surplus of $22.6 billion. Given the 19.7 percent increase in the imports of goods in 2017/18, the surplus of goods account experienced 8.4 percent growth, mainly attributable to the 16.9 percent rise in the exports of goods. Despite the 14.5 percent rise in non-oil exports, the 17.9 percent increase in the imports of non-oil goods led to 20.7 percent growth in the deficit of non-oil goods account. Therefore, the deficit of non-oil goods account amounted to $40.5 billion.

The share of oil exports in total exports of goods increased by 0.7 percentage point compared with the year before, to reach 67.1 percent. Oil exports through Customs totaled $6.9 billion in 2017/18, indicating 11.7 percent decrease compared with 2016/17.

Figure 11.3. Ratio of external trade balance to GDP

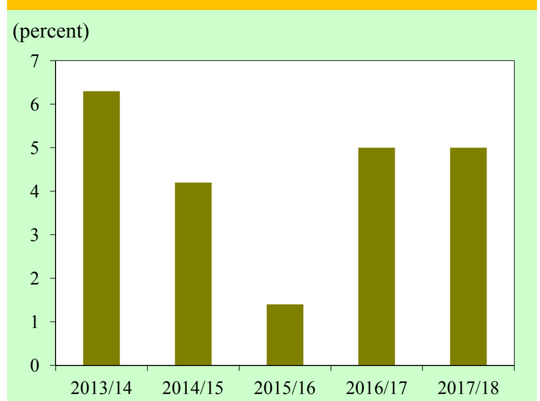


Table 11.2. Goods Account (million dollars)

				Percentage change	
	2015/16	2016/17□	2017/18□	2016/17	2017/18
Goods account (trade balance)	**5,354**	**20,843**	**22,596**	**289.3**	**8.4**
Exports (FOB)	62,995	83,978	98,142	33.3	16.9
Imports (FOB)	57,641	63,135	75,546	9.5	19.7
Non-oil goods account (trade balance)	**-24,856**	**-33,521**	**-40,457**	**34.9**	**20.7**
Non-oil exports	31,147	28,226	32,324	-9.4	14.5
Non-oil imports	56,003	61,747	72,782	10.3	17.9

The total value of goods' imports (FOB) reached $75.5 billion in 2017/18, indicating 19.7 percent increase compared with the year before. Of this figure, $2.8 billion (3.7 percent) was related to gas and oil products and $72.8 billion (96.3 percent), to other goods.

The current account to GDP ratio decreased by 0.4 percentage point to 3.5 percent in 2017/18. Meanwhile, the ratios of the exports and imports of goods to GDP were higher than 2016/17 while the ratio of goods account to GDP remained unchanged compared with the year before.

Figure 11.4. Export-import ratio

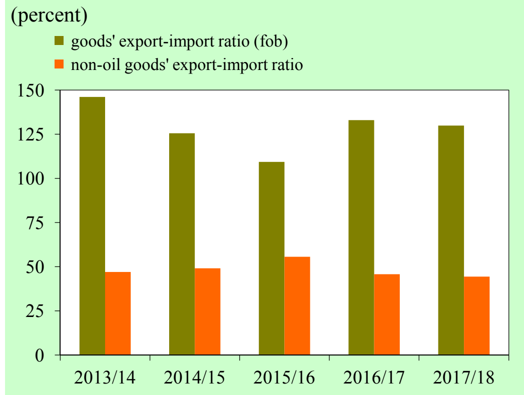


Table 11.3. Exports (million dollars)

	2015/16	2016/17▲□	2017/18□	Percentage change 2016/17	Percentage change 2017/18	Share (percent) 2016/17	Share (percent) 2017/18
Exports of goods (FOB)	**62,995**	**83,978**	**98,142**	**33.3**	**16.9**	**100.0**	**100.0**
Oil exports [1]	**31,848**	**55,752**	**65,818**	**75.1**	**18.1**	**66.4**	**67.1**
Recorded in Customs data [2]	4,432	7,821	6,908	76.5	-11.7	9.3	7.0
Non-oil exports	**31,147**	**28,226**	**32,324**	**-9.4**	**14.5**	**33.6**	**32.9**

[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)

	2015/16	2016/17□	2017/18□	Percentage change 2016/17	Percentage change 2017/18
Total imports (FOB)	**57,641**	**63,135**	**75,546**	**9.5**	**19.7**
Gas and oil products [1]	1,639	1,388	2,764	-15.3	99.1
Other goods (non-oil)	56,003	61,747	72,782	10.3	17.9

[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)

	2015/16	2016/17□	2017/18□
Current account to GDP	0.3	3.9	3.5
Goods account to GDP	1.4	5.0	5.0
Exports of goods to GDP	16.3	20.0	21.9
Imports of goods to GDP	14.9	15.1	16.9

[1] At market price, current prices.

Services Account

Services account deficit increased by 33.2 percent to $7.9 billion in 2017/18. Total exports and imports of services increased by 3.1 and 14.3 percent, respectively, compared with 2016/17. Rise in the imports of services during 2017/18 was mainly due to the increase in "travel" services, which was in turn attributable to the rise in the number of Iranian residents traveling abroad. The removal of the ban set on the sending of Iranians to Mecca on Hajj pilgrimage in 2016/17 was a major factor behind the increase in the number of foreign travels. "Travel", "transportation", and "construction services" had the biggest impact on the credit and debit entries under the services account, together accounting for 87.1 percent of the value of services' exports and 81.5 percent of the value of services' imports. The corresponding figures in the year before were 88.1 and 82.5 percent.

Income Account

Net transactions under the income account, including receipts and payments out of compensation of employees and investment income and expenditure, led to capital inflows of $669 million in 2017/18. Related receipts from non-resident entities increased by 11.2 percent to $450 million and payments to border and seasonal workers rose 14.4 percent to $448 million. The profit received from investment abroad fell 6.7 percent to $1,990 million while investment expenditure rose by 8.7 percent to $1,323 million.

Table 11.6. Services Account (million dollars)

				Percentage change		Share (percent)	
	2015/16	2016/17□	2017/18□	2016/17	2017/18	2016/17	2017/18
Services account	**-4,785**	**-5,941**	**-7,916**	**24.2**	**33.2**	–	–
Exports	**11,085**	**10,060**	**10,376**	**-9.2**	**3.1**	**100.0**	**100.0**
Transportation	3,930	3,754	3,754	-4.5	0.0	37.3	36.2
Travel	4,388	3,713	4,402	-15.4	18.6	36.9	42.4
Construction services	1,284	1,397	881	8.8	-36.9	13.9	8.5
Other services	1,483	1,197	1,339	-19.3	11.9	11.9	12.9
Imports	**15,870**	**16,001**	**18,292**	**0.8**	**14.3**	**100.0**	**100.0**
Transportation	3,781	2,453	2,856	-35.1	16.4	15.3	15.6
Travel	8,992	9,437	11,300	4.9	19.8	59.0	61.8
Construction services	534	1,315	760	146.2	-42.3	8.2	4.2
Other services	2,564	2,797	3,377	9.1	20.7	17.5	18.5

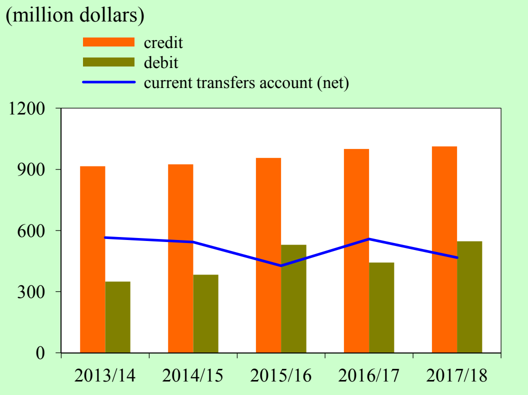
Table 11.7. Income Account (million dollars)

				Percentage change	
	2015/16	2016/17□	2017/18□	2016/17	2017/18
Income account	**241**	**928**	**669**	**285.1**	**-27.9**
Credit	**1,946**	**2,536**	**2,440**	**30.4**	**-3.8**
Compensation of employees	354	404	450	14.4	11.2
Investment income	1,592	2,132	1,990	33.9	-6.7
Debit	**1,705**	**1,608**	**1,771**	**-5.7**	**10.1**
Compensation of employees	458	391	448	-14.5	14.4
Investment expenditure	1,247	1,217	1,323	-2.4	8.7

Current Transfers Account[1]

In 2017/18, the surplus of current transfers account amounted to $467 million, indicating 16.3 percent decrease compared with the surplus of this account in 2016/17.

Figure 11.5. Current transfers account



B. Capital and Financial Account

Outflows under the capital and financial account amounted to $11.2 billion in 2017/18, 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 $1.1 billion in 2017/18, up by 51.0 percent compared with the year before.

Financial Account

Financial account outflows amounted to $10.1 billion in 2017/18, mainly attributable to outflows under "other investments" account by $17.9 billion.

Foreign Direct Investment (FDI)

In 2017/18, 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 posted a deficit of $555 million.

Table 11.8. Capital and Financial Account (million dollars)

				Percentage change	
	2015/16	2016/17□	2017/18□	2016/17	2017/18
Capital and financial account	**113**	**-10,622**	**-11,181**	**θ**	**5.3**
Capital account	-433	-709	-1,070	63.6	51.0
Financial account	547	-9,913	-10,111	θ	2.0

[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

According to the data released by the Organization for Investment, Economic and Technical Assistance of Iran (OIETAI), FDI inflows decreased by 24.6 percent to $2.4 billion in 2017/18. A sum of $1.9 billion of the mentioned amount was under the Foreign Investment Promotion and Protection Act, indicating 14.0 percent decline compared with the year before. It is also important to note that a sum of $503 million out of the $2.4 billion FDI inflows was in the form of oil and gas buyback contracts, down by 42.2 percent. Moreover, a sum of $73 million was in the form of other investments (including partnership contracts and portfolio investment), showing 63.0 percent decrease.

Portfolio Investment

Total net transactions under the portfolio investment heading, in the form of purchasing bonds and the stock of domestic companies by nonresidents, totaled $159 million in 2017/18. Net transactions under the mentioned account were in the form of purchasing bonds and the shares of foreign companies by Iranian residents in 2016/17, totaling $20 million.

Other Investments

"Other investments" account recorded outflows of $17.9 billion in 2017/18. Notable outflows under the "trade credits" heading were the main factor behind the outflows of "other investments" account in this year.

Reserve Assets (CBI foreign assets)

Transactions in foreign exchange between Iranians and foreign entities caused the gross value of CBI foreign assets to decrease by $8.1 billion in 2017/18.

Table 11.9. Financial Account (million dollars)

				Percentage change	
	2015/16	2016/17□	2017/18□	2016/17	2017/18
Financial account	**547**	**-9,913**	**-10,111**	**θ**	**2.0**
Foreign direct investment (net)	407	429	-555	5.4	θ
Portfolio investment (net)	-22	-20	159	-8.6	θ
Other investments (net)	2,395	-17,988	-17,855	θ	-0.7
Reserve assets	-2,233	7,666	8,140	θ	6.2

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

				Percentage change	
	2015/16	2016/17	2017/18	2016/17	2017/18
Foreign direct investment	**945**	**3,223**	**2,430**	**241.0**	**-24.6**
FDI inflows under Foreign Investment Promotion and Protection Act	258	2,155	1,854	▣	-14.0
Oil and gas buyback contracts	618	870	503	40.7	-42.2
Others	68	198	73	190.9	-63.0

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

External Debt

Foreign exchange obligations (actual and contingent) totaled $34.2 billion in March 2018. The value of contingent obligations grew by 12.2 percent to $23.2 billion, constituting a share of 68.1 percent in total. The value of actual obligations (external debt) increased by 28.6 percent to $10.9 billion, $6.7 billion of which was related to medium- and long-term debt and $4.2 billion of which was related to short-term debt.

Table 11.11. Foreign Exchange Obligations (million dollars)

				Percentage change	
	2015/16	2016/17	2017/18	2016/17	2017/18
Actual obligations (external debt)	**7,476**	**8,481**	**10,910**	**13.5**	**28.6**
Medium- and long-term	5,456	5,170	6,713	-5.2	29.8
Short-term	2,019	3,311	4,197	64.0	26.8
Contingent obligations	**13,829**	**20,722**	**23,246**	**49.8**	**12.2**
Total	**21,304**	**29,204**	**34,156**	**37.1**	**17.0**