CHAPTER 11

BALANCE OF PAYMENTS

Balance of Payments Developments

Iran's balance of payments position was hit by the US unilateral withdrawal from the JCPOA in 2018/19, reducing the country's imports and exports. The increase in the surplus of goods account (due to the higher decrease in the imports of goods than exports) and the fall in the deficit of the services account raised the current account surplus compared with 2017/18. The surge in the liabilities of the capital and financial account was mainly attributable to the notable increase in the deficit of the financial account, which was in turn due to the rise in the reserve assets as well as Iran's net financial claims on other countries.

A. Current Account

The current account posted a surplus of $26.7 billion in 2018/19, indicating 79.3 percent increase compared with 2017/18. This was largely due to the fall in the imports of goods as well as that in the deficit of services account. The deficit of the non-oil current account decreased by 27.7 percent to roughly $32.6 billion. Despite 2.0 percent decrease compared with 2017/18, the non-oil foreign exchange earnings managed to fulfill 57.5 percent[1] of the total foreign exchange requirements due to the proper management of the country's foreign exchange uses. This indicated 8.0 percentage points increase compared with 2017/18.

Table 11.1. Current Account (million dollars)

	2016/17▲	2017/18▲	2018/19□	Percentage change 2017/18	Percentage change 2018/19
Current account	**13,236**	**14,915**	**26,741**	**12.7**	**79.3**
Goods	18,497	22,193	32,635	20.0	47.0
Services	-6,148	-8,826	-7,350	43.6	-16.7
Income	331	838	807	153.0	-3.6
Current transfers	556	710	650	27.8	-8.5
Non-oil current account [1]	**-37,921**	**-45,103**	**-32,616**	**18.9**	**-27.7**

[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 or imported 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

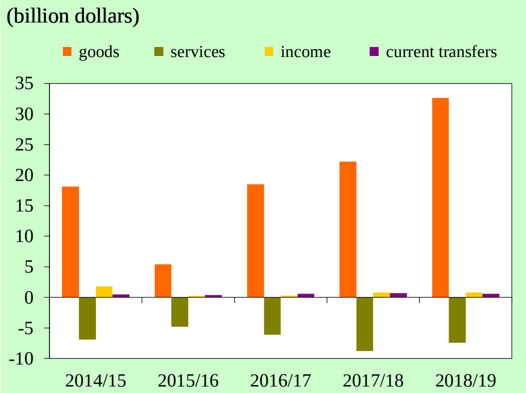
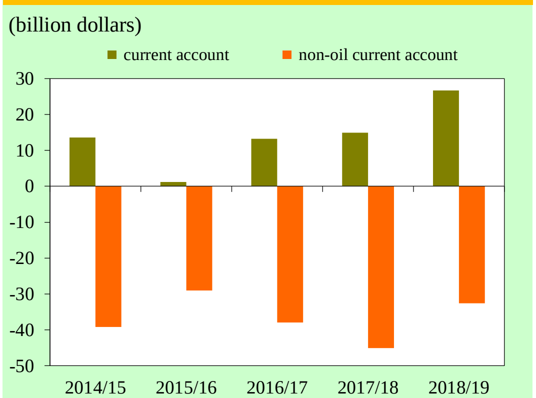


Figure 11.2. Current account and non-oil current account



Goods Account (trade balance)

In 2018/19, the value of the exports and imports of goods (FOB)[1] amounted to $93.4 billion and $60.8 billion, respectively. Therefore, goods account registered a surplus of $32.6 billion. In spite of the 2.8 percent decrease in the exports of goods in 2018/19, the surplus of goods account experienced 47.0 percent growth, mainly attributable to the 17.7 percent fall in the imports of goods. The 16.5 percent decrease in the non-oil imports as well as the 1.8 percent fall in the non-oil exports led to 29.4 percent reduction in the deficit of the non-oil goods account, bringing the deficit of the non-oil goods account to $26.7 billion.

The share of oil exports in total exports of goods decreased by 0.4 percentage point compared with the year before, to reach 65.0 percent. Total oil exports as recorded in Customs data amounted to $6.4 billion, down by 5.8 percent compared with 2017/18.

Figure 11.3. Ratio of goods account (trade balance) to GDP

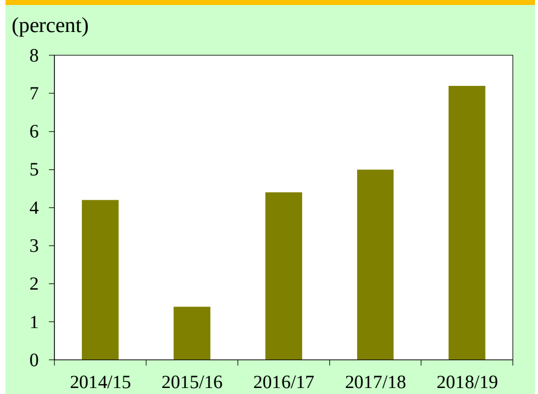


Table 11.2. Goods Account (million dollars)

	2016/17▲	2017/18▲	2018/19□	Percentage change 2017/18	Percentage change 2018/19
Goods account (trade balance)	**18,497**	**22,193**	**32,635**	**20.0**	**47.0**
Exports (FOB)	81,943	96,034	93,390	17.2	-2.8
Imports (FOB)	63,446	73,840	60,755	16.4	-17.7
Non-oil goods account (trade balance)	**-32,660**	**-37,825**	**-26,722**	**15.8**	**-29.4**
Non-oil exports	28,581	33,266	32,655	16.4	-1.8
Non-oil imports	61,240	71,091	59,377	16.1	-16.5

[1] Includes trade through both Customs and non-Customs channels.

Table 11.3. Exports (million dollars)

	2016/17▲	2017/18▲	2018/19□	Percentage change 2017/18	Percentage change 2018/19	Share (percent) 2017/18	Share (percent) 2018/19
Exports of goods (FOB)	**81,943**	**96,034**	**93,390**	**17.2**	**-2.8**	**100.0**	**100.0**
Oil exports [1]	**53,362**	**62,768**	**60,735**	**17.6**	**-3.2**	**65.4**	**65.0**
Recorded in Customs data [2]	7,821	6,781	6,385	-13.3	-5.8	7.1	6.8
Non-oil exports	**28,581**	**33,266**	**32,655**	**16.4**	**-1.8**	**34.6**	**35.0**

[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 NIOC, NIGC, NIORDC, petrochemical companies and others mentioned in Customs data.

The total value of the imports of goods (FOB) reached $60.8 billion in 2018/19, indicating 17.7 percent decrease compared with the year before. Of this figure, $1.4 billion (2.3 percent) was related to gas and oil products and $59.4 billion (97.7 percent), to other goods.

The ratio of the current account to GDP increased by 2.6 percentage points to 5.9 percent in 2018/19. The ratios of the exports and imports of goods to GDP were lower than 2017/18 while the ratio of goods account to GDP rose 2.2 percentage points compared with 2017/18 to reach 7.2 percent.

Figure 11.4. Export-import ratio (value)

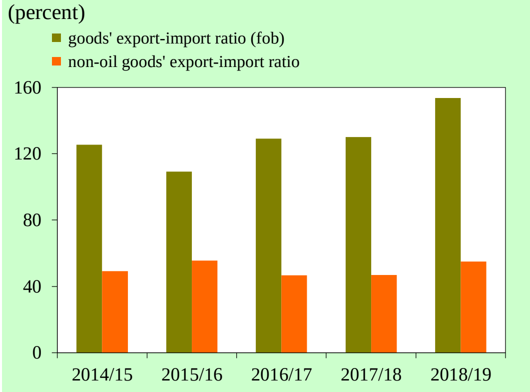


Table 11.4. Imports (million dollars)

	2016/17▲	2017/18▲	2018/19□	Percentage change 2017/18	Percentage change 2018/19
Total imports (FOB)	**63,446**	**73,840**	**60,755**	**16.4**	**-17.7**
Gas and oil products [1]	2,205	2,749	1,378	24.7	-49.9
Other goods (non-oil imports)	61,240	71,091	59,377	16.1	-16.5

[1] Includes the value of natural gas, natural gas 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)

	2016/17▲	2017/18▲	2018/19□
Current account to GDP	3.2	3.3	5.9
Goods account to GDP	4.4	5.0	7.2
Exports of goods to GDP	19.6	21.5	20.5
Imports of goods to GDP	15.1	16.5	13.3

[1] At market price, current prices.

Services Account

Services account deficit decreased by 16.7 percent to $7.4 billion in 2018/19. Total exports of services increased by 3.1 percent while imports decreased by 6.4 percent compared with 2017/18. Fall in the imports of services during 2018/19 was due to the decrease in travel services, which was in turn attributable to the decline in the number of Iranians traveling abroad as well as the reduction in the imports of transportation services. This was against the backdrop of a remarkable increase in the imports of construction services which was in turn attributable to the rise in the costs of buyback contracts on oil projects. The exports of services experienced increase in the reference period despite the fact that the exports of transportation services had declined due to the reduction in the weight of exported goods and the activities of domestic transportation vehicles in the area of international transport.

The increase in the exports of services was in turn due to the rise in the exports of travel services, attributable to the increase in the number of non-Iranians traveling to Iran and the surge in the exports of construction services to the neighboring countries.

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 $807 million in 2018/19. Receipts from compensation of employees decreased by 24.2 percent to $349 million and payments to border and seasonal workers fell 57.6 percent to $177 million. The profit received from investment abroad fell by 18.7 percent to $2,024 million and investment expenditure decreased by 18.0 percent to $1,388 million.

Table 11.6. Services Account (million dollars)

				Percentage change		Share (percent)	
	2016/17▲	2017/18▲	2018/19□	2017/18	2018/19	2017/18	2018/19
Services account	**-6,148**	**-8,826**	**-7,350**	**43.6**	**-16.7**	–	–
Credit (exports)	**10,435**	**9,606**	**9,903**	**-7.9**	**3.1**	**100.0**	**100.0**
Transportation	4,366	3,524	2,473	-19.3	-29.8	36.7	25.0
Travel	4,248	4,193	5,024	-1.3	19.8	43.6	50.7
Construction services	632	554	1,076	-12.3	94.2	5.8	10.9
Other	1,189	1,335	1,330	12.3	-0.3	13.9	13.4
Debit (imports)	**16,583**	**18,432**	**17,254**	**11.1**	**-6.4**	**100.0**	**100.0**
Transportation	2,939	3,357	2,483	14.2	-26.0	18.2	14.4
Travel	10,233	11,507	8,695	12.4	-24.4	62.4	50.4
Construction services	672	130	3,451	-80.6	▣	0.7	20.0
Other	2,740	3,438	2,624	25.5	-23.7	18.7	15.2

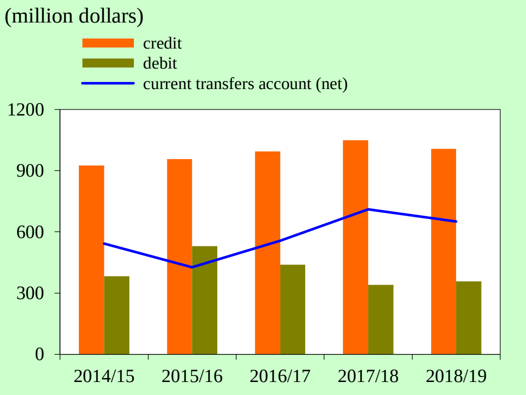
Table 11.7. Income Account (million dollars)

				Percentage change	
	2016/17▲	2017/18▲	2018/19□	2017/18	2018/19
Income account	**331**	**838**	**807**	**153.0**	**-3.6**
Credit	**2,387**	**2,948**	**2,372**	**23.5**	**-19.5**
Compensation of employees	413	460	349	11.6	-24.2
Investment income	1,975	2,488	2,024	26.0	-18.7
Debit	**2,056**	**2,111**	**1,565**	**2.6**	**-25.8**
Compensation of employees	480	417	177	-13.2	-57.6
Investment expenditure	1,576	1,694	1,388	7.5	-18.0

Current Transfers Account[1]

In 2018/19, the net surplus of the current transfers account amounted to $650 million, indicating 8.5 percent decrease compared with the surplus of this account in 2017/18.

Figure 11.5. Current transfers account



B. Capital and Financial Account

Outflows under the capital and financial account reached $25.9 billion in 2018/19, the main part of which (80.2 percent) was under the financial account. The capital account 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 the foreign assets of the CBI.

Capital Account

Capital account registered outflows of $5.1 billion in 2018/19, mainly attributable to the Iranians' buying of properties and real estate in neighboring countries. According to Turkey's census bureau, Iranians bought 4,237 residential units in Turkey in 2018/19.

Financial Account

Financial account outflows amounted to $20.8 billion in 2018/19, mainly due to the outflows under "other investments" account by $13.1 billion.

Foreign Direct Investment (FDI)

In 2018/19, 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 surplus of $2,701 million, indicating capital inflows to the country.

Table 11.8. Capital and Financial Account (million dollars)

				Percentage change	
	2016/17▲	2017/18▲	2018/19□	2017/18	2018/19
Capital and financial account	**-4,672**	**-11,302**	**-25,924**	**141.9**	**129.4**
Capital account	-4,968	-6,293	-5,133	26.7	-18.4
Financial account	296	-5,008	-20,791	θ	315.2

[1] Current transfers are current account transactions in which a resident entity in one nation provides a nonresident entity with an economic value, such as a real resource or financial item, without receiving something of economic value in exchange. Accounting for current transfers is not always clear in the balance of payments because of their one-sided nature.

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

FDI Inflows

According to the Organization for Investment, Economic and Technical Assistance of Iran (OIETAI), FDI inflows decreased by 46.8 percent to $1.3 billion[1] in 2018/19. Of this amount, $592 million was under Foreign Investment Promotion and Protection Act and $308 million was related to investment in Free Economic Zones, totaling $900 million and indicating 51.5 percent decrease. FDI inflows in the form of oil and gas buyback contracts amounted to $390 million, down by 22.4 percent. Moreover, a sum of $4 million was in the form of other investments (including partnership contracts and portfolio investment), showing 95.0 percent decrease.

Portfolio Investment

Total transactions under the portfolio investment heading, in the form of purchasing bonds and the stock of foreign companies by Iranian residents, indicated outflows by $512 million in 2018/19. Transactions in the form of purchasing bonds and the shares of domestic companies by nonresidents indicated inflows by $150 million in 2017/18.

Other Investments

"Other investments" account recorded outflows of $13.1 billion in 2018/19. Notable outflows under the "trade credits" heading, emanating from credit sales of oil items, were the main factor behind the outflows of "other investments" account in this year.

Reserve Assets (foreign assets of the CBI)

Transactions in foreign exchange between Iranians and foreign entities caused the gross value of the foreign assets of the CBI to increase by $9.9 billion in 2018/19.

Table 11.9. Financial Account (million dollars)

				Percentage change	
	2016/17▲	2017/18▲	2018/19□	2017/18	2018/19
Financial account	**296**	**-5,008**	**-20,791**	**θ**	**315.2**
Foreign direct investment	2,251	-481	2,701	θ	θ
Portfolio investment	-69	150	-512	θ	θ
Other investments	-9,552	-12,816	-13,101	34.2	2.2
Reserve assets (foreign assets of the CBI)	7,666	8,140	-9,880	6.2	θ

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

				Percentage change	
	2016/17	2017/18	2018/19	2017/18	2018/19
Foreign direct investment	**3,223**	**2,430**	**1,293**	**-24.6**	**-46.8**
FDI inflows under Foreign Investment Promotion and Protection Act and investment in Free Economic Zones	2,155	1,854	900	-14.0	-51.5
Oil and gas buyback contracts	870	503	390	-42.2	-22.4
Others	198	73	4	-63.0	-95.0

Source: OIETAI.

[1] According to the OIETAI, FDI amounted to $2,709 million in 2018/19. In addition to $1,293 million mentioned in Table 11.10, a sum of $1,416 million was absorbed by ministries, companies, public organizations, municipalities, and foreign investment services centers in provinces.

External Debt

Foreign exchange obligations (actual and contingent) totaled $28.0 billion in March 2019. The value of contingent obligations decreased by 25.0 percent to $17.4 billion, constituting a share of 62.1 percent in total. The value of actual obligations (external debt) declined by 13.4 percent to $10.6 billion, $8.3 billion of which was related to medium- and long-term debt and $2.3 billion of which was related to short-term debt.

Table 11.11. Foreign Exchange Obligations (million dollars)

	2016/17▲	2017/18▲	2018/19	Percentage change 2017/18	Percentage change 2018/19
Actual obligations (external debt)	**10,246**	**12,270**	**10,623**	**19.8**	**-13.4**
Medium- and long-term	7,055	7,984	8,319	13.2	4.2
Short-term	3,190	4,287	2,304	34.4	-46.2
Contingent obligations [1]	**20,722**	**23,246**	**17,426**	**12.2**	**-25.0**
Total	**30,968**	**35,516**	**28,049**	**14.7**	**-21.0**

[1] Based on foreign trade statistics collected each year in March.

The US Unilateral Withdrawal from the JCPOA and the Reimposition of Sanctions

On May 8, 2018, the US president announced the decision to withdraw the United States from the JCPOA and sanctions relief and to reimpose sanctions against Iran in two wind-down periods of 90 and 180 days. After 90 days (August 6, 2018), the US administration reimposed secondary sanctions on the purchase or acquisition of US dollar banknotes by the Iranian government; Iran's trade in gold or precious metals; the direct or indirect sale, supply, or transfer to or from Iran of graphite, raw, or semi-finished metals such as aluminum and steel, coal, and software for integrating industrial processes; significant transactions related to the purchase or sale of Iranian rials, or the maintenance of significant funds or accounts outside the territory of Iran denominated in the Iranian rial; the purchase, subscription to, or facilitation of the issuance of Iranian sovereign debt; and Iran's automotive sector. After 180 days (November 4, 2018), sanctions on Iran's port operators, and shipping and shipbuilding sectors, including on the Islamic Republic of Iran Shipping Lines (IRISL), South Shipping Line Iran, or their affiliates; petroleum-related transactions with, among others, the National Iranian Oil Company (NIOC), Naftiran Intertrade Company (NICO), and National Iranian Tanker Company (NITC), including the purchase of petroleum, petroleum products, or petrochemical products from Iran; transactions by foreign financial institutions with the Central Bank of Iran and designated Iranian financial institutions; the provision of specialized financial messaging services to the CBI and Iranian financial institutions; the provision of underwriting services, insurance, or reinsurance; and Iran's energy sector were reimposed. In response, the CBI revised trade and foreign exchange rules and policies to build the necessary infrastructure for the monitoring of the country's foreign sources and uses, in coordination with the agencies and ministries dealing with the external trade. Most important among these measures were the allocation of the US dollar at the preferential rate of Rls. 42,000 to the importation of essential goods, pharmaceuticals, and medical equipment and the launching of NIMA System for the provision of foreign exchange out of the non-oil exports for the importation of other goods. Moreover, the foreign exchange earnings from non-oil exports were subjected to surrender requirement through the NIMA system at agreeable rates. Thus, the imports of some commodities were restrained to the main land and free economic zones only. The regulations on the provision of foreign exchange for service sectors also underwent revision.