

# CHAPTER TEN

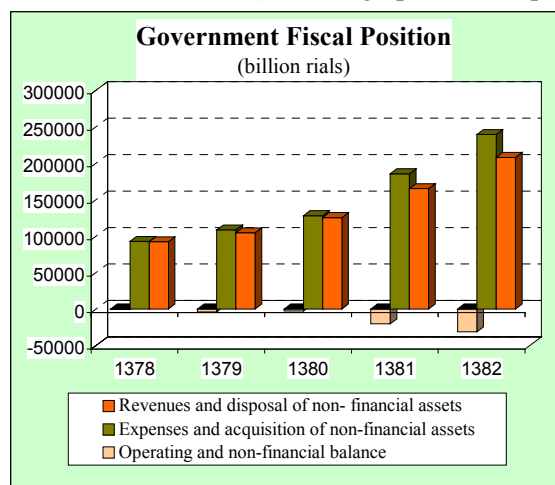
## FISCAL POLICY AND PERFORMANCE

The Budget for 1382, as the fourth year of the 3<sup>rd</sup> Plan, was formulated under circumstances that the government priorities were reform of budget structure, creation of job opportunities, increase in production and investment and improvement of monetary, foreign exchange and balance of payments position. According to the mechanism envisaged in the Plan, crude export revenues in excess of the budgeted figure was deposited into the Oil Stabilization Fund (OSF) to protect domestic economy against fluctuations prevailing in world economy, in particular international oil markets.

Since the beginning of 1382, Tax Consolidation Act, i.e. the mechanism of tax collection from producers and importers of goods and services was implemented. This Act was formulated with the aim of centralization of tax affairs, reduction in collection cost of taxes and charges and further transparency of the taxes and levies paid by taxpayers.

On the basis of the Budget Law for 1382, revenues<sup>(1)</sup> (Including taxes and other revenues) and expenses<sup>(1)</sup> amounted to Rls. 204,508.4 and 285,236.1 billion, respectively. As a result, the operating balance (approved) ran a deficit of Rls. 80,727.6 billion. Moreover, approved receipts and payments out of disposal and acquisition of non-financial assets (excluding special receipts and payments) reached Rls. 126,851.8 and 81,919.7 billion, respectively. Thus, the sum of operating balance and net disposal of non-financial assets ran a deficit of Rls. 35,795.5 billion, which was projected to be mainly financed through withdrawal from the OSF and privatization revenues.

The sources of 1382 Budget Law was Rls. 10,995 billion less than the budget uses. The mentioned figure was considered as budget thriftiness during the course of its implementation. According to the budget law, it was stipulated that shortfall in sources be deducted from both expenses and acquisition of non-financial assets by 70 and 30 percent, respectively.



The composition of sources of the approved budget (including approved figure for transparency in the price of energy bearers) consisted of 50.8 percent receipts from revenues, 31.5 percent from disposal of non-financial assets and 17.7 percent from disposal of financial assets. Composition of uses of the government budget (approved) consisted of 70.8 percent

(1) Excludes special revenues and expenditures and includes approved figure for transparency in the price of energy bearers.

payment for expenses, 20.4 percent for acquisition of non-financial assets and 8.8 percent for acquisition of financial assets. Review of the figures related to budget performance in the review year shows that composition of budget sources registered 49.8 percent realization from revenues, 35.1 percent from disposal of non-financial assets and 15.1 percent from disposal of financial assets, and composition of budget uses indicates realization of 76.8 percent from expenses, 16.6 percent from acquisition of non-financial assets and 6.6 percent from acquisition of financial assets.

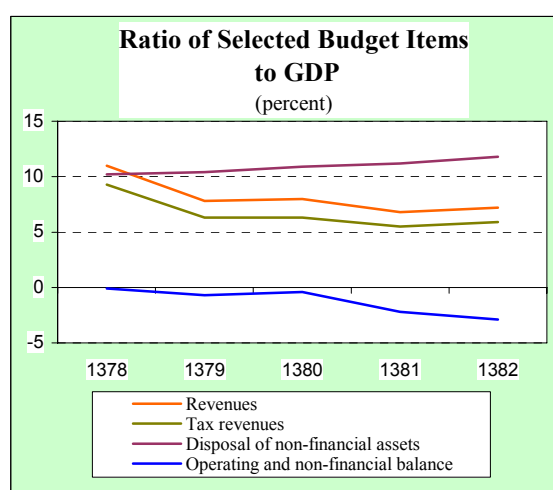
As is reported by the Ministry of Economic Affairs and Finance, the performance of subsidy on energy bearers was Rls. 13,400 billion more than the approved figure (Rls. 103,886 billion).

<b>GOVERNMENT FISCAL POSITION (1)</b>			
	(billion rials)		
	1380	1381	1382
<b>Revenues</b>	<b>53,146.1</b>	<b>62,108.6</b>	<b>78,836.6</b>
Taxes	41,786.1	50,141.1	65,099.0
Others	11,360.0	11,967.4	13,737.6
<b>Expenses (current)</b>	<b>103,962.8</b>	<b>148,297.3</b>	<b>178,255.2</b>
<b>Operating balance</b>	<b>-50,816.7</b>	<b>-86,188.7</b>	<b>-99,418.6</b>
Disposal of non-financial assets	72,333.4	103,101.6	129,030.9
Acquisition of non-financial assets (development expenditures)	24,087.6	37,212.5	60,982.9
<b>Net disposal of non-financial assets</b>	<b>48,245.8</b>	<b>65,889.1</b>	<b>68,048.0</b>
<b>Operating and non-financial balance</b>	<b>-2,570.9</b>	<b>-20,299.6</b>	<b>-31,370.6</b>
<b>in percent of GDP</b>			
<b>Revenues</b>	<b>8.0</b>	<b>6.8</b>	<b>7.2</b>
Taxes	6.3	5.5	5.9
Others	1.7	1.3	1.3
<b>Expenses (current)</b>	<b>15.6</b>	<b>16.2</b>	<b>16.3</b>
<b>Operating balance</b>	<b>-7.6</b>	<b>-9.4</b>	<b>-9.1</b>
Disposal of non-financial assets	10.9	11.2	11.8
Acquisition of non-financial assets (development expenditures)	3.6	4.1	5.6
<b>Net disposal of non-financial assets</b>	<b>7.3</b>	<b>7.2</b>	<b>6.2</b>
<b>Operating and non-financial balance</b>	<b>-0.4</b>	<b>-2.2</b>	<b>-2.9</b>

(1) Excludes special revenues and expenditures and the figure for transparency in the price of energy bearers.

In 1382, government revenues including taxes and other revenues grew by 26.9 percent compared to the previous year to reach Rls. 78,836.6 billion, showing 78.3 percent realization compared to the approved figure. Out of the total revenues, Rls. 65,099 billion (82.6 percent) was received from taxes and Rls. 13,737.6 billion (17.4 percent) from other revenues, against 80.7 and 19.3 percent in 1381, respectively. Government expenses increased by 20.2 percent compared to the previous year to Rls. 178,255.2 billion, indicating 98.3 percent realization compared to the approved budget. Thus, based upon the performance of government revenues and expenditures, the operating balance ran a deficit of Rls. 99,418.6 billion.

In the review year, receipts from disposal of non-financial assets including sale of oil and oil products and disposal of other non-financial assets amounted to Rls. 129,030.9 billion, showing 1.7 percent excess realization compared to the approved figure and 25.1 percent increase compared with the previous year. Acquisition of non-financial assets (development expenditures) grew by 63.9 percent to Rls. 60,982.9 billion as compared with the year before, showing 74.4 percent realization compared to the approved figure. In this context, net disposal of non-financial assets amounted to Rls. 68,048 billion.



Considering the performance of revenues and expenses and disposal and acquisition of non-financial assets, the operating and non-financial balance ran a deficit of Rls. 31,370.6 billion, which grew by 54.5 percent compared to respective figure of the previous year, showing 12.4 percent underrealization compared to the approved figure. In the review year, disposal and acquisition of financial assets equaled Rls. 55,507.5 and 24,136.9 billion, respectively.

In 1382, outstanding balance of foreign exchange obligations account surged by Rls. 3,652.7 billion, part of which was due to external debts related to the years prior to 1372 exchange rate unification, which is to be paid by the CBI on behalf of the government.

### **The Oil Stabilization Fund (OSF)**

According to the 3<sup>rd</sup> FYDP Law, to stabilize foreign exchange proceeds from crude oil exports during the Plan and convert this earning to other reserves and investment, pave the ground for the realization of 3<sup>rd</sup> Plan projections and to protect domestic economy against fluctuations prevailing in world economy and oil market, the Oil Stabilization Fund (OSF) was established in 1379.

The performance of this Fund during 1379-82 indicates that a sum of \$19,839.9 million was deposited into this Fund: \$18,886.8 million (95.2 percent) out of excess oil revenues, \$ 840.4 million (4.2 percent) out of the accrued interest, \$92.6 million (0.5 percent) out of repayment of facilities extended, \$2.6 million (0.01 percent) out of the profit of facilities and \$17.5 million (0.09 percent) out of return of facilities.

During this period, a sum of \$11,396.6 million was withdrawn from the OSF: \$ 9,272.4 million (81.4 percent) for budget requirements, \$274.9 million (2.4 percent) for compensation of drought losses, and \$1,849.3 million (16.2 percent) for facilities used under banks agency contract.

Balance of OSF at the beginning of 1382 equaled \$8,082 million. During this year, a sum of \$5,815.2 million was deposited into this account: \$5,508.4 million out of excess oil revenues, \$246.6 million out of accrued interest, \$40.1 million out of repayment of extended facilities, \$2.6 million out of profit of facilities and \$17.5 million out of return of facilities. Moreover, a sum of \$5,453.9 million (\$4,360.9 million for budget requirements and \$1,093 million for facilities used under banks agency contract) was withdrawn from this account in the review year. As a result, the balance of OSF at the end of 1382 equaled \$8,443.3 million.