FISCAL POLICY AND PERFORMANCE

The year 2019/20 was the third year in the course of the 6th FYDP. The Budget Law for this year was formulated in light of the Vision Plan and the General Policies of the Islamic Republic of Iran, the major policies of the 6th FYDP, and the Budget Circulars.

10.1. Budget Highlights

Based on Paragraph (A), Note (1), Budget Law for 2019/20, the share of the National Iranian Oil Company (NIOC) in foreign exchange earnings received from the exports of crude oil and natural gas condensate as well as net exports of natural gas was approved at 14.5 percent. Accordingly, it was determined that the share of the government in receipts from oil exports (including the share of oil-producing and less-developed regions) should be set at 65.5 and that of the NDFI, at 20.0 percent. In accordance with the 6th FYDP, however, the share of the NDFI in oil exports should have been set at 34 percent, which could not be realized due to the escalation of US sanctions. Therefore, the remaining 14 percent shall be considered as government debt to the NDFI.

Based on the Budget Law for 2019/20, the sources of the government general budget (excluding special revenues) were approved at Rls. 4,485.8 trillion. Therefore, the uses of the government (excluding special expenses) were also determined at Rls. 4,485.8 trillion.

Approved revenues, including taxes and other revenues (excluding special revenues), totaled Rls. 2,389.8 trillion in 2019/20. Meanwhile, approved expenses (excluding special expenses) amounted to Rls. 3,523.8 trillion. Thus, the operating balance was projected to post a deficit of Rls. 1,133.9 trillion in 2019/20. Approved sources out of the disposal of non-financial assets (excluding special revenues) were set at Rls. 1,585.2 trillion and approved payments out of the acquisition of non-financial assets (excluding special expenses) were set at Rls. 668.6 trillion. Therefore, the approved operating and non-financial balance (the sum of the approved operating balance and the net disposal of non-financial assets) was projected to record a deficit of Rls. 217.3 trillion in 2019/20. This was to be financed out of the net disposal of financial assets, which was to be mainly received from the sales of Islamic financial instruments.

The composition of the sources of the approved government budget in 2019/20 (excluding special revenues) constituted 53.3 percent receipts from revenues, 35.3 percent receipts from the disposal of non-financial assets, and 11.4 percent receipts from the disposal of financial assets. The uses of the approved government budget (excluding special expenses) comprised expenses by 78.6 percent, acquisition of non-financial assets by 14.9 percent, and acquisition of financial assets by 6.5 percent.

Reviewing data related to the Budget performance[1] of 2019/20 reveals that the general budget sources (excluding special revenues) were financed out of revenues by 50.0 percent, out of disposal of non-financial assets by 10.9 percent, and out of disposal of financial assets by 39.1 percent. Budget uses (excluding special expenses) indicated allocation of 77.5 percent for current expenses, 11.7 percent for the acquisition of non-financial assets, and 10.9 percent for the acquisition of financial assets.

10.2. Budget Performance

Government revenues, including taxes and other revenues (excluding special revenues), increased by 18.1 percent compared with 2018/19 to reach Rls. 2,171.8 trillion in 2019/20, constituting 90.9 percent of the approved figure. Out of total revenues, Rls. 1,608.4 trillion was received from taxes, and Rls. 563.4 trillion was related to other revenues.

In 2019/20, government current expenses (excluding special expenses) grew by 21.3 percent compared with the year before to reach Rls. 3,367.9 trillion. This was 4.4

percent lower than the figure approved in the budget. Thus, based on the performance of government revenues and expenses, the operating balance recorded a deficit of Rls. 1,196.0 trillion. Receipts from the disposal of non-financial assets, including sales of crude oil and products, sales of movable and immovable assets, and the transfer of unfinished government projects to the private sector, decreased by 57.1 percent compared with 2018/19 to reach Rls. 475.6 trillion in 2019/20. This was 70 percent lower than the approved figure.

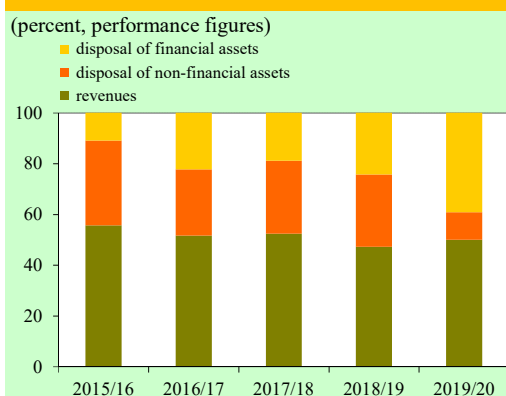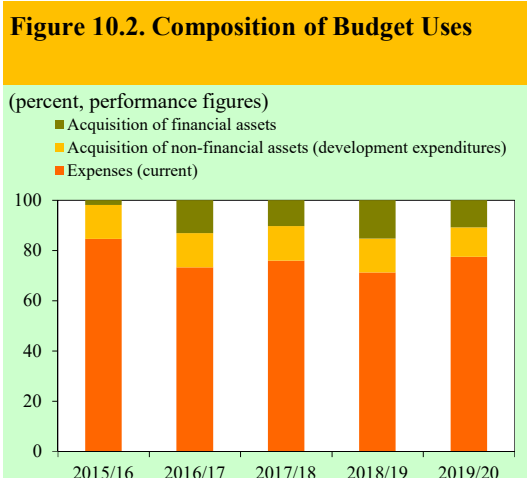**Figure 10.1. Composition of Budget Sources**

(percent, performance figures)

Table 10.1. Sources and Uses of Government General Budget[1]   (trillion rials-percent)

	Approved		Change (%)	Share in total		Performance		Change (%)	Share in total	
	2018/19	2019/20		2018/19	2019/20	2018/19	2019/20		2018/19	2019/20
Sources	**3,867.9**	**4,485.8**	**16.0**	**100.0**	**100.0**	**3,898.2**	**4,346.0**	**11.5**	**100.0**	**100.0**
Revenues	2,161.9	2,389.8	10.5	55.9	53.3	1,838.4	2,171.8	18.1	47.1	50.0
Disposal of non-financial assets	1,075.6	1,585.2	47.4	27.8	35.3	1,109.2	475.6	-57.1	28.5	10.9
Disposal of financial assets	630.4	510.8	-19.0	16.3	11.4	950.7	1,698.6	78.7	24.4	39.1
Uses	**3,867.9**	**4,485.8**	**16.0**	**100.0**	**100.0**	**3,898.2**	**4,346.0**	**11.5**	**100.0**	**100.0**
Expenses (current)	2,939.9	3,523.8	19.9	76.0	78.6	2,776.2	3,367.9	21.3	71.2	77.5
Acquisition of non-financial assets	620.0	668.6	7.8	16.0	14.9	525.9	506.3	-3.7	13.5	11.7
Acquisition of financial assets	307.9	293.5	-4.7	8.0	6.5	596.1	471.8	-20.8	15.3	10.9

Source: Annual Budget Laws, Ministry of Economic Affairs and Finance
[1] Excludes special revenues and expenses.

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

Figure 10.2. Composition of Budget Uses

(percent, performance figures)
- Acquisition of financial assets
- Acquisition of non-financial assets (development expenditures)
- Expenses (current)

Disbursements on the acquisition of non-financial assets (development expenditures) fell 3.7 percent to Rls. 506.3 trillion, 24.3 percent lower compared with the approved figure. Accordingly, the net disposal of non-financial assets posted a deficit of Rls. 30.7 trillion in 2019/20.

Considering revenues and expenses as well as the disposal and acquisition of non-financial assets, the operating and non-financial balance (the sum of the operating balance and the net disposal of non-financial assets) registered a deficit of Rls. 1,226.7 trillion in 2019/20, up by 245.9 percent. This was 464.6 percent higher than the figure approved in the Budget.

Disposal of financial assets amounted to Rls. 1,698.6 trillion and the acquisition of financial assets totaled Rls. 471.8 trillion. Therefore, the net disposal of financial assets recorded a surplus of Rls. 1,226.7 trillion, which covered the deficit in the operating and non-financial balance.

Table 10.2. Government Fiscal Position[1] (trillion rials)

				Percentage change	
	2017/18	2018/19	2019/20	2018/19	2019/20
Revenues	**1,676.0**	**1,838.4**	**2,171.8**	**9.7**	**18.1**
Tax revenue	1,158.4	1,264.3	1,608.4	9.1	27.2
Other government revenues	517.7	574.0	563.4	10.9	-1.9
Expenses (current)	**2,429.4**	**2,776.2**	**3,367.9**	**14.3**	**21.3**
Operating balance	**-753.3**	**-937.9**	**-1,196.0**	**24.5**	**27.5**
Disposal of non-financial assets	**922.9**	**1,109.2**	**475.6**	**20.2**	**-57.1**
Acquisition of non-financial assets (development expenditures)	**441.8**	**525.9**	**506.3**	**19.0**	**-3.7**
Net disposal of non-financial assets	**481.1**	**583.2**	**-30.7**	**21.2**	**-105.3**
Operating and non-financial balance	**-272.3**	**-354.6**	**-1,226.7**	**30.2**	**245.9**

Ratio to GDP (at current prices)				(base year 2016/17)	
		Percent		Change (percentage points)	
	2017/18	2018/19	2019/20	2018/19	2019/20
Revenues	**10.4**	**8.8**	**8.1**	**-1.5**	**-0.7**
Tax revenue	7.2	6.1	6.0	-1.1	-0.1
Other government revenues	3.2	2.8	2.1	-0.4	-0.7
Expenses (current)	**15.0**	**13.3**	**12.6**	**-1.7**	**-0.7**
Operating balance	**-4.7**	**-4.5**	**-4.5**	**0.1**	**0.0**
Disposal of non-financial assets	**5.7**	**5.3**	**1.8**	**-0.4**	**-3.6**
Acquisition of non-financial assets (development expenditures)	**2.7**	**2.5**	**1.9**	**-0.2**	**-0.6**
Net disposal of non-financial assets	**3.0**	**2.8**	**-0.1**	**-0.2**	**-2.9**
Operating and non-financial balance	**-1.7**	**-1.7**	**-4.6**	**0.0**	**-2.9**

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

[1] Excludes special revenues and expenses.

Figure 10.3. Government Fiscal Position

(trillion rials)
- revenues and disposal of non-financial assets
- expenses and acquisition of non-financial assets
- operating and non-financial balance
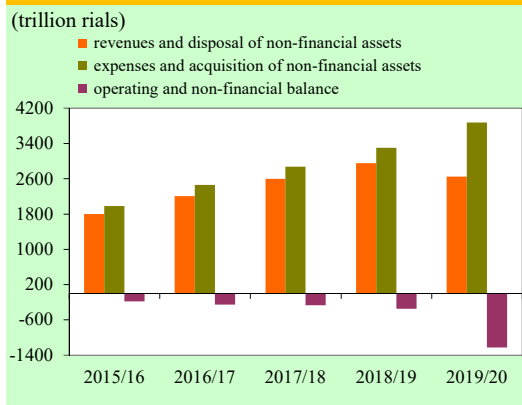
Tax revenue, including direct and indirect taxes, increased by 27.2 percent compared with 2018/19, to amount to Rls. 1,608.4 trillion in 2019/20, accounting for 93.2 percent of the approved budget. Out of total tax revenue, Rls. 813.1 trillion (50.6 percent) was related to direct tax, and Rls. 795.3 trillion (49.4 percent) was in the form of indirect tax. Direct and indirect taxes indicated increases by 28.3 and 26.2 percent, respectively. The share of direct tax out of total tax revenue in the year before (2018/19) had been 50.1 percent, and that of indirect tax had been 49.9 percent.

Figure 10.4. Ratio of Selected Budget Figures to GDP at Current Prices (base year 2016/17)

(percent)
- disposal of non-financial assets
- operating and non-financial balance deficit
- acquisition of non-financial assets
- net disposal of non-financial assets
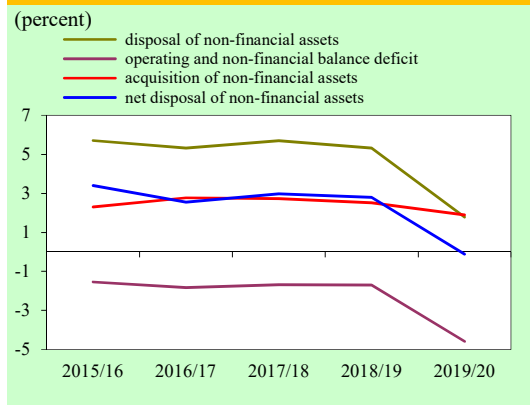
Figure 10.5. Ratio of Selected Budget Figures to GDP at Current Prices (base year 2016/17)

(percent)
- revenues
- expenses
- operating balance deficit
- tax revenue