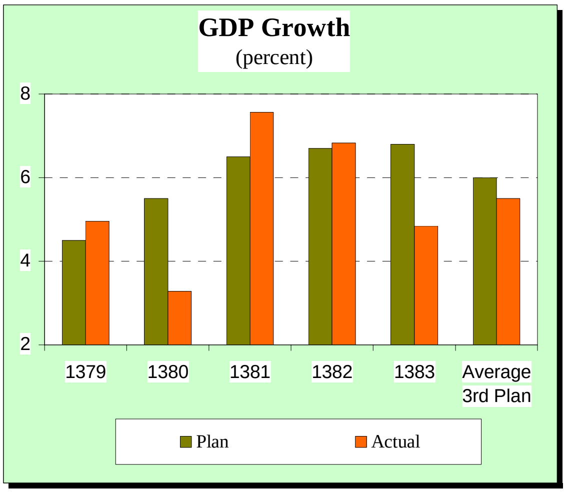
CHAPTER TWO

NATIONAL PRODUCT, EXPENDITURE AND INCOME

Following two consecutive favorable growth rates of 7.6 and 6.8 percent in the years of 1381 and 1382, the gross domestic product (GDP) in the last year of the 3rd FYDP declined to 4.8 percent. This figure indicates that the targets for economic growth have not been realized when compared with the growth target rate of 6.8 percent for the 3rd FYDP and the average target rate of 6 percent in this Plan. This was largely due to the slump in the growth of value-added of oil and agriculture activities and stagnation in construction activities, despite the rapid pace of manufacturing activities.

Reduction in the value-added of oil and agriculture sectors is attributable to long-lasting obstacles on the way of activities in these two sectors. As a matter of fact, maintaining the existing level of extraction capacity and crude oil production requires further investment in different fields of oil industry. Moreover, vulnerability of the agriculture sector to unfavorable climatic conditions is among impediments to GDP growth. Construction activities, as mentioned above, witnessed a drastic fall in 1383, both in private and public sectors.



Gross Domestic Product

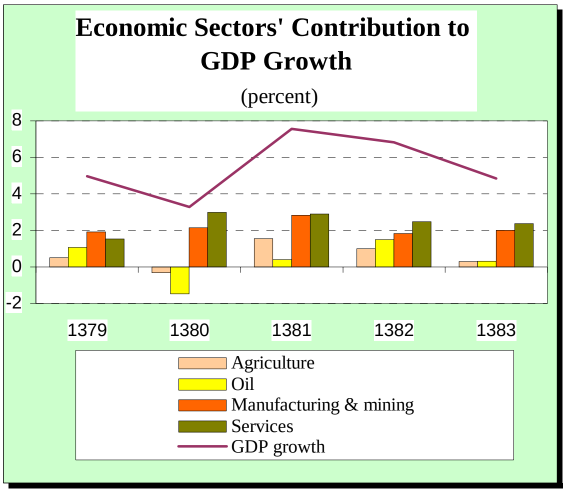
According to the preliminary estimates, GDP at constant 1376 prices went up by 4.8 percent in 1383 and amounted to Rls. 398,234 billion. During the review year, the share of manufacturing and mining sector in GDP was 17.7 percent, with those of services, oil, and agriculture sectors at 48.2, 25.0 and 11.2 percent, respectively.

Agriculture

The value-added of agriculture sector enjoyed 2.2 percent growth, showing a noticeable decline as compared to 7.1 percent growth of the previous year. The share of the value-added of this sector in GDP was 11.2 percent at current prices, showing a slight reduction as compared to the previous year.

Reduction in the growth rate of farming and horticultural produce could be attributed to the low precipitation level (in some regions as compared with the previous year) and frostbitten horticultural produce in spring. Animal husbandry sector, with a share of 27.1 percent in the value-added of agriculture sector grew by 4.6 percent, compensating for reduction of farming and horticultural sub-sectors.

Oil and Gas



The value-added of oil sector at constant 1376 prices posted a sharp fall in 1383 as compared with the previous year (2.6 percent growth against 13.4 percent in the previous year). This was mostly attributable to the declining trend of growth rate of extracted crude oil and domestically produced oil products. To this end and to maintain the existing output level, new and substitute investments are deemed necessary.

Manufacturing and Mining

In the review year, the value-added of manufacturing and mining sector grew by 8.4 percent at constant 1376 prices. The value-added of manufacturing, mining, and water, electricity and gas sub-sectors went up by 12, 8.8 and 9.5 percent, respectively at constant 1376 prices. Data released by the Ministry of Industries and Mines indicate that the mild growth of manufacturing sector is attributable to the production rise of certain commodities such as automobile, aluminum bar, raw steel, cement and other petrochemical products.

According to the preliminary figures, the value-added of construction sector fell by 4.1 percent at constant 1376 prices in 1383 as compared with the previous year. Private sector investment in urban areas surged by 23.7 percent at current prices. However, with 25.8 and 23.9 percent rise in construction services and materials, the real growth rate of the private sector investment in urban areas faced a 0.5 percent reduction.

Reduction of government development expenditures in construction activities and the underrealization of approved budget for 1383 reduced the growth rate of investment in public buildings by 6.5 percent at constant 1376 prices. This in turn decreased the value-added of public buildings.

Services

Services sector, with the lion’s share in the GDP, experienced a mild growth in the review year. According to preliminary estimates, the value-added of this sector, with a great share of 48.2 percent in GDP, grew by 4.6 percent. The sub-sectors of trade, restaurant and hotel, with a share of 11.6 percent in GDP at current prices, faced a rise of 6.6 percent and transportation, storage and communication with 7.3 percent share grew by 5.3 percent. The share of financial and monetary institutions’ services was 3.6 percent and that of real estate, specialized and professional services sub-sectors 12.6 percent of GDP at current prices. These two sub-sectors grew by 12.4 and 2.2 percent, respectively. The shares of public services, social, personal and household services remained almost the same as previous year, at 10.4 and 2.7 percent. They registered growth of 2.1 and 6.1 percent, respectively as compared with the previous year.

Gross Domestic Expenditure

According to preliminary estimates, gross domestic expenditure grew by 5.1 percent at constant 1376 prices. Constituents of gross domestic expenditure indicate that private consumption expenditures had the lion’s share of 45.5 percent. Moreover, it grew by 8.6 percent to Rls. 221,273 billion at constant 1376 prices.

Public consumption expenditures including ministries and affiliated institutions, municipalities, and Social Security Organization, with a share of 11.4 percent in the gross domestic expenditure at current prices, grew by 1.3 percent and reached Rls. 44,468 billion at constant 1376 prices.

Gross fixed capital formation with a share of 28.6 percent in the gross domestic expenditure, grew by 7 percent. Gross fixed capital formation for machinery went up by 17.6 percent in private sector while in public sector it declined by 2.5 percent. Gross fixed capital formation for construction in private and public sectors edged up by 0.1 percent and fell by 6.5 percent, respectively. On the whole, gross fixed capital formation for construction faced a fall of 3.5 percent at constant 1376 prices.

In the review year, import of goods and services went up by 13.9 percent, while exports went down by 0.8 percent, leading to a reduction of Rls. 25,376 billion in net export of goods and services at constant 1376 prices. Gross domestic expenditure rose by 5.1 percent to Rls. 404,334 billion. With the inclusion of terms of trade effect, net factor income from abroad, and deduction of depreciation of fixed capital and net indirect taxes, national income with 9.5 percent growth amounted to Rls. 373,506 billion. Oil price hike and improvement in the balance of payments (reflected in the significant rise of terms of trade effect) were responsible for the noticeable growth of the national income. Despite reduction in the GDP growth, high growth of national income raised public welfare when compared to the previous year. This is reflected in the rise of per capita income by 25.3 and 7.9 percent at current and constant 1376 prices to Rls. 17,795 and 5,518 thousand respectively, as compared with the year before.