CHAPTER ELEVEN

FOREIGN EXCHANGE AND TRADE POLICY

Interaction of the Iranian economy with the world economy posted a surplus in major accounts of the balance of payments. The noticeable growth in oil and gas proceeds by 32.8 percent was the main driving force behind the surplus in trade balance and remarkable rise in the foreign reserves, albeit a surge in imports. Due to the government's withdrawal from the Oil Stabilization Fund (OSF) during the review year, the cash balance of this account reached $9,477 million at the end of 1383, up by one billion dollars compared to the respective figure of the previous year.

Balance of Payments

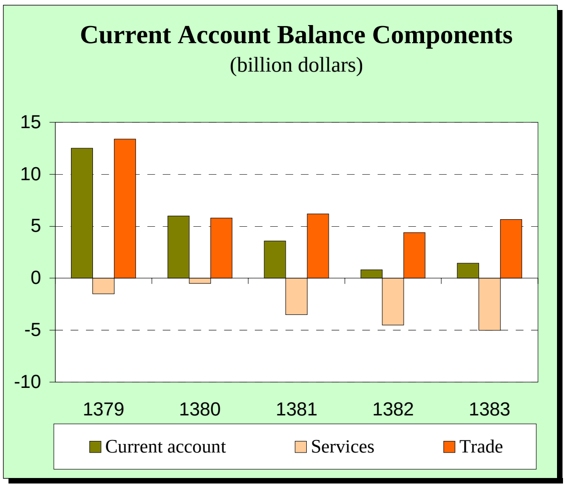
Continued upward trend of crude oil prices in international markets, together with concerted efforts taken to realize the targets set in the 3rd FYDP Law aimed at facilitating foreign trade and liberalizing foreign exchange transactions, were the main factors affecting balance of payments in the review year. Increase in the price and exports of oil and gas and the related products (crude oil, oil products, liquefied gas and natural gas), raised the foreign exchange receipts by 32.8 percent to the record high of $36,315 million.

The continued extending of facilities (in rial and foreign exchange) for the export of goods and services, exempting of exports from taxes and levies and granting of export rewards and subsidies, together with relatively stable foreign exchange market pushed the non-oil exports up by 13.6 percent to $7,537 million in 1383. The remarkable surge in the exports of different types of iron and steel, transportation vehicles and their spare parts, mineral-metallic ores, and petrochemicals had the highest contribution to the growth of non-oil exports.

Relaxation of foreign trade, along with the stability of exchange rate, resulted in the continued upward trend of imports in the review year. Therefore, the volume of imports rose from $29,561 million in 1382 to $38,199 million in 1383, up by 29.2 percent. Imports of machinery and transportation vehicles, with a growth of 31.8 percent and a share of 44.7 percent in total imports, were largely responsible for the changes in the trend of imports. As a result, trade balance ran a surplus of $5,653 million, showing a remarkable growth of 27.6 percent compared to the respective figure of the previous year.

In the review year, services account kept running a deficit. On receipts side, freight and insurance and tourism (passenger and travel services), with $2,051 and 1,305 million, respectively, comprised 48.6 percent of foreign exchange receipts of the services account. On the payments side, freight and insurance, tourism (passenger and travel services) and foreign investment expenses, with $876, 4,402, and 1,129 million, accounted for 53.8 percent of foreign exchange payments of this sector. Therefore, in the review year, services account ran a deficit of $5,011 million. This, together with 10.5 percent rise in the deficit of this account compared to the previous year, is indicative of continued trend of imports (net) of services. In this year, transfers account (net) registered a surplus of $800 million, mainly owing to remittances of Iranians residing abroad. Current account recorded a surplus of $1,442 million, showing 76.7 percent growth compared to $816 million of last year.

In the review year, the capital account enjoyed a surplus of $7,388 million, which is attributable to the surplus in long-term and short-term accounts by $1,659 and 5,730 million, respectively. Long-term public account posted a surplus of $1,262 million, owing to the creation of new debts, the main items of which resulted from new buy-back contracts obligations, finances, and debts to the World Bank. In this year, $1,344 million was paid on account of buy-back contracts, and $2,654 million new buy-back obligations were created out of these contracts. The "other" in long-term account enjoyed a surplus of $396 million, due to the rise in foreign direct investment.



Surplus in the short-term account was a result of the surplus in public short-term account ($89 million) and in the banks account and other ($5,640 million). The former was related to a reduction in barter accounts and the latter to a decline in banks foreign assets and an increase in outstanding debts of LCs. In the review year, the net foreign reserves of the CBI and the OSF (overall balance of payments) surged by $8,731 million.

BALANCE OF PAYMENTS (million dollars)

	1380	1381	1382	1383	Percentage change
Current account balance	5,985	3,585	816	1,442	76.7
Capital account (net)	1,150	2,534	4,476	7,388	65.1
Changes of exchange rate	-156	-210	-506	1,213	_
Errors and omissions	-2,219	-1,242	-1,076	-1,312	21.9
Overall balance (change in international reserves)	**4,760**	**4,667**	**3,710**	**8,731**	**135.4**

Foreign Trade Performance

The continued exchange rate and trade policies, aimed at deregulation and facilitation and promotion of foreign trade, such as exchange rate unification, tax consolidation and extending of exports reward, paved the way for further growth of foreign trade in 1383. Therefore, the major customs variables experienced an upward trend. Accordingly, the value of non-oil exports grew by 14.7 percent to $6,847 million in 1383, with their weight being 18,077 thousand tons, up by 16.9 percent when compared to the respective figure of the previous year. The unit value of exported goods fell by 1.9 percent to $379 as compared with the previous year.

In 1383, the value of imports (cif) grew by 33.1 percent, from $26,598 million to $35,389 million. In this period, the weight of imported goods amounted to 34,448 thousand tons, showing 14.4 percent growth when compared with the same figure for 1382. The unit value of imported goods increased by 21.3 percent from $898 in 1382 to $1,089 in 1383. This rise was basically attributable to increase in the foreign exchange proceeds from non-oil exports, the continued boom in the international oil market and inappropriate exchange rate adjustment with regard to the domestic and foreign inflation.

FOREIGN TRADE
(excluding oil, gas and electricity)

				Percentage change		Share (percent)	
	1381	1382	1383	1382	1383	1382	1383
Value (million $)							
1. Imports	22,275	26,598	35,389	19.4	33.1	81.7	83.8
2. Imports (adjusted) (1)	21,761	26,598	35,389	22.2	33.1	81.7	83.8
3. Exports	4,608	5,972	6,847	29.6	14.7	18.3	16.2
Deficit (3-2)	-17,153	-20,626	-28,542	20.2	38.4	-63.3	-67.6
Total	**26,369**	**32,570**	**42,236**	**23.5**	**29.7**	**100.0**	**100.0**
Weight (thousand tons)							
1. Imports	26,927	30,106	34,448	11.8	14.4	66.1	65.6
2. Exports	13,362	15,467	18,077	15.8	16.9	33.9	34.4
Total (1+2)	**40,289**	**45,573**	**52,525**	**13.1**	**15.3**	**100.0**	**100.0**

Source: Foreign Trade Statistics

(1) In previous years, in calculating adjusted imports, order registration fee was deducted from the value of imports, however due to abolition of order registration fee in 1382, the total imports is equal to adjusted imports in this year.

Imports

Composition of imports in 1383 shows that the highest growth was related to consumer goods (100.5 percent). The share of this group in the total imports increased from 12 percent in 1382 to 18 percent in 1383. This trend indicates how the composition of imports is susceptible to exchange rate fluctuations. Therefore, a surge in imports of consumer goods could be highly attributed to the appreciation of national currency.

The upward growth trend of import of consumer goods coincided with the downward trend of import of capital goods from 16.1 percent in 1382 to 7.8 percent in 1383. The share of capital goods fell from 42.2 percent in 1382 to 34.2 percent in 1383. Imports of raw materials and intermediate goods, with the lion's share of 47.8 percent, grew by 38.7 percent compared to the previous year.

COMPOSITION OF IMPORTS BY USE (million dollars)

				Percentage change		Share (percent)	
	1381	1382	1383	1382	1383	1382	1383
Raw materials and intermediate goods	9,766	12,187	16,898	24.8	38.7	45.8	47.8
Capital goods	9,668	11,226	12,105	16.1	7.8	42.2	34.2
Consumer goods	2,842	3,185	6,386	12.1	100.5	12.0	18.0
Total	**22,275**	**26,598**	**35,389**	**19.4**	**33.1**	**100.0**	**100.0**
Imports (adjusted)	**21,761**	**26,598**	**35,389**	**22.2**	**33.1**		

Composition of imports according to the international classification of goods indicates that imports of machinery and transportation vehicles, with 44.7 percent share in total imports, enjoyed the highest share in 1383.

The top five exporting countries to Iran were the United Arab Emirates, Germany, France, Italy and China, which together accounted for 49.9 percent of Iran's imports this year.

Distribution of imports by continents indicates higher share for Europe and Asia, so that the total value of imports from these two continents to Iran amounted to $18,180 million and $15,701 million, respectively, showing 51.4 percent share for Europe and 44.4 percent for Asia.

Review of imports by group of countries indicates that imports from the European Union, with 35.2 percent growth, increased from $10,837 million in 1382 to $14,649 million in 1383, accounting for 41.4 percent of the total imports. The ESCAP member countries, with a share of 26.2 percent, stood the second exporter group with a total of $9,283 million exports to Iran.

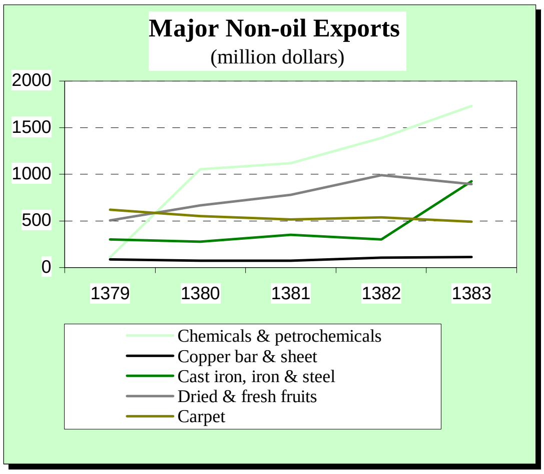
IMPORTS ACCORDING TO INTERNATIONAL CLASSIFICATION OF GOODS

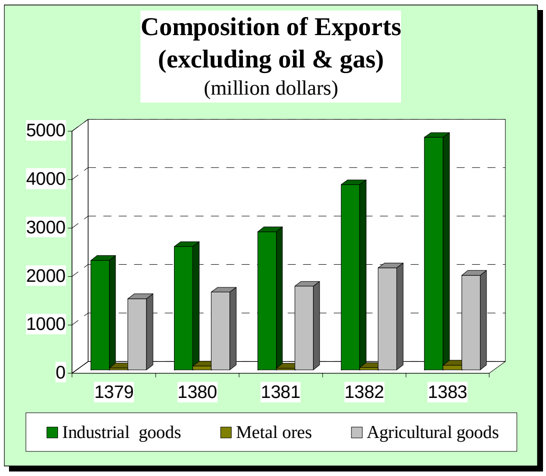
(million dollars)

				Percentage change		Share (percent)	
	1381	1382	1383	1382	1383	1382	1383
Machinery and transportation vehicles	10,221	12,005	15,825	17.5	31.8	45.1	44.7
Goods classified according to their composition	1,067	1,319	3,044	23.6	130.8	5.0	8.6
Foodstuffs and live animals	1,522	1,419	1,733	-6.7	22.1	5.3	4.9
Chemicals	2,580	3,391	4,208	34.1	24.1	12.7	11.9
Others	6,885	8,463	10,579	22.9	25.0	31.8	29.9
Total	**22,275**	**26,597**	**35,389**	**19.4**	**33.1**	**100.0**	**100.0**
Imports (adjusted)	**21,761**	**26,597**	**35,389**	**22.2**	**33.1**		

Non-oil Exports

During 1383, a total of 18,077 thousand tons of non-oil goods valuing at $6,847 million were exported, showing 16.9 and 14.7 percent increase in weight and value, respectively, compared to the year before. Surge in the export value of cast-iron, iron, and steel by 209.6 percent, together with a 37.7 percent rise in the export value of petrochemicals, were the driving forces pushing the non-oil exports up in this year.





The classification of non-oil exports by use indicates that the exports of raw materials and intermediate goods rose by 48.6 percent from $2,563 million in 1382 to $3,810 million in the review year. Exports of these goods constituted the lion's share of 55.6 percent of the total exports in this year, showing 42.9 percent increase compared to the year before. Share of consumer goods plummeted from 52.1 percent to 40.4 percent.

The geographical distribution of non-oil exports shows that the first five trade partners of Iran (United Arab Emirates, Iraq, India, Japan, and Germany) together imported a total of $3,087 million, i.e. 45.1 percent of the total non-oil exports. The geographical distribution of non-oil exports according to group of countries indicates that the ESCAP member countries had the highest shares of imports from Iran by 39 percent. Export of non-oil goods to EU grew by

42.3 percent in the review year, and thus the share of the EU member countries in our non-oil exports increased from 13.7 to 17 percent. However, Iran's exports to the ECO member countries remained relatively unchanged as compared to 1382.

COMPOSITION OF EXPORTS BY USE
(excluding oil, gas and electricity)

(million dollars)

				Percentage change		Share (percent)	
	1381	1382	1383	1382	1383	1382	1383
Raw materials and intermediate goods	2,059	2,563	3,810	24.5	48.6	42.9	55.6
Capital goods	178	298	274	67.1	-8.1	5.0	4.0
Consumer goods	2,371	3,111	2,763	31.2	-11.2	52.1	40.4
Total	**4,608**	**5,972**	**6,847**	**29.6**	**14.7**	**100.0**	**100.0**

Utilization from External Sources and Foreign Exchange Obligations

Total foreign exchange obligations (including interest and contingent obligations) went up from $34,676 million at the beginning of 1383 to $42,816 million at year-end, showing 23.5 percent growth. Due to the changes in the composition of contingent obligations and external debt (actual obligations), the share of contingent obligations fell from 62 percent at year-end 1382 to 58.2 percent at the end of the review year.

EXTERNAL OBLIGATIONS

(million dollars)

	Year-end			% change
	1381	1382	1383	1382-83
Contingent obligations (net)	**16,754**	**21,488**	**24,939**	**16.1**
External debt (net)	**9,250**	**12,100**	**16,831**	**39.1**
Short-term debts	**2,077**	**4,791**	**10,253**	
Long-term debts	**7,173**	**7,309**	**6,578**	
Loans by OIETA of Iran (net)	722	806	1,048	
Oil prefinance	1,878	1,292	201	
Others	4,573	5,211	5,329	
Interest	**1,177**	**1,088**	**1,046**	**-3.9**
Total	**27,181**	**34,676**	**42,816**	**23.5**

During 1383, external debt (net) increased by 39.1 percent from $12,100 million to $16,831 million. This was due to an increase in short-term debts by $5,462 million and a decrease in medium- and long-term debts by $731 million. Among medium- and long-term debts, loans extended by the Organization for Investment, Economic and Technical Assistance of Iran and oil prefinance, with $242 million increase and $1,091 million decrease, respectively, had the greatest effect on medium- and long-term external debt fluctuations.

The share of short-term debts, by maturity, trended upwards to 60.9 percent at year-end 1383, from 39.6 percent in the previous year. The relatively high increase in the volume of short-term debts is indicative of less flexibility in external debt management.

Change in International Reserves

Change in Iran's international reserves by $8,731 million in 1383 is partly due to the changes in the OSF account. In the review year, despite considerable withdrawals by the government and allocation of resources for financing private sector projects, the balance (cash) of the said account registered $1,034 million increase.

Oil Stabilization Fund (OSF)

Cash balance of the OSF increased from $8,443 million at year-end 1382 to $9,477 million at the end of the review year, showing 12.2 percent growth. It was for the first time that the OSF witnessed savings of over $9 billion out of oil export proceeds. This indicates the government's relative adherence to fiscal discipline. Meanwhile, oil revenue in excess of the budget figure was deposited into the OSF and rose by 85.3 percent during 1383 as compared to the previous year. Composition of uses indicates that budget withdrawals and facilities extended to the private sector grew by 143 and 80.1 percent to $4,732 and 1,937 million, respectively.

OIL STABILIZATION FUND (million dollars)

	1381	1382	1383	Percentage change 1382-83
Sources	**5,913**	**5,798**	**10,484**	**80.8**
Oil excess revenue	5,596	5,508	10,207	85.3
Uses	**5,129**	**5,436**	**9,450**	**73.8**
Budget withdrawals	4,531	4,361	7,513	72.3
Extended facilities	598	1,076	1,937	80.1
Cash balance (year-end)	**8,082**	**8,443**	**9,477**	**12.2**
Claims re: extended facilities	**705**	**1,741**	**3,582**	**105.8**
Balance (year-end)	**8,787**	**10,184**	**13,060**	**28.2**

Major Policies and Initiatives undertaken by the

Comprehensive Exports Promotion Plan

- Extending exports revolving funds to manufacturing-exporting units at international rates
- Extending banking facilities at international competitive rates, under the coverage of The Export Guarantee Fund to that part of non-oil exports which cannot be exported through LCs
- Paving the way for licensing and presence of the foreign banks in Iran in order to make the banking system more competitive
- Extending credits to buyers and sellers in accordance with international terms and conditions
- Privatizing exports sector
- Concluding contracts with target markets on reducing tariffs and allocating exports-promoting rewards and incentives
- Membership in the regional economic treaties
- Refurbishing and equipping the transportation fleet
- Privatizing the transportation industry, including land, sea, rail, and air transportation
- Deregulating the exports sector
- Centralizing the policy making affairs for exports promotion in the High Council of Exports with the effective collaboration of non-public economic enterprises

- Strengthening, expanding, and activating commercial representative offices and commercial divisions of the Iranian embassies
- Allocating export credit lines for the technical and engineering services
- Conducting exports guarantee insurance for goods in the target markets
- Establishing EXIM Bank in compliance with international standards with the collaboration of the non-public sector
- Strengthening provinces for exports process and training the skilled manpower