

**Gross Domestic Product**

According to preliminary estimates, GDP at basic price went up by 5.4 percent at constant prices <sup>(1)</sup> in 1384 and amounted to Rls. 419,706 billion. During the review year, the value-added of manufacturing and mining, services, oil, and agriculture sectors grew by 6.7, 5.6, 0.6, and 7.1 percent, respectively. The shares of those sectors in GDP were 16.7, 47.3, 27.9, and 10.4 percent, respectively, at current prices.

Non-oil GDP rose by 6.0 percent at basic price in 1384, showing 0.6 percentage point growth when compared with the GDP growth. This was attributable to relatively low growth of oil and gas sector as compared with other economic sectors during the review year.

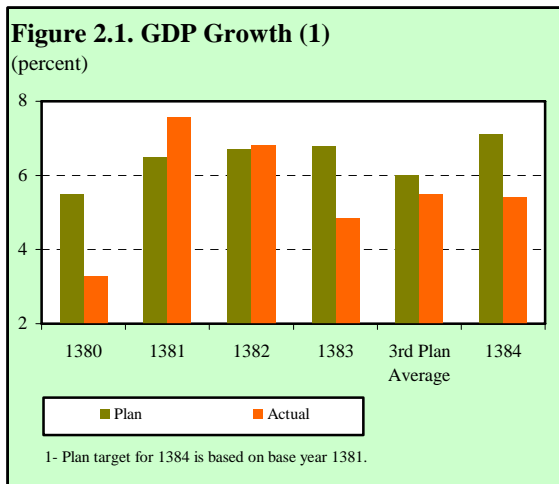
**Agriculture**

The value-added of agriculture sector enjoyed 7.1 percent growth at constant prices and amounted to Rls. 58,381 billion, showing a noticeable rise as compared with 2.2 percent growth of the previous year. The share of the value-added of this sector in GDP was 10.4 percent at current prices, showing a slight reduction as compared with the 11.2 percent growth of 1383.

Following the sharp reduction in the growth rate of farming and horticultural produce in 1383, favorable climatic conditions led to high growth in the value-added of the agriculture sector during the review year. According to the estimates, the value-added of both farming and horticultural produce and livestock products experienced a noticeable growth when compared with the previous year.

**Oil and Gas**

In 1384, oil and gas sector witnessed reduction in growth rate. This was mostly due to reduction in growth rate of extracted crude oil, direct export of crude oil and exports through

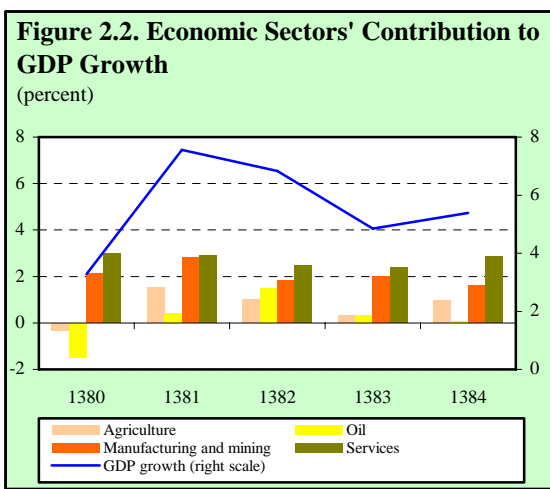


(1) Constant prices refer to constant 1376 prices.

buyback contracts as well as reduction in export of oil products. The value-added of oil sector at constant prices posted a sharp fall in 1384 as compared with the previous year (0.6 percent growth against 2.6 percent in 1383).

**Manufacturing and Mining**

In the review year, manufacturing and mining sector grew by 6.7 percent at constant prices, indicating a decline when compared with the 8.4 percent growth of the previous year. In this sector, the value-added of manufacturing, mining, and water, electricity and gas sub-sectors went up by 7.1, 10.5, and 6.4 percent, respectively, at constant prices.



According to preliminary figures, construction sector, despite its downward trend in the previous year, grew by 4.4 percent at constant prices to Rls. 18,728 billion. Private sector investment in urban areas surged by 12.9 percent at current prices. Considering the 17.9 and 6.2 percent rise in construction services and materials, the real growth rate of the private sector investment in urban areas increased by 3.2 percent. The 4.6 percent growth of the government investment at constant prices (development expenditure) in construction sector during the review year led to increase in the value-added of the government buildings.

**Services**

According to preliminary estimates, the value-added of services sector, with a share of 47.3 percent in GDP, grew by 5.6 percent at constant prices. The shares of trade, restaurant and hotel in GDP and transport, storage and communications were 11.1 and 7.2 percent, respectively, at current prices. The share of financial and monetary institutions' services was 3.9 percent and that of real estate, specialized and professional services sub-sectors was 12.2 percent of GDP at current prices. The shares of public services and social, personal and household services remained almost the same as the previous year, at 10.2 and 2.6 percent.

**Gross Domestic Expenditure**

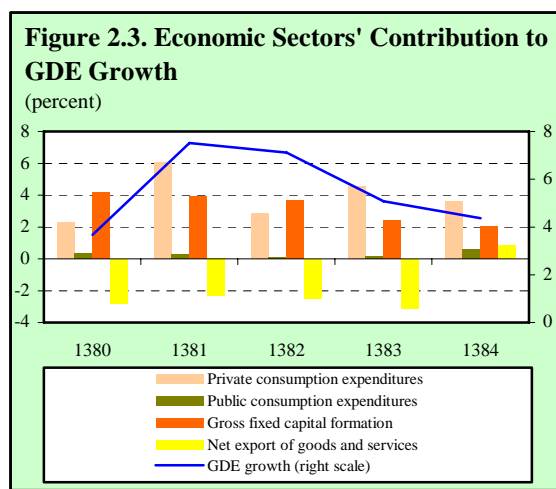
According to preliminary estimates, gross domestic expenditure grew by 4.4 percent at constant prices. Constituents of gross domestic expenditure indicate that private consumption expenditures had the lion's share of 45 percent at current prices. Moreover, it grew by 6.6 percent to Rls. 235,816 billion at constant prices.

Public consumption expenditures including ministries and affiliated institutions, municipalities, and Social Security Organization, with a share of 12.2 percent in the gross domestic expenditure at current prices, grew by 5.4 percent and reached Rls. 46,857 billion at constant prices.

Gross fixed capital formation, with a share of 27.4 percent in the gross domestic expenditure, grew by 5.8 percent to Rls. 152,741 billion at constant prices. Gross fixed capital formation for machinery went up by 3.7 and 21.2 percent in private and public sectors, respectively. Gross fixed capital formation for construction grew by 4.7 percent to Rls. 54,915

billion at constant prices. Of this growth, 4.9 percent was related to private and 4.6 percent to public sector at constant prices.

In the review year, imports of goods and services went up by 2.1 percent, indicating a slower pace of growth as compared with the 13.9 percent growth of 1383, while exports grew by 6.8 percent at constant prices. Therefore, net export of goods and services at constant prices posted a deficit of Rls. 22,613 billion. Gross domestic expenditure (GDP at market price) rose by 4.4 percent to Rls. 421,980 billion at constant prices. 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 8.0 percent growth amounted to Rls. 403,309 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.



### Incremental Capital-Output Ratio (ICOR)

Incremental Capital-Output Ratio (ICOR) is a measure of the efficiency of capital and is calculated from the ratio of investment in a certain period of time to change in the output of the next period.<sup>(1)</sup> The higher the ICOR, the lower the productivity of capital.

#### INCREMENTAL CAPITAL-OUTPUT RATIO

	1379	1380	1381	1382	1383	3 <sup>rd</sup> Plan Average	1384
ICOR	6.0	9.1	4.4	5.0	7.3	6.4	6.7

### Comparison of Real Sector Performance in 1384 with the 4<sup>th</sup> FYDP Targets

GDP at constant prices<sup>(2)</sup> grew by 5.4 percent, indicating a fall of 1.7 percentage points when compared with the 7.1 percent growth projected in the 4<sup>th</sup> FYDP. The 5.8 percent growth rate of gross fixed capital formation during the review year as compared with the 11.3 percent increase projected in the 4<sup>th</sup> FYDP indicates a difference of 5.5 percentage points. On the other hand, the 6.4 percent rise in total consumption (sum of public and private consumption expenditures) in 1384 indicates an upward trend as compared with the 4<sup>th</sup> FYDP projections (4.8 percent).

The growth targets for agriculture, oil, manufacturing and mining, and services sectors in the 4<sup>th</sup> FYDP were set at 6.0, 2.6, 10.5, and 8.0 percent, respectively for 1384. Comparison of the performance figures of all these sectors with the mentioned targets indicates that the Plan target was realized merely in agriculture sector, which was due to benign climatic conditions.

(1) Given a one-year lag for investment and change in output, ICOR to total output is calculated from:  $ICOR = I_{t-1} / (GDP_t - GDP_{t-1})$ .

I stands for gross fixed capital formation and GDP for gross domestic product. Source: World Bank, Statistics Manual

(2) Data on real sector performance and 4<sup>th</sup> FYDP projections are calculated on the basis of 1376 and 1381 constant prices, respectively.

## Chapter 2 NATIONAL PRODUCT, EXPENDITURE AND INCOME

### COMPARISON OF REAL SECTOR PERFORMANCE IN 1384 WITH THE 4<sup>th</sup> FYDP PROJECTIONS

(growth-percent)

	Actual	Projection
GDP	5.4	7.1
Total consumption expenditures	6.4	4.8
Gross domestic fixed capital formation	5.8	11.3

### 4<sup>th</sup> FYDP Projections on Real Sector Performance

The table below shows 4<sup>th</sup> FYDP Law projections on major aggregates of the real sector. According to the 4<sup>th</sup> FYDP Law, GDP is projected to grow by 7.1, 7.4, 7.8, 8.4, and 9.3 percent, respectively, during the course of 1384-88, with an average growth of 8.0 percent. Total consumption expenditures are projected to rise by 4.8, 5.5, 5.9, 6.4, and 7.4 percent, respectively, with an average growth of 6.0 percent for the mentioned period. Fixed capital formation is projected to grow by 11.3, 11.0, 11.7, 12.9, and 14.1 percent, respectively, with an average growth of 12.2 percent.

### 4<sup>th</sup> FYDP PROJECTIONS ON REAL SECTOR PERFORMANCE (at constant 1381 prices)

(billion rials)

	1383	1384	1385	1386	1387	1388	4 <sup>th</sup> Plan Average
GDP	1,051,018	1,125,640	1,208,938	1,303,235	1,412,707	1,544,290	
Growth (percent)	...	7.1	7.4	7.8	8.4	9.3	8.0
Total consumption expenditures	598,267	627,233	661,707	700,444	745,322	800,616	
Growth (percent)	...	4.8	5.5	5.9	6.4	7.4	6.0
Gross domestic savings	452,751	498,407	547,231	602,791	667,385	743,674	
Growth (percent)	...	10.1	9.8	10.2	10.7	11.4	10.4
Gross domestic fixed capital formation	301,425	335,441	372,353	415,881	469,443	535,869	
Growth (percent)	...	11.3	11.0	11.7	12.9	14.1	12.2

Source: 4<sup>th</sup> FYDP, Management and Planning Organization

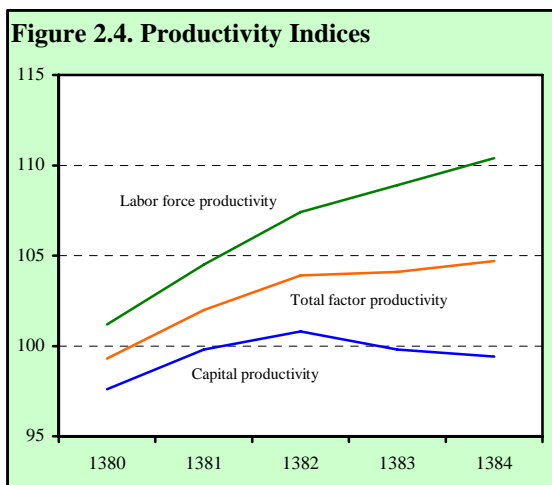
### 4<sup>th</sup> FYDP PROJECTIONS ON THE GROWTH OF ECONOMIC SECTORS (percent)

	1384	1385	1386	1387	1388	Average Growth (1384-1388)
Agriculture	6.0	5.9	6.2	6.8	7.6	6.5
Oil	2.6	2.7	2.9	3.2	3.6	3.0
Manufacturing and mining	10.5	10.8	11.0	11.5	12.4	11.2
Services	8.0	8.4	8.8	9.4	10.4	9.0
GDP	7.1	7.4	7.8	8.4	9.3	8.0
Non-oil GDP	8.3	8.6	9.0	9.6	10.6	9.2

Source: 4<sup>th</sup> FYDP, Management and Planning Organization

### Total Factor Productivity (TFP)

On average, 2.5 percentage points of the GDP growth rate targeted in the 4<sup>th</sup> FYDP is to be achieved through total factor productivity growth. The average total factor productivity together with capital and labor force productivity during 1375-84 are estimated at 0.57, -0.12, and 1.28, respectively, indicating drastic fluctuations. This was mostly attributable to the unstable economic environment and other related issues. TFP for 1384 (the first year of the 4<sup>th</sup> FYDP) is estimated at 0.6 percent. The following table indicates changes in the mentioned index according to various economic sectors.



**CHANGES OF TOTAL FACTOR PRODUCTIVITY BY ECONOMIC SECTORS** (percent)

	1376	1377	1378	1379	1380	1381	1382	1383	1384	Average
Agriculture	-0.8	7.8	-10.0	3.5	-5.0	6.2	2.5	-2.0	2.5	0.4
Oil and gas	-11.0	2.4	-8.9	5.1	-16.2	1.7	14.6	-1.9	-2.4	-2.2
Mining	-4.2	9.8	16.6	-1.2	0.8	-0.8	-10.6	-4.3	-3.2	0
Manufacturing	5.5	-9.5	2.4	3.9	7.6	6.0	2.6	2.4	-0.6	2.2
Construction	1.1	-1.4	11.6	3.0	-7.5	5.6	-9.8	-10.4	-3.5	-1.5
Electricity, gas and water	1.6	4.4	2.5	10.3	5.4	5.3	6.0	12.0	3.5	5.6
Transport, storage and communications	-2.9	-2.2	5.6	-0.6	-2.0	-3.9	-2.8	-5.2	3.8	-1.2
Other services	3.2	0.1	-1.6	-0.8	2.3	2.5	1.0	1.4	1.3	1.0
<b>Total</b>	<b>0.5</b>	<b>-0.1</b>	<b>-1.8</b>	<b>1.7</b>	<b>-0.4</b>	<b>2.7</b>	<b>1.9</b>	<b>0.2</b>	<b>0.6</b>	<b>0.6</b>