

Part One

**Economic Developments
of Iran in 1386**

*In the Name of God,
The Compassionate, The Merciful*

Gross Domestic Product

Based on preliminary estimates, GDP at basic price ⁽¹⁾ rose by 6.7 percent at constant 1376 prices and reached Rls. 499,071 billion in 1386. The value-added of manufacturing and mining sector grew by 9.0 percent, services 6.4 percent, agriculture 6.4 percent and oil 1.3 percent. Moreover, the share of the manufacturing and mining sector in GDP was 18.3 percent, services 46.9 percent, agriculture 9.3 percent, and oil 27.9 percent, at current prices.

In 1386, non-oil GDP grew by 7.3 percent, 0.6 percentage point more than GDP growth. This was mainly due to the lower growth of oil and gas sector compared with other economic sectors.

According to preliminary estimates, the value-added of the agriculture sector grew by 6.4 percent to Rls. 65,062 billion, at constant prices, when compared with 4.7 percent growth of the previous year. The share of the value-added of this sector in GDP rose from 9.2 percent in 1385 to 9.3 percent in 1386 at current prices. Moreover, production of farming and horticultural crops and livestock products experienced a remarkable growth compared with the previous year.

(1) The basic price is the amount receivable by the producer from the purchaser for a unit of a good or service produced as output minus any tax payable, plus any tax receivable on that unit as a consequence of its production or sale.

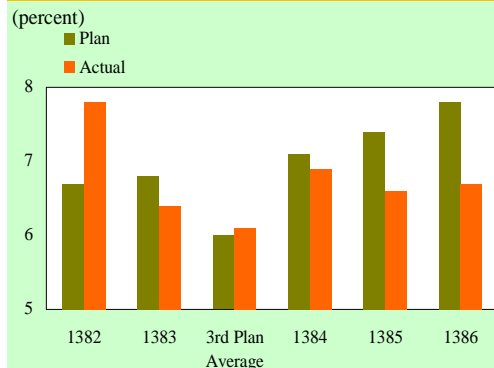
The value-added of oil and gas sector amounted to Rls. 49,867 billion in 1386, indicating 1.3 percent growth compared with the previous year. This was due to the increase in the production and exports of crude oil, rise in the production and exports of condensates and liquids, production of natural gas, and exports of propane and butane.

Gross Domestic Product by Various Economic Sectors

(at constant 1376 prices) (percent)

	1384	1385	1386
Agriculture	9.2	4.7	6.4
Oil	0.3	3.6	1.3
Manufacturing and mining	11.6	9.4	9.0
Services	6.4	6.7	6.4
GDP	6.9	6.6	6.7
Non-oil GDP	7.8	7.0	7.3

Figure 1.1. GDP growth ⁽¹⁾ (1376=100)



1- Plan target in the 3rd FYDP is based on 1378 and in the 4th FYDP 1381.

In 1386, manufacturing and mining sector enjoyed 9.0 percent growth, at constant prices. Meanwhile, the value-added of the manufacturing sector increased by 8.3 percent at constant prices, mining 12.1 percent, electricity, gas, and water 7.4 percent, and construction 11.9 percent.

At the beginning of recovery in construction activities by private sector, the capital formation in this sector grew at an annual average rate of 80.4 percent at current prices. This growth was adjusted to 47.6 percent per annum at constant prices. Considering this figure and rise in the value-added of government buildings, the growth rate of this sector was 11.9 percent at constant prices.

Services sector, with the highest share in GDP, experienced a mild increase in 1386 as in the previous year. Based on preliminary estimates, the value-added of this sector, with a share of 46.9 percent in GDP, grew by 6.4 percent, at constant prices. In this year, the share of trade, restaurant and hotel in GDP was 10.5 percent; transport, storage, and communication 8.5 percent; financial and monetary institutions' services 2.8 percent; real estate, specialized and professional services 14.0 percent; public services 8.4 percent; and social, personal and household services 2.7 percent, at current prices.

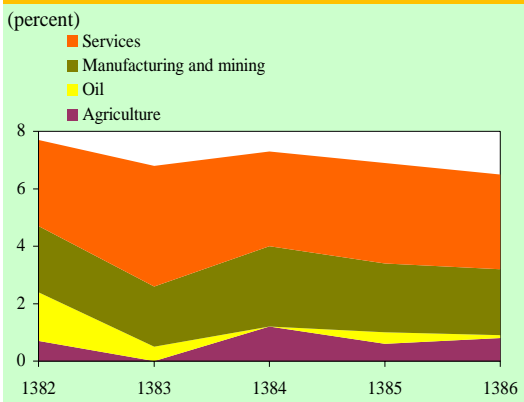
Gross Domestic Expenditure

Based on preliminary estimates, GDE grew by 8.1 percent, at constant prices, in 1386. A review of the constituents of GDE reveals that private consumption expenditures had the highest share in GDE by 41.1 percent at current prices. Moreover, it grew by 6.8 percent, at constant prices, to Rls. 284,441 billion.

Public consumption expenditures in ministries and affiliated institutions, municipalities, and Social Security Organization (SSO) had a share of 10.7 percent in GDE at current prices. It fell by 8.5 percent (at constant prices) to Rls. 49,461 billion in this year. This was mainly due to the decline in government current expenditures. Gross fixed capital formation had a share of 23.8 percent in GDE at current prices. It also grew by 6.6 percent to Rls. 181,020 billion, at constant prices.

Gross fixed capital formation for machinery and construction grew by 2.1 and 13.5 percent, respectively. For construction, this increase was due to the growth in private sector investment in this sector. The decelerating growth of capital formation in machinery is attributable to a decline in the imports of capital goods.

Figure 1.2. Economic sectors' contribution to GDP growth (1376=100)



Gross Domestic Expenditure

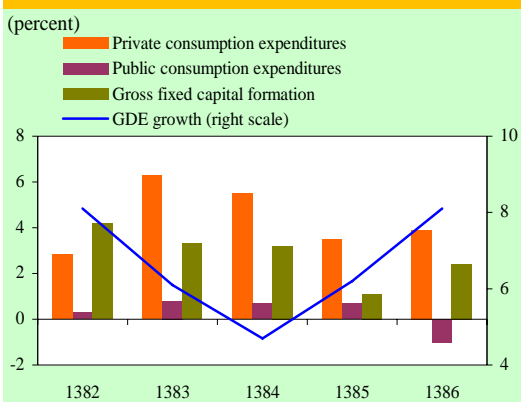
(at constant 1376 prices) (percent)

	1384	1385	1386
Private consumption expenditures	10.0	6.1	6.8
Public consumption expenditures	6.0	5.8	-8.5
Gross fixed capital formation	8.7	3.0	6.6
GDE	4.7	6.2	8.1
National income	11.6	6.7	9.1

Imports of goods and services registered a growth of 3.1 percent at constant

prices, showing a slower growth pace when compared with 7.1 percent growth of the previous year. Exports declined by 1.6 percent at constant prices. Therefore, net export of goods and services ran a deficit of Rls. 24,026 billion at constant prices. Gross domestic expenditure rose by 8.1 percent (at constant prices) to Rls. 497,671 billion. With the inclusion of terms of trade and net factor income from abroad, gross national expenditure (product), at market price, grew by 10.1 percent to Rls. 557,577 billion. Rise in oil prices, reflected in the remarkable growth of terms of trade, is the main driving force behind the increase in gross national expenditure.

Figure 1.3. Economic sectors' contribution to GDE growth (1376=100)



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 ⁽¹⁾. The higher the ICOR, the lower the productivity of capital.

(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.

Incremental Capital-Output Ratio ⁽¹⁾

	1382	1383	1384	1385	1386	Average
ICOR	4.4	5.6	5.3	5.7	5.5	5.3

(1) Revision in ICOR for 1382-85 is due to the revision in national accounts.

Comparison of Real Sector Performance in 1386 with the 4th FYDP Targets

GDP at constant prices grew by 6.7 percent, indicating a fall of 1.1 percentage points when compared with the 7.8 percent growth projected in the 4th FYDP. The 6.6 percent growth rate of gross fixed capital formation during the review year as compared with the 11.7 percent increase projected in the 4th FYDP indicates a difference of 5.1 percentage points. Meanwhile, the 4.2 percent rise in total consumption (sum of public and private consumption expenditures) in 1386 indicates a downward trend as compared with the 4th FYDP projection (5.9 percent).

The growth target for agriculture sector in the 4th FYDP was set at 6.2 percent, oil 2.9 percent, manufacturing and mining 11.0 percent, and services 8.8 percent, for 1386. Comparison of the performance figures of all these sectors with the mentioned targets indicates that the Plan target was realized merely in the agriculture sector.

Comparison of Real Sector Performance in 1386 with the 4th FYDP Projection ⁽¹⁾

(growth-percent)

	Actual	Projection
GDP	6.7	7.8
Total consumption expenditures	4.2	5.9
Gross domestic fixed capital formation	6.6	11.7

(1) Data on real sector performance and 4th FYDP projection are calculated on the basis of 1376 and 1381 constant prices, respectively.

4th FYDP Projection on Real Sector Performance

The tables below show 4th FYDP Law projections on major aggregates of the real sector. According to the 4th FYDP Law, GDP is projected to grow by 7.1 percent in 1384, 7.4 percent in 1385, 7.8 percent in 1386, 8.4 percent in 1387, and 9.3 percent in 1388, with the average growth at 8.0 percent. Total consumption expenditures are pro-

jected to rise by 4.8, 5.5, 5.9, 6.4, and 7.4 percent, during the course of 1384-88, 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.

4th FYDP Projection on Real Sector Performance

(at constant 1381 prices)

(percent)

	1384	1385	1386	1387	1388	4 th Plan average
GDP	7.1	7.4	7.8	8.4	9.3	8.0
Total consumption expenditures	4.8	5.5	5.9	6.4	7.4	6.0
Gross domestic savings	10.1	9.8	10.2	10.7	11.4	10.4
Gross domestic fixed capital formation	11.3	11.0	11.7	12.9	14.1	12.2

Source: 4th FYDP, Management and Planning Organization

4th FYDP Projection on the Growth of Economic Sectors

(at constant 1381 prices)

(percent)

	1384	1385	1386	1387	1388	4 th Plan average
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: 4th FYDP, Management and Planning Organization