CHAPTER 10

FISCAL POLICY AND PERFORMANCE

Budget Law for 1387, as the fourth budget law in the 4th FYDP (1384-88) was designed within the framework of the mentioned Plan and without borrowing from the banking system. This was based on the 20-Year Vision Plan; the 4th Plan; sectoral and trans-sectoral documents of this Plan; as well as general policies of Article 44 of the Constitution. The prerequisites of the 1387 budget were as follows:

- Prohibition of any new investment outside the activities prescribed as priority for government investment in Article 44 of the Constitution;

- Transfer of at least 20 percent of the activities outside the priorities of Article 44 of the Constitution to the non-public sector;

- Transfer of part of the stock of firms with activities stipulated as priorities in Article 44 of the Constitution;

- Provision of sufficient support information for solidifying budget document and concentration of budget notes on those verdicts which facilitate the implementation of budget;

- More emphasis on budget programs, targets, and quantitative indicators as the basis for budget proposals by government executive agencies so that the attainment of sectoral and trans-sectoral aims of the 4th Plan and the 20-Year Vision Plan would be facilitated;

- Increase in the authority of government executive agencies in connection with speeding of performance-based budgeting;

- Delegation of authority to executive agencies in budget allocation for budgetary levels of activities and programs.

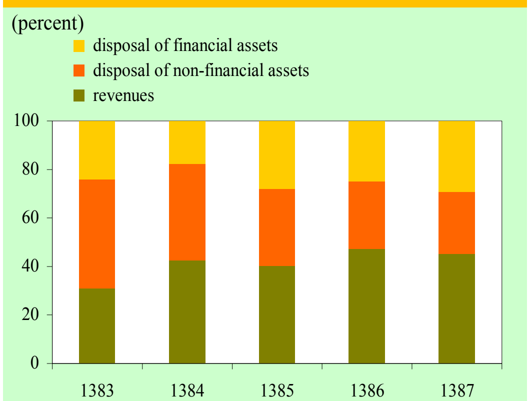
Implementation of the Budget (in general):

In the Budget Law for 1387, price of crude oil export was set at $55 per barrel, compared with $40 in 1385 and $45 in 1386. In the review year, the above-budget oil revenue, in accordance with the 4th Plan, was transferred to the OSF, to offset possible fluctuations in oil revenue resulting from oil price movements and to prevent the expansionary effects of the mentioned funds on the budget.

Based on the 1387 Budget Law and the supplements thereto, approved revenues (including taxes and other revenues and excluding special revenues) and approved expenses (excluding special expenditures) reached Rls. 338,753.1 billion and Rls. 670,696 billion, respectively. Thus, the operating balance (approved) ran a deficit of Rls. 331,942.9 billion. Furthermore, the approved receipts and payments out of disposal and acquisition of non-financial assets (excluding special receipts and payments) totaled Rls. 301,960.6 billion and Rls. 223,503.8 billion, respectively. Therefore, sum of operating balance and net disposal of non-financial assets (approved) posted a deficit of Rls. 253,486.1 billion, which was mostly financed through the OSF.

The composition of sources of the approved budget (excluding special revenues) comprised 36.9 percent receipts from revenues, 32.9 percent from disposal of non-financial assets, and 30.2 percent from disposal of financial assets. Composition of uses of the approved government budget (excluding special expenditures) consisted of 73.1 percent for payments of expenses, 24.3 percent for the acquisition of non-financial assets, and 2.6 percent for the acquisition of financial assets.

Figure 10.1. Composition of government budget sources



Sources and uses of the approved budget (excluding the figure for transparency of energy carriers) totaled Rls. 795,985.3 billion, comprising sources (revenues by 42.6 percent, disposal of non-financial assets 22.6 percent, and disposal of financial assets 34.8 percent) and uses (including expenses by 68.9 percent, acquisition of non-financial assets 28.1 percent, and acquisition of financial assets 3.0 percent).

Review of the figures related to budget performance in 1387 indicates that general budget sources (excluding special revenues) were financed out of revenues by 45.1 percent, disposal of non-financial assets by 25.7 percent, and disposal of financial assets by 29.2 percent. Budget uses (excluding special expenditures) point to realization of 69.2 percent from expenses, 26.5 percent from acquisition of non-financial assets, and 4.3 percent from acquisition of financial assets.

Sources and Uses of Government General Budget[1] (billion rials-percent)

	Approved[2]		Percentage change	Share in total		Performance		Percentage change	Share in total	
	1386▲	1387		1386	1387	1386▲	1387		1386	1387
Sources	**639,451.7**	**917,985.3**	**43.6**	**100.0**	**100.0**	**629,609.0**	**842,202.5**	**33.8**	**100.0**	**100.0**
Revenues	277,508.4	338,753.1	22.1	43.4	36.9	298,203.1	379,338.4	27.2	47.4	45.1
Disposal of non-financial assets	175,725.1	301,960.6	71.8	27.5	32.9	174,791.8	216,636.7	23.9	27.7	25.7
Disposal of financial assets	186,218.2	277,271.5	48.9	29.1	30.2	156,614.0	246,227.4	57.2	24.9	29.2
Uses	**639,451.7**	**917,985.3**	**43.6**	**100.0**	**100.0**	**629,609.0**	**842,202.5**	**33.8**	**100.0**	**100.0**
Expenses	425,199.7	670,696.0	57.7	66.5	73.1	421,284.7	582,723.4	38.3	66.9	69.2
Acquisition of non-financial assets	158,637.8	223,503.8	40.9	24.8	24.3	147,751.9	223,018.7	50.9	23.5	26.5
Acquisition of financial assets	55,614.1	23,785.5	-57.2	8.7	2.6	60,572.4	36,460.4	-39.8	9.6	4.3

[1] Excludes special revenues and expenditures.

[2] Revised on the basis of Budget Supplements and Amendments

Government revenues, including taxes and other revenues (excluding special revenues) reached Rls. 379,338.4 billion, indicating an excess realization of 12 percent compared with the approved figure and a growth of 27.2 percent compared with the corresponding figure of the previous year. Out of total revenues, Rls. 239,741.4 billion (63.2 percent) was received from taxes and Rls. 139,597 billion (36.8 percent) from other revenues, compared with respectively 64.3 and 35.7 percent in the year before. In 1387, as in the previous year, tax on oil exports totaled 5.0 percent of crude oil production. The provisional dividend payment to the government from the value-added of the crude oil production rose from 4.5 percent in 1386 to 8.0 percent in the review year. These figures appeared under tax revenues and other revenues, respectively.

Government expenses (current expenditures, excluding special expenditures) increased by 38.3 percent to Rls. 582,723.4 billion[1] compared with 1386, showing 86.9 percent realization compared with the approved figure in the budget. Therefore, based on the performance of government revenues and expenditures, the operating balance ran a deficit of Rls. 203,385.1 billion.

Government Fiscal Position[1]

(billion rials)

				Percentage change	
	1385	1386▲	1387	1386	1387
Revenues	**231,130.8**	**298,203.1**	**379,338.4**	**29.0**	**27.2**
Taxes	151,620.9	191,815.3	239,741.4	26.5	25.0
Others	79,509.9	106,387.8	139,597.0	33.8	31.2
Expenses (current)	**415,788.1**	**421,284.7**	**582,723.4**	**1.3**	**38.3**
Operating balance	**-184,657.3**	**-123,081.6**	**-203,385.1**	**-33.3**	**65.2**
Disposal of non-financial assets	**182,797.2**	**174,791.8**	**216,636.7**	**-4.4**	**23.9**
Acquisition of non-financial assets (development expenditures)	**145,571.0**	**147,751.9**	**223,018.7**	**1.5**	**50.9**
Net disposal of non-financial assets	**37,226.2**	**27,040.0**	**-6,382.0**	**-27.4**	**-123.6**
Operating and non-financial balance	**-147,431.2**	**-96,041.7**	**-209,767.0**	**-34.9**	**118.4**

Ratio to GDP

	Percent			Percentage points	
Revenues	**10.2**	**10.4**	**11.2**	**0.2**	**0.8**
Taxes	6.7	6.7	7.1	0.0	0.4
Others	3.5	3.7	4.1	0.2	0.4
Expenses (current)	**18.4**	**14.7**	**17.2**	**-3.7**	**2.5**
Operating balance	**-8.2**	**-4.3**	**-6.0**	**3.9**	**-1.7**
Disposal of non-financial assets	**8.1**	**6.1**	**6.4**	**-2.0**	**0.3**
Acquisition of non-financial assets (development expenditures)	**6.4**	**5.2**	**6.6**	**-1.3**	**1.4**
Net disposal of non-financial assets	**1.6**	**0.9**	**-0.2**	**-0.7**	**-1.1**
Operating and non-financial balance	**-6.5**	**-3.4**	**-6.2**	**3.2**	**-2.9**

[1] Excludes special revenues and expenditures.

[1] According to the Cabinet approval No. 42222/244046 dated 26.12.1387, a sum of Rls. 700 billion out of total credits referred to in Paragraph 4, Single Article of the 1387 Budget Law was allocated for financing the Month of Ramadan allowance of the households covered by Imam Khomeini Relief Foundation and State Welfare Organization. This amount appeared under expenses (current expenditures).

Receipts from disposal of non-financial assets including sale of crude oil and oil products as well as movable and immovable assets rose by 23.9 percent to Rls. 216,636.7 billion compared with the previous year, registering 71.7 percent realization compared with the approved figure. Acquisition of non-financial assets (development expenditures) increased by 50.9 percent to Rls. 223,018.7 billion[1] compared with 1386, representing 99.8 percent realization compared with the approved figure. Thus, net disposal of non-financial assets ran a deficit of Rls. 6,382 billion in 1387.

Considering the performance of revenues and expenses, and disposal and acquisition of non-financial assets, sum of operating balance and net disposal of non-financial assets posted a deficit of Rls. 209,767 billion, showing 118.4 percent rise compared with the figure for the preceding year and an under-realization of 17.2 percent compared with the approved figure. Disposal and acquisition of financial assets totaled Rls. 246,227.4 billion and Rls. 36,460.4 billion, respectively, in the review year. Therefore, net disposal of financial assets posted Rls. 209,767.0 billion surplus in the review year, out of which operating and non-financial assets deficit was financed.

Figure 10.2. Government fiscal position

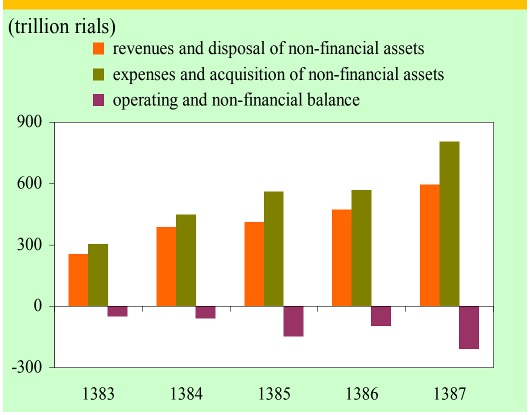


Figure 10.3. Ratio of selected budget items to GDP

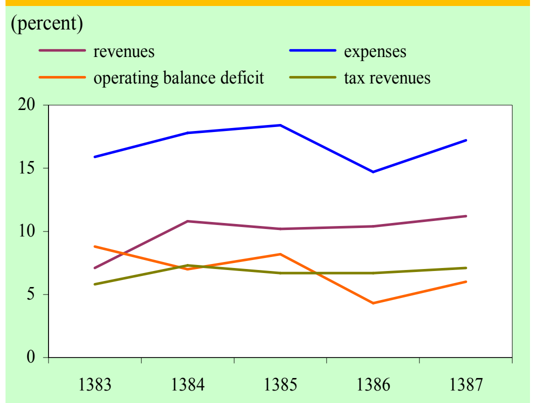
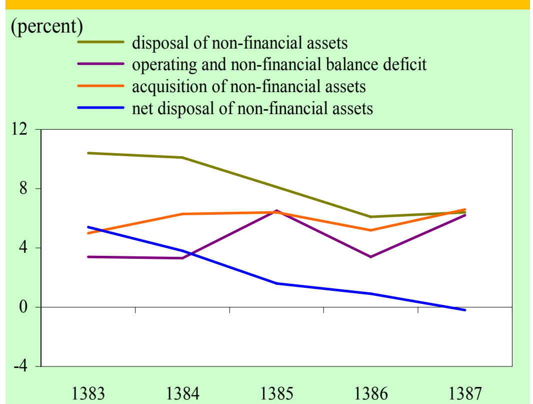


Figure 10.4. Ratio of selected budget items to GDP



In 1387, government took initiatives to implement policies in line with the approved targets of documents of the 20-Year Vision Plan, general policies of Article 44 of the Constitution, and the 4th Plan Law. These policies included the realization of the projected increase in tax income, reduction of operational costs of tax collection, automation (computerization or mechanization)

[1] According to the Cabinet approval No. 39773T/57849 dated 18.04.1387, the foreign exchange equivalent of a sum of Rls. 9,500 billion was allocated from the OSF for the supply of gas to rural areas. This amount appeared under payments for the acquisition of non-financial assets.

of tax system, and improvement in the health and productivity of government bureaucracy. In addition to these policies, government also took bold actions for execution of the comprehensive tax information system, implementation of VAT, centralization of information technology activities, and enhancement of tax payers' confidence and tax culture.

Box 2- Value-Added Tax (VAT)

VAT is a tax on the increased value of products or services added at each stage of their production or distribution, paid by the end consumer.

The draft Law of VAT was presented to the Parliament in Bahman 1386 and, after review and modification by the Council of Guardians of the Constitution, was passed on Khordad 2, 1387, and sent to government for implementation for a test period of 5 years.

The following are among the major aims of the VAT Law:

- Export promotion and support of investment and productive activities;

- Rise of government tax collection (direct and indirect) and increase of the ratio of government tax revenue to total government current revenue;

- Elimination of different taxes and excises under the so-called Tajmie Act (Government Excise Aggregation Act);

- Announcement of zero VAT rate for export activities.

Based on Article 16 of the VAT Law, the VAT rate on all products was set at 1.5 percent, excluding cigarettes and tobacco products by 12 percent, and all types of gasoline and aircraft fuel by 20 percent.

Accordingly, all unprocessed agricultural products, livestock and poultry, fertilizers and pesticides, seeds and shoots, bakery flour, bread, meat, sugar and cube sugar, rice, pulses, milk, cheese, vegetable oil, books and publications, medicine, hand-woven carpets, immovable assets and all types of educational and research services are exempted from tax.