

Trade

In 1387, various internal and external factors affected foreign trade¹. Drought, high inflation, reduction in economic growth, continued appreciation of real value of rial against the hard currencies, rise in petrochemical products due to prior investments, relative reduction in effective rate of import tariffs, and continuation of export support policies were the main internal factors influencing foreign trade.

Continuation of world economic boom and rise in the international price of crude oil and most essential goods in the first half of 1387, followed by sharp downturn in economic growth of most advanced and

developing countries owing to world financial crisis, fall in the demand for goods and services, slowdown of trade volume in the final months of 1387, and intensification of international limitations on the country were the main external factors affecting foreign trade in the review year.

Therefore, in the review year, trade through Customs, in terms of value and volume, increased by 16.7 and 4.9 percent, respectively, compared with the previous year. Share of exports in trade rose 0.7 percentage point to 24.7 percent, in terms of value, and fell by 0.5 percentage point to 43 percent, in terms of weight.

Foreign Trade
(excluding electricity and exports by NIOC and NIGC) (million dollars)

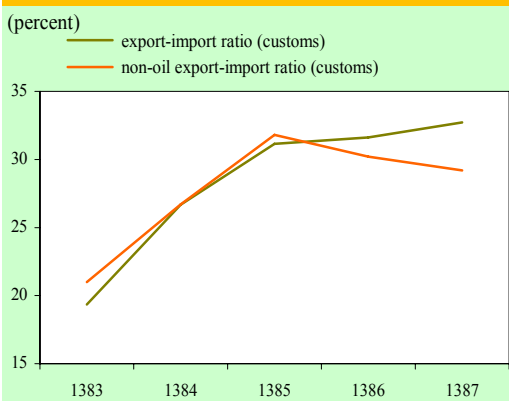
	1385	1386	1387	Percentage change		Share (percent)	
				1386	1387	1386	1387
Value (million dollars)							
1. Imports	41,723	48,439	56,042	16.1	15.7	76.0	75.3
2. Exports	12,997	15,312	18,334	17.8	19.7	24.0	24.7
Deficit (2-1)	-28,726	-33,127	-37,708	15.3	13.8		
Total (1+2)	54,720	63,751	74,376	16.5	16.7	100.0	100.0
Weight (thousand tons)							
1. Imports	43,492	41,696	44,148	-4.1	5.9	56.5	57.0
2. Exports	27,766	32,118	33,252	15.7	3.5	43.5	43.0
Total (1+2)	71,258	73,814	77,400	3.6	4.9	100.0	100.0

Source: Foreign Trade Statistics

¹ Figures and analyses mentioned in the present chapter are based on the data released by the Islamic Republic of Iran Customs Administration.

The upward trend of export-import ratio (through customs) continued in the review year, and edged up by 1.1 percentage points to 32.7 percent. This rise was mostly due to growth in the exports of chemical and petrochemical products.

Figure 12.1. Export-import ratio (through customs)

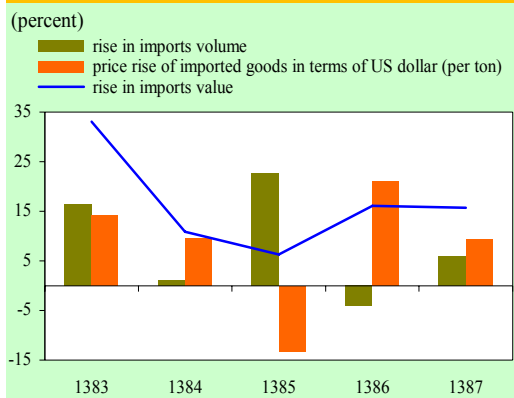


Imports

In 1387, value of imports (cif) went up by 15.7 percent to \$56,042 million, compared with the respective figure of the previous year. Meanwhile, the weight of imports increased by 5.9 percent to 44,148 thousand tons, compared with the year before. Growth of imports value was mainly owing to rise in the price of imported goods in terms of US dollar. In the review year, the unit price of

each ton of imported goods rose 9.3 percent to \$1,269, compared with the year before.

Figure 12.2. Imports growth



In 1387, composition of imports by use remained relatively unchanged. The highest share was related to raw materials and intermediate goods by 67.5 percent, followed by capital goods and consumer goods by 18.8 and 13.7 percent, respectively.

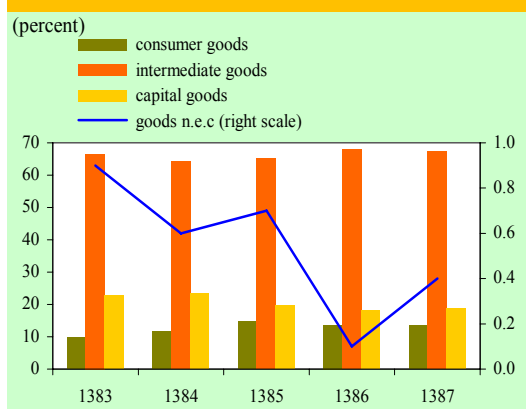
Rise in the share of capital goods in total imports by 0.6 percentage point resulted in 0.6 percentage point increase in the ratio of "imports of capital goods to capital formation in machinery". Furthermore, despite drought and sharp fall in economic growth in the review year, share of consumer goods in imports remained unchanged compared with the year before.

Composition of Imports by Use

(million dollars)

				Percentage change		Share (percent)	
	1385	1386	1387	1386	1387	1386	1387
Raw materials and intermediate goods	27,334	32,979	37,834	20.7	14.7	68.1	67.5
Capital goods	8,226	8,807	10,544	7.1	19.7	18.2	18.8
Consumer goods	6,163	6,652	7,665	7.9	15.2	13.7	13.7
Total	41,723	48,439	56,042	16.1	15.7	100.0	100.0

Figure 12.3. Composition of imports by use



Review of imported goods, in terms of value, reveals that the highest shares belonged to "machinery and transportation vehicles" by 34.2 percent, "iron and steel" 16.6 percent, "grains and their derivatives" 7.9 percent, and "gasoline and gas oil" 7.3

percent. Share of these goods in total value of imports rose 3.2 percentage points to 66.0 percent, compared with the preceding year. Among these groups, the highest increase belonged to "grains and their derivatives" by nearly 269.1 percent, and the lowest to "gasoline and gas oil" by 3.4 percent, compared with the year before.

Review of the weight of imports indicates that the highest shares belonged to "grains and their derivatives" by 27.3 percent, "iron and steel" 22.7 percent and "gasoline and gas oil" 10.6 percent. Share of these goods in total weight of imports went up by 8.3 percentage points to 60.6 percent compared with 1386. This was mainly owing to 190.5 percent increase in the weight of imports of "grains and their derivatives" in the review year. Growth in the imports of "grains and their derivatives" was largely owing to drought in the agriculture sector.

Figure 12.4. Composition of imports in terms of value

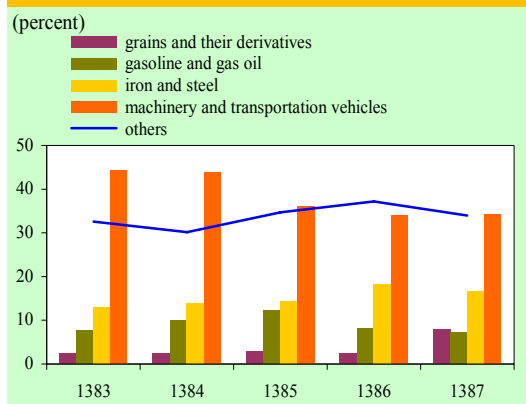
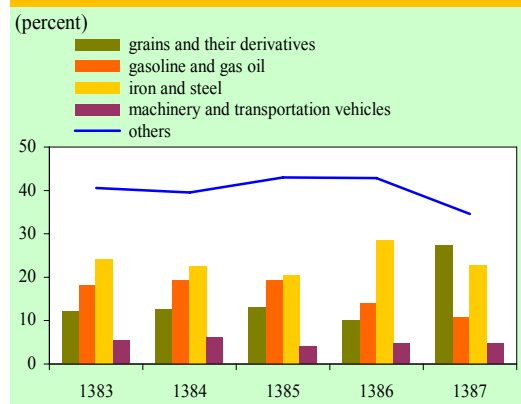


Figure 12.5. Composition of imports in terms of weight



Value of Imports by Major Components

(million dollars)

	1385	1386	1387	Percentage change		Share (percent)	
				1386	1387	1386	1387
Grains and their derivatives	1,189	1,201	4,434	1.1	269.1	2.5	7.9
Gasoline and gas oil	5,104	3,946	4,081	-22.7	3.4	8.1	7.3
Iron and steel	5,935	8,803	9,307	48.3	5.7	18.2	16.6
Machinery and transportation vehicles	15,021	16,493	19,171	9.8	16.2	34.0	34.2
Others	14,474	17,996	19,049	24.3	5.9	37.2	34.0
Total	41,723	48,439	56,042	16.1	15.7	100.0	100.0

Geographical distribution of imports changed slightly in 1387 as compared with the preceding year. The concentration indices¹ of the first 3, 5 and 10 exporting countries decreased from respectively 43.6, 54.4 and 72.0 percent in 1386 to 42.5, 54.3 and 71.0 percent in the review year. These changes point to a slight reduction in the geographical concentration of imports during 1387. United Arab Emirates, Germany, China, Switzerland, South Korea, England, France, Italy, India, and Turkey were the main exporters to Iran in 1387. Review of distribution of imports by countries reveals that the highest rise in value belonged to Canada (352.0 percent), followed by the United States of America (233.5 percent), Belgium (85.3 percent), Turkmenistan (72.3 percent) and Russia (62.7 percent) which ranked respectively 17th, 19th, 14th, 24th and 11th. Meanwhile, the highest fall was related to Kazakhstan by 13.3 percent, Taiwan 10.6 percent, and Spain 9.5 percent.

Distribution of imports by continents indicates that the increasing share of Asia in the value of imports as of 1381 was reversed, and declined slightly from 54.6 percent in 1386 to 53.8 percent in the review year. Moreover, Europe remained the second large exporting continent, constituting 41.1 percent of value of imports. In 1387, the shares of Asia and Europe in imports to Iran declined by 1.8 percentage points in favor of imports from America and Africa; however, Asia and Europe remained the main exporting continents to Iran.

Review of imports by group of countries during 1387 points to the highest share of ESCAP member countries in total imports of goods by \$23,032 million (41.1 percent), followed by the European Union by \$16,056 million (28.6 percent).

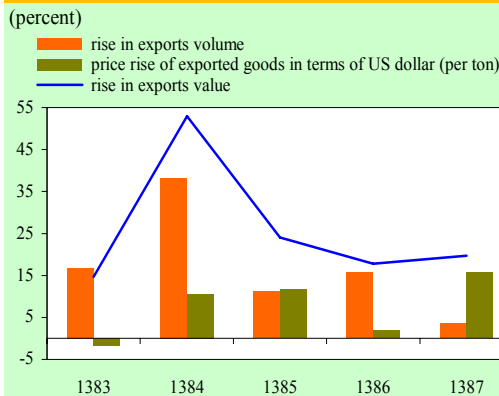
¹ Concentration indices are calculated from total share of the first 3, 5 and 10 exporting countries in total imports.

Exports

In 1387, exports rose 19.7 percent to \$18,334 million, compared with the corresponding figure of previous year. Meanwhile, exports, in terms of weight, amounted to 33,252 thousand tons, up by 3.5 percent. Increase in the value of exports largely resulted from rise in the price of exported goods in terms of US dollar. In the review year, the unit value of exported goods per ton grew by 15.6 percent to almost \$551.

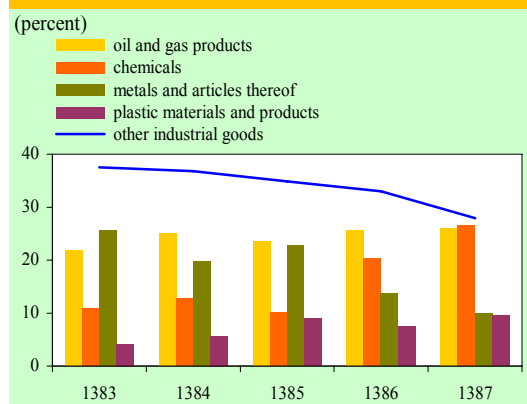
In 1387, industrial goods still took the highest share in total exports by 80.0 percent, up by 4.6 percentage points compared with the respective figure of 1386. Exports of industrial goods, in terms of value and weight, grew by respectively 27.0 and 10.2 percent to \$14,662 million and 24,109 thousand tons. Among the subgroups of industrial goods, the highest growth rates belonged to "organic chemicals" and "plastic materials and products" by 72.0 and 64.3 percent, respectively. Therefore, shares of these groups rose from respectively 11.9 and 5.6 percent in 1386 to 17.1 and 7.7 percent in the review year. Significant increase in the world price of oil till the second half of 1387, leading to price rise of oil products, together with remarkable growth in the volume of exports,

Figure 12.6. Exports growth



due to development of chemical and petro-chemical units, was the main driving force behind the surge in exports of these products in recent years.

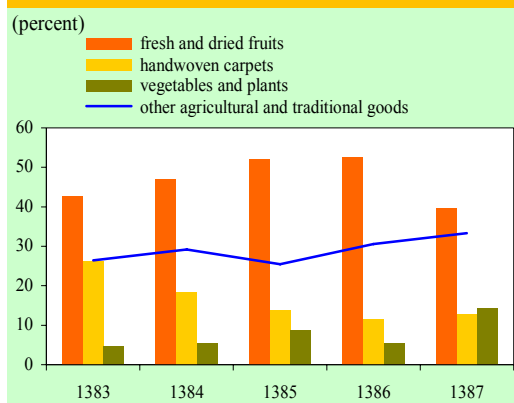
Figure 12.7. Composition of exports of industrial goods in terms of value



In 1387, share of agricultural and traditional goods in total exports fell by 4.7 percentage points to 18 percent due to drought which affected agriculture sector. Total value and weight of exports of this group declined by 5.1 and 20.2 percent to \$3,304 million and 2,721 thousand tons, respectively. The highest shares in the exports value of this group

belonged to "fresh and dried fruits", "vegetables and plants" and "handwoven carpets".

Figure 12.8. Composition of exports of agricultural & traditional goods in terms of value



The concentration indices of the first 3, 5 and 10 importing countries increased from respectively 34.3, 45.8 and 62.4 percent in 1386 to 38.9, 49.7 and 63.6 percent in 1387, indicating a rise in the geographical concentration of exports. Iraq, United Arab Emirates, China, India, South Korea, Afghanistan, Japan, Turkey, Belgium and Saudi Arabia were the main trade partners in terms of exports from Iran in 1387.

Value of Exports¹

(million dollars)

	1385	1386	1387	Percentage change		Share (percent)	
				1386	1387	1386	1387
Agricultural and traditional goods	3,012	3,482	3,304	15.6	-5.1	22.7	18.0
Metallic mineral ores	321	227	319	-29.1	40.4	1.5	1.7
Industrial goods	9,550	11,548	14,662	20.9	27.0	75.4	80.0
Goods not elsewhere classified	115	55	48	-52.2	-11.8	0.4	0.3
Total	12,997	15,312	18,334	17.8	19.7	100.0	100.0

Source: Islamic Republic of Iran Customs Administration

¹ Excludes the value of electricity exports to neighboring countries, and the exports of NIOC and NIGC.

Value of Industrial Goods Exports

(million dollars)

	1385	1386	1387	Percentage change		Share (percent)	
				1386	1387	1386	1387
Gas and oil products	2,237	2,956	3,819	32.1	29.2	25.6	26.0
Chemicals (organic and inorganic)	963	2,336	3,881	142.4	66.2	20.2	26.5
Metals and articles thereof	2,167	1,592	1,456	-26.6	-8.5	13.8	9.9
Plastic materials and products	852	859	1,411	0.8	64.3	7.4	9.6
Other industrial goods	3,330	3,807	4,094	14.3	7.5	33.0	27.9
Total	9,550	11,548	14,662	20.9	27.0	100.0	100.0

Source: Islamic Republic of Iran Customs Administration

Value of Agricultural and Traditional Goods Exports (million dollars)

	1385	1386	1387	Percentage change		Share (percent)	
				1386	1387	1386	1387
Fresh and dried fruits	1,571	1,826	1,307	16.2	-28.5	52.5	39.5
Handwoven carpets	413	398	422	-3.6	6.1	11.4	12.8
Vegetables and plants	261	192	474	-26.3	146.2	5.5	14.3
Other agricultural and traditional goods	767	1,065	1,101	38.9	3.5	30.6	33.3
Total	3,012	3,482	3,304	15.6	-5.1	100.0	100.0

Source: Islamic Republic of Iran Customs Administration

Geographical distribution of exports by continents points to the lion's share of Asia by 79.1 percent in 1387, up by 2.2 percentage points from 76.9 percent in the previous year. Iran's exports to this continent grew by 5.0 percentage points to 23.2 percent, compared with the corresponding figure of 1386 (18.2 percent). Europe was the second large importing continent, accounting for 15.7 percent of exports. Exports to Europe, in terms of value, decreased by 3.6 percent to \$2,886 million.

Geographical distribution of exports by group of countries (through Customs) indicates that ESCAP countries absorbed the highest share of exports through Customs by 50.9 percent, showing a growth rate of almost 21.8 percent compared with the figure for 1386. The value of exports to the Asian Clearing Union (ACU) increased by nearly 30.5 percent and to the European Union member countries, it decreased by about 4.2 percent.

Terms of Trade

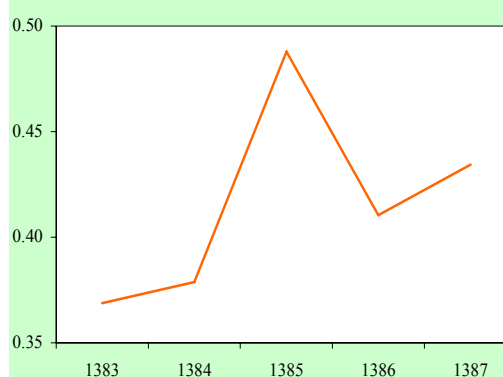
Change in the degree of the external sector competitiveness may be manifested in terms of trade effect of a country with other countries. The ratio of the unit price of exported goods to that of imported goods is a well-known and reliable measure for the assessment of the terms of trade. Based on international data, terms of trade of most industrial countries point to a relatively constant and stable trend, even during the uptrend in oil price, which varies for developing economies in proportion to their

degree of dependence on imports of energy and changes in its global price.

In 1387, terms of trade through Customs grew by almost 5.8 percent to 0.434. This was due to rise in the share of industrial goods in total exports, and growth in the share of imports of goods with a lower unit price such as "grains and their derivatives".

Despite the rise in the share of industrial goods in exports, due to the composition of exportable industrial goods, terms of trade did not improve remarkably.

Figure 12.9. Terms of trade



Foreign Exchange Market Developments

Surge in foreign exchange revenues due to continued oil price rise in the international markets and growth in the value of other export products in recent years helped policy makers better manage exchange rate

Terms of Trade (through Customs)

	1384	1385	1386	1387	Percentage change	
					1386	1387
Unit price of exports (dollar/ton)	419.2	468.1	476.7	551.3	1.9	15.6
Unit price of imports (dollar/ton)	1,106.6	959.3	1,161.7	1,269.4	21.1	9.3
Terms of trade	0.379	0.488	0.410	0.434	-15.9	5.8

Source: Foreign Trade Statistics

fluctuations. Relative stability of rial parity against US dollar and euro as hard currencies is the salient feature of the exchange market over the recent years. The misalignment of nominal exchange rate with the gap of internal and external inflation resulted in the appreciation of rial against hard currencies which could subsequently affect export profit margin, real sector competitiveness and current account deficit (non-oil).

Restrictions on banks' access to foreign financing and the rising trend of imports led to sharp rise in dollar value of main inter-bank foreign exchange market transactions. The favorable position of international reserves increased banks' capability to substitute residents' foreign exchange deposits for reduced international financing.

Parity of Rial against Hard Currencies

In 1387, rial parity against hard currencies was mostly influenced by the developments of international foreign exchange markets. Depreciation of the pound against the US dollar as well as appreciation of the Japanese yen and the Swiss franc in this year led to the weakening of the nominal value of the rial vis-à-vis all hard currencies except the pound.

Euro acted as the currency for exchange intervention in 1387; however, due to influence of the US dollar on the economy, Central Bank largely controlled fluctuations of this currency. In the review year, the annual average rate of the Japanese yen vis-à-vis the

rial, by 18.0 percent, had the highest increase in the interbank market, while that of the pound, by 11.1 percent, the highest decrease.

Figure 12.10. Developments of the US dollar in the official market

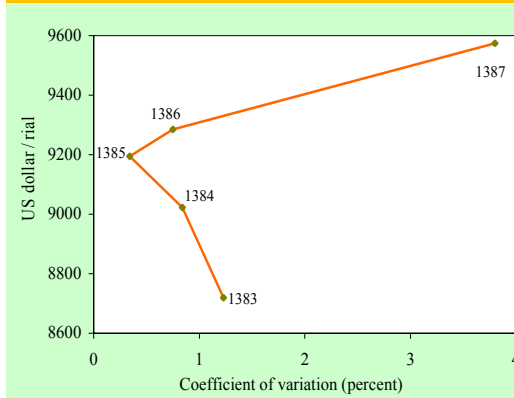
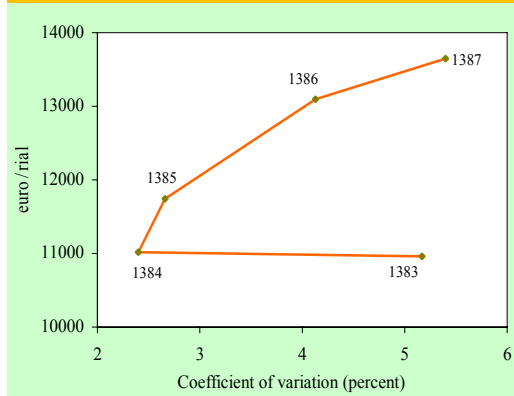


Figure 12.11. Developments of the euro in the official market



Coefficient of variation¹ of the reference rate of hard currencies indicates higher fluctuations of the rial parity rate against the said currencies (except Swiss franc) in 1387, compared with the year before. The highest fluctuations belonged to rial parity rate with pound and Japanese yen, and the lowest to Swiss franc.

Developments in Interbank Market

In 1387, the total value of interbank market transactions (in US dollar, euro, Japanese yen, pound and other currencies) rose 32.6 percent to \$56,438 million compared with \$42,564 million in the preceding year. Rise in the share of the secondary market in total interbank market transactions continued and reached 67 percent in the review year. Increase in the share of this market in total transactions is attributable to the rise in the cash payments in foreign exchange transactions, which is in turn due to the expansion of international limitations and ease of transactions in the secondary market.

The total value of main market transactions went up by 10.9 percent to \$18,619 million in 1387 from \$16,795 million in the previous year. Central Bank held over 87.3

percent of total foreign exchange sales in this market worth \$16,252 million. In 1387, the CBI remained the main seller of foreign exchange in the main interbank market.

In the review year, the total value of secondary market transactions increased by 46.8 percent to \$37,819 million in 1387 from \$25,769 million in the year before. Sale of foreign exchange by the CBI reached \$36,363 million, accounting for 96.2 percent of total foreign exchange sales in the secondary market. Therefore, Central Bank remained the main supplier of foreign exchange in the secondary interbank market.

Foreign Exchange Transactions in Main and Secondary Interbank Markets

(million dollars)

	1385▲	1386▲	1387	Percentage change	
				1386	1387
Main market	16,198	16,795	18,619	3.7	10.9
Share (percent)	46.9	39.5	33.0		
Secondary market	18,328	25,769	37,819	40.6	46.8
Share (percent)	53.1	60.5	67.0		
Total	34,526	42,564	56,438	23.3	32.6

¹ Standard deviation divided by mean