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INFORMATION

September 28, 1978

To: Members of the Executive Board
From: The Secretary
Subject: Iran - Recent Economic Developments

This paper provides background information to the staff report on the 1978 Article IV consultation discussions with Iran, which was circulated as SM/78/235 on September 5, 1978.

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DOCUMENT OF INTERNATIONAL MONETARY FUND
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SMITH 233

INTERNATIONAL

September 20, 1978

Members of the Executive Board

The Secretary

Subject: ISA - Research Department's Memorandum

This paper provides background information on the ISA report. It contains a comparison of the ISA report with the 1975 report. The comparison is based on the ISA report as published in 1975 on September 2, 1975.

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International
Department Head

INTERNATIONAL MONETARY FUND

IRAN

Recent Economic Developments

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Approved by the Middle Eastern Department and the Exchange
and Trade Relations Department

September 20, 1978

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Iran: Basic Data

Population	35.8 million (1978 mid-year estimate)
Annual population growth	2.7 per cent (estimate)
GNP per capita (current prices) 1977/78	US\$2,127

IMF data (end of August 1978)

Currency	Iranian rial, Rls 70.475 = US\$1
Quota	SDR 660 million
Fund holdings of Iranian rials	88.8 per cent of quota
Lending to the Fund	SDR 800 million
SDR allocation	SDR 61.9 million
SDR holdings	136.7 per cent of net cumulative allocation

Year ended March 20	<u>1974/75</u>	<u>1975/76</u>	<u>1976/77</u>	<u>1977/78</u>
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(In billions of Iranian rials)

National accounts (at constant 1974/75 prices)

Gross domestic product (factor cost)	3,070.8	3,149.3	3,512.6	3,575.7
Rate of growth in per cent	(6.8)	(2.6)	(11.5)	(1.8)
Non-oil sector	1,629.2	1,884.8	2,128.0	2,290.8
Agriculture	(303.3)	(324.0)	(341.7)	(339.0)
Industry	(436.8)	(535.8)	(615.2)	(668.8)
Services	(889.1)	(1,025.0)	(1,171.1)	(1,283.0)
Oil sector	1,441.6	1,264.5	1,384.6	1,284.9

Consumption plus gross domestic fixed capital formation	2,347.9	2,879.1	3,102.0	3,285.6
Private sector consumption	(1,157.6)	(1,275.7)	(1,283.4)	(1,429.7)
Public sector consumption	(628.3)	(722.5)	(796.0)	(786.0)
Private sector gross domestic fixed capital formation	(225.2)	(420.9)	(490.6)	(439.0)
Public sector gross domestic fixed capital formation	(336.8)	(460.0)	(532.0)	(630.9)

Price indices (1974/75 = 100)

		<u>(In per cent)</u>		
Wholesale prices	100.0	105.3	119.5	136.9
Rate of change	17.0	5.3	13.5	14.6
Cost of living	100.0	109.9	128.1	160.2
Rate of change	15.5	9.9	16.6	25.1

Iran - Basic Data (continued)

Year ended March 20	Actuals		1976/77	Prelim.	Budget	Projected
	1974/75	1975/76		1977/78	1978/79	Outcome 1978/79
(In billions of Iranian rials)						
Government finances						
Revenue, of which	1,419.1	1,617.6	1,883.1	2,101.1	2,396.0	2,396.0
Oil and gas revenue	(1,205.2)	(1,246.8)	(1,421.5)	(1,497.8)	(1,541.8)	(1,541.8)
Expenditure, of which	1,279.1	1,604.9	1,920.7	2,489.6	2,832.3 ^{1/}	2,814.6
Fixed capital expenditures	(348.7)	(526.8)	(684.1)	(959.4)	(1,231.6)	(1,231.6)
Overall surplus or deficit (-) ^{2/}	140.0	12.7	-37.6	-388.5	-436.3	-418.6
Financing	-302.0	-252.2	-149.4	308.0	436.3	418.6
External financing (net)	(-210.2)	(-180.4)	(-87.9)	(-60.5)	(56.5)	(56.5)
Domestic financing (net)	(-91.8)	(-71.8)	(-61.5)	(368.5)	(379.8)	(362.1)

	1974/75	1975/76	1976/77	1977/78	Projection 1978/79
Changes in:					
A. <u>Foreign assets (net)</u>	<u>351.3</u>	<u>-49.9</u>	<u>104.6</u>	<u>118.7</u>	<u>-70.0</u>
Changes in:					
B. <u>Domestic assets (net)</u>	<u>-57.0</u>	<u>385.3</u>	<u>343.4</u>	<u>384.8</u>	<u>615.0</u>
Claims on private sector	210.4	387.9	424.1	352.2	429.0
Claims on public sector (net)	-26.8	41.2	19.7	227.9	426.0
Central Government (net)	(-95.7)	(-80.3)	(-68.2)	(351.4)	(342.0)
Government agencies (net)	(66.9)	(121.5)	(87.9)	(-123.5)	(84.0)
Other items (net) (increase -)	-240.6	-43.8	-100.4	-195.3	-240.0
C. <u>Money and quasi-money (A+B=D+E+F)</u>	<u>294.3</u>	<u>335.4</u>	<u>448.0</u>	<u>503.5</u>	<u>545.0</u>
Rate of increase (in per cent)	(57.1)	(41.4)	(39.1)	(31.6)	(26.0)
D. <u>Public sector net domestic expenditure</u>	<u>501.2</u>	<u>594.2</u>	<u>810.3</u>	<u>1,017.8</u>	<u>--</u>
E. <u>Monetary impact of private sector operations</u>	<u>-91.0</u>	<u>-151.8</u>	<u>-214.2</u>	<u>-307.5</u>	<u>--</u>
F. <u>Other (net)</u>	<u>-115.9</u>	<u>-107.0</u>	<u>-148.1</u>	<u>-206.8</u>	<u>--</u>

(In millions of SDRs)

A. <u>Net receipts from the oil sector</u>	<u>15,302</u>	<u>15,771</u>	<u>17,806</u>	<u>17,557</u>	<u>17,528</u>
B. <u>Other goods and services</u>	<u>-8,256</u>	<u>-13,321</u>	<u>-14,179</u>	<u>-16,356</u>	<u>-19,390</u>
Exports	573	543	569	666	762
Imports	-8,793	-13,410	-13,958	-15,214	-17,782
Private sector	(-4,156)	(-6,374)	(-6,873)	(-7,240)	(-8,298)
Public sector	(-4,637)	(-7,036)	(-7,085)	(-7,974)	(-9,484)
Services (net)	-36	-454	-790	-1,808	-2,371
C. <u>Total (A+B)</u>	<u>7,046</u>	<u>2,450</u>	<u>3,627</u>	<u>1,201</u>	<u>-1,862</u>
D. <u>Nonmonetary official capital (net)</u>	<u>-1,636</u>	<u>-2,608</u>	<u>-1,552</u>	<u>851</u>	<u>1,100</u>
E. <u>Errors and omissions</u>	<u>-996</u>	<u>-672</u>	<u>688</u>	<u>-104</u>	<u>--</u>
F. <u>Overall balance</u>	<u>4,414</u>	<u>-830</u>	<u>2,763</u>	<u>1,948</u>	<u>-762</u>
G. <u>Monetary movements (increases)</u>	<u>-4,414</u>	<u>830</u>	<u>-2,763</u>	<u>-1,948</u>	<u>762</u>

Iran - Basic Data (concluded)

	<u>1974/75</u>	<u>1975/76</u>	<u>1976/77</u>	<u>1977/78</u>
	<u>(In millions of SDRs)</u>			
<u>Foreign assets (end of period)</u>				
International reserves	6,679.1	6,952.2	8,933.2	10,094.0
Central Bank net foreign assets	6,534.1	6,335.1	8,340.5	9,569.3

1/ Reduced by Rls 150 billion representing the expected shortfall when the budget was approved.

2/ Overall surplus or deficit differs from total financing as derived for the monetary and balance of payments accounts due to data discrepancies.

(continued from page 5)

1977 1978 1979 1980 1981

(in millions of dollars)

	1977	1978	1979	1980	1981
Central Bank and foreign assets	10,000.0	8,933.0	8,332.0	8,332.0	8,332.0
International reserves	9,333.0	8,333.0	8,333.0	8,333.0	8,333.0
Total assets (end of period)	19,333.0	17,266.0	16,665.0	16,665.0	16,665.0

IV. Reduced by \$1.450 billion representing the expected amount when the budget was approved.

V. Overall surplus or deficit differs from total financing as derived for the monthly and balance of payments accounts due to statistical differences.

I. The Real Sector

1. Overall economic activity

During the period of the Fifth Development Plan (1973/74-1977/78)^{1/} the average annual rate of growth in the non-oil sector increased to over 13 per cent from 10.5 per cent for the previous five-year period. However, real value added in the oil sector did not increase and, consequently, the average annual rate of growth in real GDP during the five years ended 1977/78 fell to 7 per cent from 13 per cent during the preceding five-year period. Moreover, the fluctuations in output of oil, largely in response to movements in the world demand for oil, were mainly responsible for the overall growth rate in real GDP registering sharp changes in recent years (Table 1).

Table 1. Iran: Growth in GDP at Constant 1974/75 Prices

(Annual percentage change)

	1973/74	1974/75	1975/76	1976/77	1977/78 ^{1/}
<u>Oil</u>	8.8	-0.6	-12.3	9.5	-7.2
<u>Non-oil</u>	15.4	14.4	15.7	12.9	7.6
Agriculture	5.7	5.9	6.8	5.5	-0.1
Industry	16.3	12.7	22.7	14.8	8.7
Of which:					
Manufacturing and mining	(17.6)	(18.3)	(16.4)	(14.8)	(9.0)
Construction	(11.3)	(-3.4)	(44.2)	(15.6)	(7.7)
Services	19.1	18.6	15.3	14.3	9.6
Of which:					
Public services	(8.7)	(22.5)	(6.8)	(19.2)	(14.3)
GDP at factor cost	12.0	6.8	2.6	11.5	1.8

Source: Appendix I, Table 28.

^{1/} Preliminary.

^{1/} Iranian year ended March 20.

During 1977/78 there was a marked deceleration in the rate of growth of the non-oil sector to 7.6 per cent which was accompanied by a 7.2 per cent decline in real value added in the oil sector. As a result, total real GDP increased by less than 2 per cent. The small decline in real value added in the agricultural sector was mainly due to poor rainfall as well as the lack of adequate economic incentives for producers. Industrial output was adversely affected by the existence of price controls and by a shortage of electricity early in the year. The general slowdown in economic activity in the non-oil sector also reflected a slackening in the growth of demand. During 1977/78, domestic expenditure, in real terms, increased by about 6 per cent, representing a further deceleration from the high rates of increase recorded for 1974/75 and 1975/76 (Table 2).

In 1974/75, when domestic expenditure in nominal terms increased by nearly 50 per cent, inflationary pressures emerged in the economy as the supply of goods and services in the non-oil sector was unable to keep pace with the large increases in demand. The authorities imposed price controls in 1975 and implemented tighter fiscal and monetary policies in 1976/77 and 1977/78. Consequently, the growth in domestic expenditure in nominal terms was reduced. At the same time, the removal of some of the physical bottlenecks also contributed to the easing of supply constraints. The growth in public consumption expenditure decelerated as a direct result of the Government's tighter fiscal policy. These dampening effects on demand were offset by the continued increase in private consumption expenditure, stimulated by the large increases in real income in recent years, as well as the continued expansion of public sector investment, made possible by the easing of physical constraints.

Investment over the last five years in Iran has been undertaken within the general framework of the Fifth (Revised) Five-Year Plan. The increase in resources available, following the oil price increase, led to a more than doubling of the ratio of domestic savings to GNP from an annual average of 19 per cent in the previous five-year period to nearly 40 per cent during the period of the Fifth Plan (Table 3). Investment in both the private and public sectors increased rapidly, especially during the last three years of the Plan, when the ratio of investment to GNP reached nearly 34 per cent. There remained, however, a large surplus of domestic savings, which was reflected as a surplus on the current account of the balance of payments.

Table 2. Iran: Use of Resources at Constant 1974/75 Prices

(Annual percentage changes)

	1973/74	1974/75	1975/76	1976/77	1977/78 ^{1/}
Consumption expenditures	15.0	23.4	11.9	4.1	6.6
Private sector	(14.0)	(13.6)	(10.2)	(0.6)	(11.4)
Public sector	(17.5)	(46.8)	(15.0)	(10.2)	(-1.3)
Gross domestic fixed capital formation	11.1	23.0	56.7	16.1	4.6
Private sector	(0.5)	(12.4)	(86.9)	(16.6)	(-10.5)
Public sector	(21.1)	(31.4)	(36.6)	(15.7)	(18.6)
Domestic expenditure	14.0	23.3	22.6	7.7	5.9
Exports, goods and nonfactor services	12.0	-1.5	-10.9	11.5	-6.1
Imports, goods and nonfactor services	22.8	32.3	47.7	9.8	15.5
GDP at market prices	11.3	6.5	2.8	10.7	2.5
<u>Memorandum items:</u>					
Domestic expenditure (at current prices)	27.1	49.3	39.0	23.0	25.5
Supply (non-oil sector) ^{2/}	17.2	19.1	25.0	11.9	10.3
Cost of living index	11.2	15.5	9.9	16.6	25.1
Price deflator, non-oil GDP	11.9	19.0	11.5	17.0	18.3
Price deflator, imports, goods and nonfactor services	8.3	42.2	12.0	1.5	4.6

Sources: Appendix I, Tables 30, 31, and 32.

^{1/} Preliminary.

^{2/} Sum of GDP at factor cost in the non-oil sector plus imports of goods and nonfactor services.

Table 3. Iran: Investment and Savings
(As percentage of GNP at market prices)

	<u>Annual Average</u> 1968/69-1972/73	1973/74	1974/75	1975/76	1976/77	1977/78 ^{1/}
Capital formation	22.0	19.8	17.8	29.7	31.1	33.7
Private	(9.6)	(8.7)	(7.1)	(14.5)	(14.9)	(13.7)
Public	(12.4)	(11.1)	(10.7)	(15.2)	(16.2)	(20.0)
Domestic savings	18.6	34.2	43.4	38.8	43.6	38.9
Foreign borrowing ^{2/}	3.4	-14.4	-25.5	-9.1	-12.4	-5.2

Sources: Appendix 1, Table 31 and Imperial Government of Iran, Plan and Budget Organization, Information Division, Economic Trends of Iran, (fifth edition), March 1978.

^{1/} Preliminary.

^{2/} Net export of goods and services.

Gross domestic fixed capital formation, at constant 1974/75 prices, increased at an annual rate of 29 per cent over the five-year period, compared with nearly 14 per cent during the previous five years. Some data are available on the breakdown of investment by type and by main economic sector for the first four years of the Plan (Table 4). The distribution of investment by main economic sectors has remained similar to that undertaken under the previous Five-Year Plan. Industry accounted for about one half of total investment, services for 32 per cent, oil and gas for 11 per cent, and agriculture for 7 per cent.

The change in the pattern of investment has been more marked, however, in the type of projects that have been undertaken. Within the industrial sector, increased amounts of investment expenditures have been placed in more highly technical capital intensive plants, and industries such as petrochemicals, steel, copper and machine tools, were assigned high priority. The increase in investment by the public sector reflected increased investment to build up the physical infrastructure and to expand the social services, including free primary education, improved health services and low income housing projects.

A number of bottlenecks, both administrative and physical, arose during the implementation of the Plan. The major bottlenecks that emerged were shortages of skilled and unskilled labor, an inadequate internal transportation system, a shortage of building materials and congestion of seaports. This delayed the completion of some projects. The rapid expansion of investment, with the associated strains on the physical and social infrastructure, may have led to a less than optimal use of investment expenditures in some projects. Most of the bottlenecks had eased by 1977/78, although there remains a shortage of skilled labor. A number of projects are being implemented to strengthen the internal transportation system. There was a decline in real investment by the private sector during 1977/78, which was affected by the introduction of regulations to reduce speculation in real estate as well as the uncertainties generated by the price controls.

Table 4. Iran: Investment at Constant Prices
(In billions of Iranian rials)

	Annual Average 1968/69-1972/73	1973/74	1974/75	1975/76	1976/77	1977/78 ^{1/}
Private sector	128.2	200.4	225.2	420.9	490.62 ^{2/}	439.0
Machinery and equipment	(51.7)	(101.5)	(112.1)	(255.6)	(229.5)	
Construction	(76.5)	(98.9)	(113.1)	(165.3)	(212.1)	
Public sector	170.1	256.4	336.8	460.0	532.02 ^{2/}	630.9
Machinery and equipment	(41.8)	(69.6)	(108.7)	(102.6)	(145.6)	
Construction	(128.3)	(186.8)	(228.1)	(357.4)	(399.9)	
Gross domestic fixed capital formation	298.3	456.8	562.0	880.9	1,022.62 ^{2/}	1,069.9
By economic sector:						
Agriculture	21.3	35.2	42.7	65.5	51.3	
Oil and gas	28.2	41.1	63.9	115.1	118.2	
Industry	154.5	220.1	265.6	398.9	515.2	
Of which:						
Manufacturing and mining	(50.9)	(89.7)	(89.6)	(146.7)	(162.1)	
Services	94.2	160.4	189.8	301.4	302.4	
Of which:						
Transportation and communication	(67.2)	(77.8)	(105.2)	(191.6)	(182.7)	

Sources: Appendix I, Table 30 and Imperial Government of Iran, Plan and Budget Organization, Information Division, Economic Trends of Iran, (fifth edition), March 1978.

1/ Preliminary.

2/ For 1976/77, the estimates for total gross domestic fixed capital formation and for the private and public sector have been revised recently. The revised data for investment in machinery and equipment and in construction and by main economic sector is not available yet. The disaggregated data presented in this table for 1976/77 is not, therefore, completely consistent with the revised aggregate data.

A summary of the targets for the increase in value added by main economic sectors for the Fifth Plan, along with the actual rates of growth, are presented in Table 5. The actual rate of growth for the non-oil sector was just below target. Among the main economic sectors, the rate of growth in the agricultural sector was well below target. However, this result should be interpreted with caution, due to the abnormal weather conditions in 1977/78.

Table 5. Iran: The Fifth (Revised) Development Plan
(Average annual rate of change at constant prices)^{1/}

	Actual 1968/69-1972/73	Target 1973/74-1977/78	Prelim. 1973/74-1977/78
Gross domestic product (at factor cost)	12.8	13.9 ^{2/}	6.9
Oil	15.1	12.0 ^{2/}	-0.7
Non-oil	10.5	15.7	13.2
Agriculture	(3.5)	(7.0)	(4.6)
Industry	(11.3)	(18.0)	(14.9)
Services	(14.1)	(16.4)	(15.3)

Sources: Staff calculations based on Appendix Table 28 and the Fifth (Revised) Development Plan.

^{1/} At constant 1972/73 prices for the targets of the Plan and at constant 1974/75 prices for the actual results for both five-year periods.

^{2/} In the Fifth (Revised) Development Plan, an adjustment for the change in the terms of trade following the oil price increase has been applied to value added to the oil sector. These targets for the oil sector and for GDP have been calculated excluding the terms of trade adjustment.

The growth rates for the industrial and service sectors were below target also, following the delays in completing some projects and the slowdown in economic activity during 1977/78. Despite the bottlenecks which arose during the implementation of the Plan, the ratio of the increment in output to the level of investment for the non-oil sector during the first four years of the Plan was only marginally below that for the previous five-year period. Reflecting the slowdown in the world demand for oil, there was a major shortfall in the target for growth in the oil sector, which contributed also to the shortfall in the target for the accumulation of foreign exchange reserves. The effect of the shortfall in the volume of oil exports on the external sector was offset, in part, by the lower than anticipated level of payments for imports of goods and services. However, the level of net capital outflows was greater than planned for and about US\$11 billion of foreign exchange reserves was accumulated over the period of the Plan, compared with a target of US\$17.5 billion.

The Sixth Five-Year Plan (1978/79-1982/83) has not been published yet. However, it is expected that the Government's economic policy will aim at more moderate rates of economic growth. The Sixth Plan period is likely to constitute a transitional period during which the financial constraints are likely to become tighter. Priority will be given to completing ongoing projects and more emphasis would be placed on infrastructural projects, such as internal transportation and communications, and power, in an effort to remove the remaining bottlenecks. In addition, it is intended to place more concrete emphasis on the agricultural sector.

The development expenditures in the government budget for 1978/79 have been coordinated to fit into the general framework of the proposed Development Plan. Capital expenditures have been budgeted to increase by 28 per cent which, after allowing for some increase in the price deflator for investment expenditures, represents an increase of over 10 per cent, in real terms. Most of the increase in budgeted expenditures has been allocated to the category of economic services, which encompass agriculture, transportation, telecommunications, petroleum, fuel and power. In 1978/79, domestic savings are not expected to be sufficient to finance investment expenditures.

2. Prices, wages and employment

Despite the strong demand pressures in the economy, the rate of increase in the cost of living index was limited to about 10 per cent during 1975/76 as a result of the institution of an extensive price control program in August 1975. At first, the price control program covered about 14,000 goods and services, including capital and intermediate goods as well as consumer goods and services. The prices which prevailed in January 1975 were used

as a basis for the program and any increase after that date had to be approved by the Price Commission which was established to implement the price control program. Prices of locally produced goods were set, in most cases, to allow for a profit margin of between 10-15 per cent above production costs. Prices of imported goods provided for a mark-up of about 15 per cent over the landed cost of imports, including customs charges. The Government continued to import some of the basic food items, which were sold at subsidized prices, as well as other items in short supply, such as cement. The price controls were enforced strictly with part of the responsibility for enforcement being assumed by the merchant guilds and other trade organizations. The controls, which were implemented more rigorously for locally produced goods than for imported goods, tended to discourage local production and to favor imports

The authorities were aware of the distortions arising from the price controls and during 1976/77, when the excess demand pressures in the economy began to wane, the authorities started to relax gradually the controls. By the end of 1977/78, price controls were effectively eliminated for most goods and services. Price increase of less than 10 per cent were approved quite readily while price increases of more than 10 per cent were subjected to a more detailed investigation and, in some cases, were approved only under certain conditions. In particular, producers were instructed to increase production so as to eliminate any excess capacity that existed. There are about 60 items that remain subject to price controls, mainly items classified as essential goods and services. The prices of the basic foodstuffs, including wheat, meat, cooking oil and sugar, are subsidized by the Government which purchases the goods locally as well as from abroad. Amongst the other items, there are some products which are produced locally and are not subject to competition from imported goods. In these cases, the price controls are designed to ensure that excess profits are not made. As the authorities allow prices to adjust to the forces of supply and demand, the role of the Price Research Center (formerly the Price Commission) is being changed from the implementation of price controls to that of research for costs and prices.

The gradual removal of the price controls led to an acceleration in the recorded rate of inflation in 1976/77 and in 1977/78, with the cost of living increasing by 25 per cent in 1977/78, the highest rate for many years (Table 6). However, the rate of increase in both the wholesale and the cost-of-living indices decelerated during 1977/78 and the first quarter of 1978/79. The main reason for the deceleration in the cost of living index was the slowdown in the rate of increase for the subindex for housing and fuel, following the introduction of regulations in 1977 aimed at containing the increase in the price of land and of other measures designed to limit speculation in real estate. The rate of increase of the subindex for food, beverages, tobacco, and clothing, which accounts for over 50 per cent of the cost of living index, remained high and did not show a significant deceleration (Table 6). On the other hand, the rate of increase in the wholesale price index decelerated to 11 per cent in the first quarter of 1978/79, from an annual rate of nearly 20 per cent in the first quarter of the previous year.

Table 6. Iran: Summary of Developments in Prices

(Annual change in per cent)

	Weights 1974/75	1974/75	1975/76	1976/77	1977/78	1977/78 ^{1/}				1978/79 ^{1/}
						Q1	Q2	Q3	Q4	Q1
Wholesale price index	100.0	17.0	5.3	13.5	14.6	19.6	16.5	11.9	10.9	10.9
Domestic goods	(67.9)	(18.6)	(5.9)	(16.1)	(15.6)	(21.9)	(17.8)	(12.8)	(11.0)	(10.3)
Imported goods	(29.0)	(12.4)	(4.0)	(6.4)	(12.1)	(12.7)	(13.2)	(10.6)	(12.1)	(14.0)
Exported goods	(3.1)	(8.2)	(3.5)	(21.0)	(12.2)	(26.8)	(17.6)	(6.9)	(0.6)	(-0.6)
Cost of living index	100.0	15.5	9.9	16.6	25.1	29.1	30.1	23.8	18.5	12.5
Of which:										
Food, beverages and tobacco	(37.6)	(19.2)	(5.7)	(12.3)	(19.8)	(18.3)	(20.3)	(19.6)	(21.2)	(21.6) ^{2/}
Housing and fuel	(22.8)	(19.5)	(18.9)	(33.8)	(36.3)	(54.8)	(51.4)	(30.2)	(16.4)	(2.7) ^{2/}
House furnishings and household operation	(8.7)	(18.9)	(15.3)	(11.2)	(14.2)	(18.0)	(16.3)	(13.8)	(9.6)	(4.8) ^{2/}
Clothing	(12.7)	(12.5)	(8.9)	(11.2)	(21.1)	(24.0)	(23.7)	(21.1)	(16.1)	(13.6)

Source: Bank Markazi Iran.

^{1/} Figures under the headings Q1, Q2, Q3, and Q4 refer to the percentage change in the first, second, third and fourth quarters, respectively, relative to the same quarter of the previous year.

^{2/} The rates of change for 1978/79, first quarter, for the categories food, beverages and tobacco, housing and fuel, and household furnishings and household operation are not strictly comparable with the rest of the series. These rates of change do, however, give a good guide as to the behavior of prices in these categories.

For some years there has been a shortage of labor in Iran, and wages in both nominal and real terms, have risen substantially. The change in the indices for wages, salaries and fringe benefits paid by large manufacturing establishments and for wages of unskilled construction workers are given in Table 7. While these series do not give a complete coverage of wages in Iran, they provide a guide to the movement in wage rates in the urban areas.^{1/} During 1977/78, nominal wage rates in the manufacturing sector and for unskilled construction workers continued to increase, albeit at a lower rate than in the recent past. However, after recording substantial increases during 1973/74-1976/77, real wages in the manufacturing sector probably did not increase during 1977/78. The deceleration in the rate of increase in wages reflected, in part, the general slowdown in economic activity during 1977/78 which tended to dampen the growth in the demand for labor. As an indication, the level of employment for the large manufacturing establishments remained virtually constant during the first three quarters of 1977/78. At the same time, the authorities were able to limit wage increases through moral suasion on employers and employees.

Table 7. Iran: Summary of Developments in Wages

(Annual change in per cent)

	1974/75	1975/76	1976/77	1977/78	1977/78		
					Q1	Q2	Q3
Wages in manufacturing sector ^{1/}	33.0	42.8	36.8	...	29.9	25.2	24.9
Wages of unskilled construction workers	...	50.8	35.5	33.7			
Wages in manufacturing sector, in real terms ^{2/}	15.2	29.9	17.4	...	0.6	-3.8	0.9
					(1974/75 = 100)		
<u>Memorandum item:</u>							
Large manufacturing establishments:							
Employment index ^{3/}	100.0	110.1	116.6	...	116.8	118.2	117.9
Production index	100.0	114.5	133.7	...	132.8	134.6	156.6

Sources: Staff calculations based on Appendix I, Tables 32 and 33 and Bank Markazi Iran.

^{1/} Wages, salaries and fringe benefits of the large manufacturing establishments.

^{2/} Wages in manufacturing sector deflated by the cost of living index.

^{3/} Excluding employees of slaughtering establishments.

^{1/} A discussion of the issues of labor and wages in the rural sector, including the continued deterioration of the rural urban terms of trade, is given below in subsection 3a.

Despite the slackening in the demand for labor during 1977/78, the shortage of skilled and unskilled labor remained. The rate of open unemployment is estimated to have continued to be very low, at less than 1 per cent of the work force. The authorities have exercised strict control over the inflow of foreign workers and there are about 100,000 registered foreign workers, mainly skilled and semiskilled labor, in Iran at present. Most of the highly skilled workers are from the industrial countries. Recently, however, an increasing number of skilled and semiskilled workers from Asian countries have been employed in the manufacturing and the construction industries. In addition, a large number of unskilled foreign workers have been employed in the construction and in the agricultural sectors. The number of foreign workers in Iran, both registered and unregistered, has been estimated at about 1 million, out of a total work force of roughly 10 million.

Data are available up to 1976/77 for employment in the main economic sectors (Appendix I, Table 34). In 1976/77, the agricultural, the industrial, and the services sectors each accounted for about one third of total employment while the oil sector employed less than 1 per cent. During the four-year period, 1973/74-1976/77, the proportion of the labor force employed in the agricultural sector declined and the migration of labor from rural to urban areas appeared to have continued in 1977/78.

3. Developments in main economic sectors

a. Agriculture

The average annual rate of growth in the agricultural sector has been less than 5 per cent over the last five years and the contribution of agriculture to non-oil GDP at constant prices has declined from 20 per cent in 1973/74 to less than 15 per cent in 1977/78. During this period, agriculture accounted for about 10 per cent of real GDP. Over 30 per cent of Iran's land area is classified as cultivable, 15 per cent is forest and woodlands, and the remaining 55 per cent comprises deserts, mountains and wastelands. Weather conditions limit the range of crops which can be planted and a major proportion of Iran's land is subject to frost. Of the cultivable land, it is estimated that only about 40 per cent has been cultivated, largely because of inadequate irrigation facilities. About 45 per cent of the land which is cultivated, that is less than 20 per cent of the cultivable land, is cropped each year either under irrigation or as dry land.

Arable farming contributed over 60 per cent of real value added in agriculture during 1977/78 and livestock contributed 35 per cent, while forestry and fishing accounted for the remainder (Appendix I, Table 35). A summary of the developments in the agricultural sector is presented in Table 8. Value added in the livestock industry has increased relatively steadily, at an annual rate of nearly 7 per cent, over the 1974/75-1977/78 period. Low rainfall in the crop growing areas, a disease in the rice crop, and a shortage of labor adversely affected the arable farming industry in 1977/78 and value added is estimated to have declined by about 5 per cent. The total area under cultivation fell and output of major crops, except tea and cotton, declined in 1977/78 (Appendix I, Table 36). For a number of products, such as wheat and barley, the Government Cereal Corporation guarantees to purchase the output from producers at a minimum price, but producers are permitted to sell on the open market. For tea and tobacco, the Government Trading Corporation is the sole purchaser.

It is difficult to obtain a reliable estimate for the movement in the rural-urban terms of trade. However, a comparison of the changes in the deflator for value added in the agricultural sector, which provides an estimate for the prices received by farmers, with the changes in the deflator for GDP in the non-oil sector and with the changes in wages, indicates that the rural-urban terms of trade have deteriorated steadily since 1974/75 (Table 8). The policy of stabilizing food prices for consumers in the cities has, along with the Government's pricing policy for agricultural output, reduced profitability in agriculture, thereby encouraging the migration of labor from rural to urban areas. The shortage of agricultural labor became more serious in 1977/78 and in the case of some crops, such as sugar beet, the high levels of wages being paid made it uneconomical to reap the harvest.

The Government has continued its efforts to boost agricultural output through the provision of infrastructural services, particularly irrigation facilities, subsidized credit, and subsidized stock feed for the livestock industry. Several regional development banks have been established in the provinces to increase the availability of credit to the agricultural sector. The prices paid to producers by the government corporations have just been revised upwards and the authorities propose to place greater emphasis on the development of the agricultural sector in the next development plan.

A detailed description of the institutional arrangements in the agricultural sector is given in Appendix II of SM/77/104. The Government has continued to implement the land reform program, which was initiated in the early 1960s, and the number of rural cooperatives, as well as the capital of the cooperatives, increased further during 1977/78 (Appendix I, Table 37).

Table 8. Iran: Summary of Developments in the Agricultural Sector

(1974/75 = 100)

Index	1973/74	1974/75	1975/76	1976/77	1977/78
Value added in:					
Agricultural sector	94.5	100.0	106.8	112.7	111.8
Of which:					
Arable farming	(94.9)	(100.0)	(105.6)	(111.8)	(106.3)
Livestock	(93.3)	(100.0)	(109.5)	(114.9)	(121.5)
Production of:					
Wheat	97.9	100.0	117.0	127.7	117.0
Barley	107.0	100.0	162.2	173.8	142.5
Rice	101.6	100.0	108.9	121.9	106.6
Cotton	86.0	100.0	65.7	71.3	74.8
Sugarbeets	98.6	100.0	108.6	120.9	96.5
Memorandum items:					
Estimates of rural/urban terms of trade (1974/75 = 100) ^{1/}					
Deflator for non-oil					
GDP	97.4	100.0	92.5	95.7	92.7 ^{2/}
Manufacturing wages	108.8	100.0	72.2	63.9	64.7 ^{2/}
Wages for unskilled construction workers	...	100.0	68.4	61.1	52.4
Employment in agriculture	101.0	100.0	95.7	93.8	...

Sources: Staff calculations based on data in Appendix I, Tables 28, 34, 35, and 36.

^{1/} Deflator for value added in agriculture divided by non-oil GDP deflator, wages in manufacturing, and wages for unskilled construction workers, respectively.

^{2/} Deflated by average index for wages for first three quarters of 1977/78.

b. Oil

In 1977, Iran accounted for 26 per cent of oil production in the Middle East and 9 per cent of world oil output. Iran's reserves are the third largest in the world, after Saudi Arabia and the U.S.S.R., and recent estimates of Iran's proven reserves have ranged between 65-70 billion barrels, which at current production levels would last over 30 years. However, so far new additions to proven reserves have, for the most part, compensated for annual output. Further increases of proven reserves may result from new exploration and investment in secondary recovery facilities.

The relative importance of the oil sector in the Iranian economy increased substantially after the quadrupling of world oil prices in late 1973 and early 1974. In 1977/78, the preliminary data indicate that the Central Government's revenues from oil accounted for 71 per cent of total revenue while export receipts from oil accounted for 97 per cent of merchandise exports, or 81 per cent of total foreign exchange earnings on the current account. While the share of the oil sector in real GDP had declined from just over 50 per cent in 1973/74 to 36 per cent in 1977/78 its share in nominal GDP, at about 31 per cent, was about the same in 1977/78 as in 1973/74.

There were no changes in the institutional framework of the oil industry during 1977 and the first half of 1978. The agreement signed between the consortium of foreign oil companies and the National Iranian Oil Company (NIOC), which became effective on March 21, 1973, is now under renegotiation. This agreement covered about 90 per cent of crude oil production in 1977. The Iranian Oil Service Company (OSCO), a company incorporated in Iran and owned by the members of the consortium,^{1/} was set up to provide production, exploration and other services in the area covered by the agreement. The OSCO operates under the direction of the NIOC, and the NIOC is responsible for the provision of OSCO's working capital and of the fixed capital required for the expansion of production facilities. The OSCO delivers the crude oil to the foreign companies and to the NIOC for export as crude oil for refining in Iran. There are two other institutional arrangements in which the NIOC participates, joint ventures and contractual service agreements. The joint ventures are equal partnership between the NIOC and the foreign oil companies.^{2/}

^{1/} The Iranian Oil Service Company is owned by British Petroleum (40 per cent); Royal Dutch Shell (14 per cent); Gulf Oil, Mobil Oil, Standard Oil of California, Exxon, Texaco (7 per cent each); Compagnie Francaise des Petroles (6 per cent); and the Iricon group (5 per cent). The Iricon group consists of American Independent Oil, Atlantic-Ritchfield, Charter Oil, Continental Oil, Getty Oil, and Standard Oil of Ohio.

^{2/} Beginning with 1978/79, the NIOC is changing its financial year from the Gregorian calendar year to the Iranian calendar year.

Details of the production and export of petroleum, of foreign exchange receipts from the oil sector and of refining output for the 1973-77 period are given in Appendix I, Tables 38-40. A summary of the developments in the output, export and domestic use of petroleum products is given in Table 9. After rising steadily for over two decades, Iran's crude oil production reached a peak of 6.0 million barrels per day (b/d) in 1974. Since 1974, however, the output of oil has fluctuated in response to changes in the world demand which, in turn, reflected the evolution of economic activity in the industrial countries as well as the impact of higher oil prices. During the first five months of 1978, production has been running at a rate of about 5.6 million b/d, a little less than the average of 5.66 million b/d, recorded in 1977. The capacity for crude oil production is estimated at present to be about 6.5 million b/d.

Table 9. Iran: Summary of Output, Export and Domestic Use of Petroleum Products

(In millions of barrels)

	1973	1974	1975	1976	1977
Crude oil production	2,139.3	2,197.9	1,952.7	2,153.0	2,066.9
Exports	2,026.9	2,061.8	1,807.6	1,981.9	1,853.6
Crude oil	(1,926.5)	(1,959.8)	(1,705.4)	(1,903.7)	(1,780.1)
Refined products	(100.4)	(102.0)	(102.2)	(78.2)	(73.5)
Domestic use ^{1/}	100.0	114.2	137.0	174.5	207.6

(In per cent)

Memorandum items:

Refinery output as a percentage of production	9.4	9.8	12.2	11.7	13.6
Change in refinery output	-1.2	7.9	10.6	5.6	11.2

Sources: Appendix I, Tables 38 and 39.

^{1/} Refinery output less exports of refined products.

The official sales price and the government revenue per barrel has remained unchanged since January 1, 1977 (Table 10). The present system of pricing has been in place since January 1, 1975, when OPEC replaced the posted price system. Under the present system, government revenue per barrel is calculated on the basis of the government take for Saudi Arabian marker crude. The authorities of each country make adjustments from the price of marker crude to reflect the differences in transportation costs

and in the quality of crudes.^{1/} The official sales prices for both light and heavy crudes were adjusted on October 1, 1975 and on January 1, 1977 following the adjustment of OPEC prices. In between these price changes an adjustment was made to the production costs on January 1, 1976. Also, following the decision of Saudi Arabia and Kuwait to reduce the price of their medium and heavy crudes in November 1975, the official sales price for Iranian heavy crude (31° API) was reduced by a small amount on two occasions during 1976, in an effort to halt the decline in heavy crude exports.

Table 10. Iran: Official Sales Price for, and Government Revenue from, Iranian Crude Oil

(In U.S. dollars per barrel)

	1975		1976			1977	
	Jan. 1	Oct. 1	Jan. 1	Feb. 14	June 9	Jan. 1	Dec. 31
	(34° API crude oil)						
Official sales price	10.674	11.620	11,620			12.810	12.810
Less:							
Production cost	(0.160)	(0.180)	(0.300)			(0.300)	(0.300)
Profit margin	(0.220)	(0.220)	(0.220)			(0.220)	(0.220)
Government revenue	10.294	11.220	11.100			12.290	12.290
	(31° API crude oil)						
Official sales price	10.450	11.495	11.495	11.400	11.330	12.490	12.490
Less:							
Production cost	(0.160)	(0.180)	(0.300)	(0.300)	(0.300)	(0.300)	(0.300)
Profit margin	(0.220)	(0.220)	(0.220)	(0.220)	(0.220)	(0.220)	(0.220)
Government revenue	10.070	11.095	10.975	10.880	10.810	11.970	11.970

Sources: Bank Markazi Iran and National Iranian Oil Company.

During 1977, refinery output continued to increase and nearly 14 per cent of crude oil production was refined (Table 9). With the opening of another section of the large refinery in Abadan in 1977, the refinery capacity was increased by 60 million barrels per annum to 365 million barrels. In 1977, the equivalent of 77 per cent of refinery capacity was used. During 1978, refinery capacity is expected to increase to 430 million barrels, as two new refineries, one at Isfahan and one at Tabriz, have just been brought into production (Appendix I, Table 39).

^{1/} A detailed account of the various adjustments in the official sales price and in the government take since January 1, 1975 is given in SM/77/103, pages 17-19.

The export of refined products continued to decline during 1977, as the domestic use continued to increase. The average annual rate of increase in domestic consumption over the last four years was 20 per cent, which is well above the rate of growth in national income in real terms. As part of the Government's policy to encourage conservation of petroleum products in Iran, the price of gasoline was raised by 25 per cent in March 1978 to Rls 10 per litre for regular and Rls 12.5 per litre for premium. The Government intends to increase gasoline prices by Rls 2 and Rls 2.5 per litre for regular and premium, respectively, each year for the next three years so that the prices will reach Rls 16 and Rls 20 per litre by March 1981.

Foreign exchange receipts from the export of oil, in terms of SDRs, declined by 1.5 per cent in 1977/78, reflecting the decline in the volume of exports of 6.5 per cent which was partially offset by an increase in the unit value of 5.3 per cent, following the increase in the official sales price of over 10 per cent, in terms of U.S. dollars, on January 1, 1977. Apart from the regular receipts from oil exports, there was a small amount of foreign exchange, SDR 92 million, which was received from the joint venture companies for local currency purchases during 1977/78 (Appendix I, Table 40).

The main markets for Iranian crude oil exports remained Western Europe, Japan and North America in 1977 (Appendix I, Table 41). Since 1973, the proportion of crude oil exports by OSCO to Japan has declined while there has been an increase in the share of exports to North America and to Africa. For exports of petroleum products, which accounted for less than 4 per cent of the volume of oil exports during 1977/78, most of the shipments are to Asia, other than Japan.

c. Natural gas

It is estimated that Iran's proven natural gas reserves are in excess of 400 trillion cubic feet and that Iran has the second largest reserves of natural gas in the world, following the U.S.S.R. Responsibility for all activities in the natural gas industry has been assigned to the National Iranian Gas Company (NIGC), an affiliate of the NIOC. The NIOC is entitled, however, to the use of gas produced in the area covered by the agreement with the Consortium of foreign companies for petrochemical feedstock, secondary recovery programs, and exports by pipeline. Both the Consortium and the NIOC are permitted to export liquefied natural gas.

At present, most of Iran's natural gas production is associated with oil production. The proportion of gas produced from gas reserves is increasing and in 1977, when oil production declined, gas production increased by 14 per cent. The proportion of the gas output that is flared has declined over the last four years (Table 11). Domestic use of natural gas increased by 62 per cent in 1977, as the distribution networks to supply industrial and household consumers were expanded, while exports of gas to the U.S.S.R. remained constant. The value of exports in terms of SDRs increased during 1977 following the rise in the average export price at the time of the revision of oil prices by OPEC on January 1, 1977. Foreign exchange receipts from gas remained the second most important source of foreign exchange during 1977/78.

Table 11. Iran: Natural Gas Production, Uses,
and Foreign Exchange Receipts

(In billions of cubic feet)

	1973	1974	1975	1976	1977
<u>Production</u>	1,698.2	1,766.7	1,603.3	1,775.1	2,029.4
OSCO ^{1/} (Consortium)	1,571.4	1,639.2	1,469.4	1,532.7	1,867.1
NIOC	4.3	4.7	4.4	10.1	14.1
Other companies	122.5	122.8	129.5	233.3	148.2
<u>Uses</u>					
Flared	996.6	983.2	832.3	985.4	945.3
As per cent of total production	(59)	(56)	(52)	(55)	(47)
Domestic use	395.2	462.7	433.3	466.3	757.4
Exports to U.S.S.R.	306.5	320.8	337.8	327.5	326.9
Value of exports in millions of SDRs ^{2/}	(84)	(97)	(159)	(157)	(213)

Sources: National Iranian Oil Company and Bank Markazi Iran.

^{1/} OSCO is the Oil Service Company of Iran.

^{2/} The SDR equivalent of the U.S.S.R. ruble valuation of gas exports. The exchange rate used in the special trade agreement is Rls 91.31 equal rub 1. The price in U.S. cents per thousand cubic feet of natural gas of standard caloric quality has been increased several times since deliveries to the U.S.S.R. commenced in October 1970 when the price was 18.7 cents. The price was increased to 30.7 cents in July 1973, to 57 cents on January 1, 1974, to 58.88 cents on October 1, 1975, and to 76.0 cents on January 1, 1977. The average price received per thousand cubic feet varies, however, with the caloric quality of the gas shipped.

For 1978, the domestic use of natural gas is expected to continue to increase as the supply networks are expanded further and the secondary recovery program for oil, where gas is injected into the wells to maintain pressure, is implemented. Exports of gas by pipeline are not expected to increase under the contract with the U.S.S.R. The second pipeline project, which involves constructing a pipeline through the U.S.S.R. to supply markets in Europe, will not be completed until 1981. The NIGC is actively exploring markets for the export of liquefied natural gas but, as yet, no liquid gas has been exported.

d. Industry

Over the last five years, the contribution of industry, including manufacturing and mining, construction, and water and power, but excluding the oil sector, to real GDP has increased steadily. In 1977/78 industry accounted for nearly 19 per cent of real GDP at factor cost, or 30 per cent of value added in the non-oil sector.

A summary of the general developments in the industrial sector is provided in Table 12. Manufacturing and mining contributed 68 per cent of value added in the industrial sector in 1977/78 while construction accounted for just over 26 per cent and water and power for less than 6 per cent. The annual average rate of growth of value added, in real terms, over the five-year period, 1973/74-1977/78, was 15 per cent, with both the manufacturing and mining and the construction industries expanding at a fast rate. Investment in the industrial sector has increased rapidly since 1974/75, as the authorities promoted industrial development and there was a boom in construction, particularly in real estate development. Over the same period, the level of employment has remained quite constant in the industrial sector.

Table 12. Iran: Summary of Developments in the Industrial Sector
(1974/75 = 100)

Index	1973/74	1974/75	1975/76	1976/77	1977/78
<u>Value added:</u>					
Industrial sector	88.8	100.0	122.7	140.8	153.1
of which:					
Manufacturing and mining	(84.5)	(100.0)	(116.4)	(133.6)	(145.7)
Construction	(103.6)	(100.0)	(144.2)	(166.7)	(179.5)
<u>Employment:</u>					
Industrial sector	90.6	100.0	97.7	103.4	
of which:					
Manufacturing and mining	(93.2)	(100.0)	(98.0)	(104.6)	
Construction	(83.9)	(100.0)	(95.9)	(98.9)	
<u>Investment:</u>					
Industrial sector	82.9	100.0	150.2	194.0	
of which:					
Manufacturing and mining	(100.1)	(100.0)	(163.7)	(180.9)	
Construction	(75.1)	(100.0)	(141.8)	(183.6)	

Sources: Appendix I, Tables 28 and 34 and Imperial Government of Iran, Plan and Budget Organization, Information Division, Economic Trends of Iran, (fifth edition), March 1978.

The strategy for industrial development has tended to move away from encouraging the production of light consumer goods, as was the case during the 1960s, toward the production of more capital and intermediate goods. In recent years, therefore, a number of highly technical industries, based on Iran's natural resources, such as petrochemicals,^{1/} copper, iron and steel, and aluminum, have been set up. In addition, the output of industries classified under fabricated metal products, machinery, and equipment, which includes the production of automobiles, consumer durables, and agricultural machinery, has increased rapidly over the last three years. The expansion of the more traditional types of industries, classified under food, beverages and tobacco, and textiles, clothing and leather products has been less marked (Table 13). More details on output of individual industries are given in Appendix I, Table 43.

Table 13. Iran: Indices of Production and Employment
of Large Manufacturing Establishments

(1974/75 = 100)

	Weights 1974/75	Average for First Three Quarters		
		Annual Average 1975/76	1976/77	1977/78
Production	100.0	114.5	133.7	141.3
of which:				
Food, beverages and tobacco	(21.6)	(108.4)	(122.8)	(121.7)
Textiles, clothing and leather products	(15.9)	(116.0)	(124.6)	(121.5)
Chemical, basic materials and products	(15.3)	(108.6)	(129.7)	(149.4)
Nonmetal, mining products (except oil and coal)	(9.1)	(119.6)	(146.6)	(156.5)
Basic metals	(10.5)	(108.0)	(112.8)	(137.0)
Fabricated metal products, machinery and equipment	(24.7)	(124.7)	(157.3)	(155.4)
Employment		110.1	116.6	117.6
of which:				
Food, beverages and tobacco		(110.5)	(123.2)	(133.1)
Textiles, clothing and leather products		(103.8)	(103.2)	(97.2)
Chemical, basic materials and products		(110.0)	(121.8)	(125.8)
Nonmetal mining products (except oil and coal)		(113.9)	(133.5)	(145.4)
Basic metals		(113.5)	(112.1)	(112.5)
Fabricated metal products, machinery and equipment		(117.0)	(126.9)	(129.9)

Sources: Appendix I, Table 43 and Bank Markazi Iran.

^{1/} More details on the petrochemical industry are given in SM/77/104, pp. 22-25.

The authorities have provided a number of incentives for the development of the industrial sector. These have included the granting of credit to the private sector at preferential interest rates, the waiving of taxation payments on corporate income for newly established industries, and a commercial policy which has provided protection for the manufacturing industries. During 1977/78, the general level of protection offered to local industry was increased as the authorities raised the commercial benefit taxes payable on imports and, as was the case with textiles, regulated the flow of imports through quantitative restrictions. In many of the larger industrial projects, the Government has participated directly in joint ventures, often with foreign firms. The Industrial Development and Renovation Organization has been assigned the responsibility of introducing modern industrial technology into Iran and of managing new industrial public enterprises. Through the granting of licenses for industry, the authorities have played a role in determining the pattern of industrial development.

During 1975, the Government embarked on a program for the expansion of industrial ownership. The Share Participation Law was adopted on April 24, 1975. Under this Law, certain private and public enterprises are required to offer for sale 49 per cent and 99 per cent of their shares, respectively, to workers, farmers and the general public. The Council for the Expansion of Industrial Ownership, a government agency, was assigned the overall responsibility for the implementation of this program.

The Council selects the enterprises which are to be included in the program and also determines the price of the shares. Firms fall within the scope of the Law if they have been in operation for more than five years and have a registered capital of at least Rls 100 million, or fixed assets of more than Rls 200 million or an annual sales turnover of more than Rls 250 million. So far, the Council has studied about 360 firms and up to the end of 1977/78, 167 private companies, which comprised 204 establishments, had sold between 20-49 per cent of their shares. Of the public companies, in which the Government has more than a 51 per cent share, shares in a few companies have been distributed. For companies where the Government has less than 50 per cent of the shares, the procedures have not yet been clarified fully. To finance the purchase of the shares, the Council has extended loans to workers for 10 years at an interest rate of 4 per cent. The repayments of principal and interest on these loans are to be covered by dividends received on the shares by the workers.

In addition, the National Investment Company of Iran (NICI) was established in 1975 to perform the functions of a mutual fund. It has purchased some shares from the participating enterprises. The shareholders of NICI are the Central Bank, Bank Melli, the Central Insurance Company of Iran, the Iran Insurance Company, the Industrial and Mining Development Bank and the Agricultural Development Bank. Enterprises that are established after the adoption of the Share Participation Law in 1975 are able to offer shares to the NICI before five years of operation and this would be counted towards fulfilling their obligations under the Law. The original shareholders are paid in cash by the NICI and in bonds for the shares purchased on behalf of the workers. These bonds have a maturity of 2, 3 and 5 years

and have been traded with an annual yield of 8-10 per cent. The bonds are guaranteed by the Government and may be supported in the market by the Central Bank. The difference between the interest on bonds issued to the original shareholders and the interest rate on loans extended to the workers constitutes a direct charge to the government budget. In the medium term, there will be an expansionary impact on domestic liquidity as the bonds mature. The extent of the impact will depend on the difference between the value of the bonds and the level of loans outstanding to the workers.

The construction industry has expanded even more rapidly than the manufacturing and mining sectors over the last five years, despite the shortage of building materials which was a constraint on output until recently. Although investment by the private sector, in real terms, declined in 1977/78, value added in the construction industry is estimated to have increased by 8 per cent, a deceleration from the rate of expansion in the previous years. While investment in construction by the public sector continued to increase, there was a fall in residential construction investment, in part due to the introduction of regulations which virtually eliminated speculation in real estate during 1977/78.

The general slowdown in economic activity during 1977/78 was reflected in the performance of the industrial sector, particularly in the construction industry. However, as is indicated by the indices for manufacturing output and for construction starts, economic activity appeared to have started to revive by the fourth quarter of 1977/78 (Table 14). Manufacturing output increased at annual rate of less than 9 per cent during the first three quarters, followed by an acceleration in the fourth quarter. The data for construction starts indicate a turnaround in activity in the fourth quarter.

Table 14. Iran: Indicators for Manufacturing and Construction Industries
(Annual change in per cent)

	1975/76	1976/77	1977/78	1977/78			
				Q1	Q2	Q3	Q4
Manufacturing (production index for large manufacturing establishments)	14.5	16.8	10.7 ^{1/}	8.1	9.1	8.7	15.5 ^{1/}
Construction (privately financed construction starts in urban areas; aggregate floor space)	22.7	59.3	-12.0	-23.9	-16.1	-14.1	32.5 ^{1/}

Sources: Appendix I, Tables 42 and 43 and Bank Markazi Iran.

^{1/} Preliminary data, which may not be completely consistent with the rest of the series.

II. The Financial Sector

1. Government finances

a. Introduction

The public sector in Iran comprises the Central Government, local governments, public enterprises, and nonprofit government agencies. The Central Government, which depends mainly on the oil sector for its revenues, finances the current and capital operations of all the ministries and provides grants and transfers to other public sector entities. The local authorities consist of 23 governorates general, 153 districts, and over 400 municipalities, all of which receive most of their funds from the Central Government. The district governments are also authorized to levy special local taxes, while the municipalities raise additional revenues from property taxes, vehicle taxes, business licenses, and user charges.

The public enterprises, in which the Central Government owns at least 50 per cent of the shares, have grown rapidly in the years following the sharp increases in oil prices. There were over 130 such enterprises operating in 1977/78; however, under the Industrial Share Redistribution Program, these enterprises are required to sell gradually 99 per cent of their shares to their workers and the public. The Central Government will nevertheless retain operational control of these enterprises. The public enterprises also receive grants and transfers from the Central Government and are required to transfer to the Central Government varying proportions of their profits. The nonprofit government agencies encompass 58 cultural, welfare, and charitable institutions. Although these institutions can cover about one fourth of their expenses^{1/} from their revenues, the balance is provided by the Central Government.^{2/}

A consolidated budget of the public sector operations cannot be compiled, mainly due to the lack of comprehensive data on the operations of the local governments as well as due to double counting in the data on the operations of the Central Government, public enterprises, and nonprofit government agencies. The analysis below will therefore concentrate on the central government budget which includes transfers to and from the other public sector entities. However, it is possible to derive the net domestic expenditures of the public sector indirectly from the monetary and balance of payments data.^{2/}

b. Central government budgetary developments, 1973/74-1977/78

(1) Structure and trends in revenue

The structure of government revenues in Iran reveals a heavy reliance on the oil and gas sectors (Table 15). During 1977/78, oil and gas revenues amounted to 71.3 per cent of total revenues, while

^{1/} A summary of the operations of nonprofit government agencies is given in Appendix I, Table 44.

^{2/} See the section on Money and Banking, Table 20, and Appendix II.

non-oil and special revenues accounted for the balance. Within non-oil revenues, income taxes and taxes on international trade and transactions constitute the two most important categories, accounting for 42.6 per cent and 31 per cent of non-oil revenues, respectively. The tax system^{1/} results in a relatively light burden; in 1977/78, tax revenues amounted to about 10 per cent of non-oil gross domestic product. Non-oil nontax revenues, which include revenues transferred to the Central Government from government monopolies and agencies, from services and sales of goods, and income from foreign investment, accounted for about 15 per cent, while taxes on production and consumption, mainly excise taxes on petroleum and fuel, for 8.6 per cent of non-oil revenues. Special revenues, which are earmarked for specific expenditures,^{2/} amounted to about 11 per cent of total non-oil and special revenues.

During the five-year period ending 1977/78, total government revenues in Iran increased at an average annual rate of 46 per cent. The growth of revenues, however, was not steady. In 1974/75, following the sharp increases in oil prices, total revenues almost tripled reflecting the quadrupling of oil and gas revenues. The rate of growth of revenues slowed considerably in the two subsequent years to an average of about 15 per cent per year, as the growth in oil and gas revenues tapered off. In 1977/78, the stagnation in oil and gas revenues brought about a further decline in the growth rate of total revenues to about 12 per cent. Non-oil revenues throughout the five-year period grew at a relatively stable pace, averaging an annual rate of 34 per cent. As there were few changes in the tax system, the growth in non-oil revenues reflected mainly the 30 per cent annual growth in nominal non-oil GDP, the growth in imports, as well as improved collection methods.

(2) Structure and trends in expenditures

The expenditure categories in the central government budget comprise current (ordinary and special) expenditures, development expenditures, foreign grants, and contingent expenditures and advance payments (Table 16). In 1977/78, current expenditures accounted for nearly 52 per cent of total expenditures, development expenditures for about 39 per cent, and contingent expenditures and advance payments for about 10 per cent. During 1977/78, the proportion of current expenditures spent on national defense and security amounted to almost 48 per cent, on social services, such as education, health and housing, to 27 per cent, while expenditures for economic services, which include agriculture, water resources, industry and transportation, accounted for 13 per cent of current expenditures. The structure of capital expenditures differed considerably; in 1977/78, capital expenditures for economic services accounted for 66 per cent of the total government expenditures and those for social services for 20 per cent.

^{1/} See SM/75/37, pp. 125-128, for a summary of the tax system.

^{2/} Special revenues equal special expenditures.

Table 15. Iran: Government Revenues

(In billions of Iranian rials)

	Actuals				Prelim.	Budget
	1973/74	1974/75	1975/76	1976/77	Actuals 1977/78	1978/79
<u>Oil and gas revenues</u> ^{1/}	<u>311.3</u>	<u>1,205.2</u>	<u>1,246.8</u>	<u>1,421.5</u>	<u>1,497.8</u>	<u>1,541.8</u>
<u>Non-oil revenues</u>	<u>153.5</u>	<u>189.2</u>	<u>335.3</u>	<u>414.9</u>	<u>536.5</u>	<u>714.2</u>
<u>Tax revenues</u>	<u>134.5</u>	<u>161.7</u>	<u>278.6</u>	<u>351.1</u>	<u>454.3</u>	<u>623.0</u>
Income taxes	51.5	70.4	150.5	185.5	228.5	270.8
Government corporations	(17.1)	(28.8)	(93.2)	(99.4)	(107.0)	(120.7)
Private corporations	(11.7)	(16.1)	(20.1)	(29.5)	(53.2)	(60.8)
Salaries	(10.8)	(10.2)	(15.3)	(26.3)	(39.7)	(49.2)
Professions	(5.1)	(6.6)	(9.6)	(14.2)	(11.2)	(18.5)
Real estate	(4.2)	(5.9)	(9.1)	(11.7)	(13.3)	(16.5)
Other ^{2/}	(2.6)	(2.8)	(3.2)	(4.4)	(4.1)	(5.1)
Taxes on production and consumption	19.2	24.1	29.8	35.2	49.0	71.5
Petroleum and fuel tax	(12.4)	(15.0)	(17.7)	(21.7)	(32.0)	(50.8)
Other ^{3/}	(6.8)	(9.1)	(12.1)	(13.5)	(17.0)	(20.7)
Taxes on international trade and transactions	60.6	63.1	92.7	122.6	167.4	269.3
Import duties ^{4/}	(43.1)	(63.1)	(92.7)	(122.6)	(167.4)	(269.3)
Private sector	[39.6]	[57.6]	[83.2]	[109.8]	[152.5]	[205.1]
Public sector	[3.5]	[5.5]	[9.5]	[12.8]	[14.9]	[64.2]
Import registration fee	(17.5)	(--)	(--)	(--)	(--)	(--)
Other taxes ^{5/}	3.2	4.1	5.6	7.8	9.4	11.4
<u>Non-oil nontax revenues</u>	<u>19.0</u>	<u>27.5</u>	<u>56.7</u>	<u>63.8</u>	<u>82.2</u>	<u>91.2</u>
Government monopolies and affiliates	11.1	13.6	30.8	23.3	34.9	40.5
Services and sale of goods	6.6	8.9	12.3	17.4	20.0	23.6
Income from foreign investments	--	2.6	11.0	18.2	20.4	21.0
Other revenues	1.3	2.4	2.6	4.9	6.9	6.1
<u>Special revenues</u> ^{6/}	<u>19.6</u>	<u>24.7</u>	<u>35.5</u>	<u>46.7</u>	<u>66.8</u>	<u>140.0</u>
<u>Total revenues</u>	<u>484.4</u>	<u>1,419.1</u>	<u>1,617.6</u>	<u>1,883.1</u>	<u>2,101.1</u>	<u>2,396.0</u>

Sources: Plan and Budget Organization, and Bank Markazi Iran.

1/ Includes advances from the oil consortium through 1973/74 and both income taxes and royalty (stated) payments.

2/ Includes taxes on agricultural, interest and various other sources of income.

3/ Includes primarily taxes on alcohol compounds, nonalcoholic beverages, automobiles, telephones, exit visas and phonograph records.

4/ Includes primarily customs duties and commercial benefit taxes.

5/ Represents mainly stamp duties.

6/ Special revenues are primarily fees and user charges under the control of and earmarked for particular uses by various ministries and agencies. Expenditures financed by these revenues usually equal receipts.

Table 16. Iran: Government Expenditures^{1/}

(In billions of Iranian rials)

	Actuals 1974/75			Actuals 1975/76			Actuals 1976/77			Prelim. Actuals 1977/78			Budget 1978/79		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
<u>General services</u>	38.4	51.3	89.7	46.6	77.7	124.3	59.5	77.3	136.8	74.5	71.3	145.8	88.5	30.9	119.4
Government construction	0.3	45.1	45.4	--	68.6	68.6	--	67.0	67.0	0.1	55.1	55.2	0.1	8.8	8.9
Other ^{2/}	38.1	6.2	44.3	46.6	9.1	55.7	59.5	10.3	69.8	74.4	16.2	90.6	88.4	22.1	110.5
<u>National defense and security^{3/}</u>	372.6	--	372.6	515.3	--	515.3	618.9	--	618.9	617.3	0.1	617.4	775.0	0.2	775.0
<u>Social services</u>	149.1	83.3	232.4	203.6	104.6	308.2	261.1	123.5	384.6	351.7	194.1	545.8	499.1	189.9	689.0
Education	71.5	18.8	90.3	98.8	26.3	125.1	140.2	25.5	165.7	184.2	47.1	231.3	240.2	61.5	301.7
Health and nutrition	34.9	4.8	39.7	46.3	4.9	51.2	50.0	6.1	56.1	65.5	12.0	77.5	77.0	23.6	100.6
Housing	--	36.3	36.3	0.3	51.8	52.1	0.5	66.8	67.3	0.7	88.7	89.4	0.8	47.7	48.5
Other	42.7	23.4	66.1	58.2	21.6	79.8	70.4	25.1	95.5	101.3	46.3	147.6	181.1	57.1	238.2
<u>Economic services</u>	76.8	214.1	290.9	110.7	339.1	449.8	60.7	482.8	543.5	166.7	635.1	801.8	197.9	1,008.0	1,205.9
Agricultural and natural resources	59.1	30.9	90.0	86.6	36.1	122.7	23.1	34.3	57.4	29.9	45.9	75.8	34.5	71.0	105.5
Water resources	1.9	25.5	27.4	2.6	27.5	30.2	3.1	33.3	36.4	7.3	50.0	57.3	11.8	63.0	74.8
Petroleum, fuel and power	1.5	25.2	26.7	4.3	93.4	97.7	15.3	248.7	264.0	15.2	249.2	264.4	47.1	466.1	513.2
Industry	3.0	63.8	66.8	2.2	85.0	87.2	3.0	70.1	73.1	9.4	122.8	132.2	12.5	125.9	138.4
Transportation and telecommunications	10.0	52.1	62.1	13.6	76.0	89.6	13.9	82.1	96.0	23.3	146.2	169.5	26.5	252.9	279.4
Other	1.3	16.6	17.9	1.4	21.1	22.5	2.3	14.3	16.6	81.6	21.0	102.6	65.5	29.1	94.6
<u>Unallocable and other purposes</u>	115.6	--	115.6	88.6	5.4	94.0	93.8	0.5	94.3	180.4	4.2	184.6	190.2	2.6	192.8
Interest on public debt	28.3	--	28.3	33.4	--	33.4	27.0	--	27.0	66.3	--	66.3	85.6	--	85.6
Other ^{4/}	87.3	--	87.3	55.2	5.4	60.6	66.8	0.5	67.3	114.1	4.2	118.3	104.6	2.6	107.2
<u>Adjustments^{5/}</u>	--	--	--	--	--	--	--	--	--	-100.8	54.6	-46.2	--	--	--
Total	752.5	348.7	1,101.2	964.8	526.8	1,491.6	1,094.0	684.1	1,778.1	1,289.8	959.4	2,249.2	1,750.7	1,231.6	2,982.3

Sources: Plan and Budget Organization, The Budget 2535; and data provided by the Iranian authorities.^{1/} Includes special expenditures.^{2/} Excludes expenditures for internal order and security.^{3/} Excludes defense expenditures financed by external loans but includes the servicing of these loans as well as expenditures for internal order and security.^{4/} Represents expenditures under "miscellaneous" heading in the budget document.^{5/} Data for individual components are based on revised estimates and adjustments are made to arrive at preliminary actual current, fixed capital, and total expenditures.

During the five-year period 1973/74-1977/78, government expenditures grew at an average annual rate of about 46 per cent. The sharpest increase occurred in 1974/75, when total expenditures grew by 157 per cent as the Government expanded by about the same rate both its current and capital expenditures. In 1975/76 and 1976/77, the rate of growth of expenditures tapered off to an annual average rate of about 22 per cent as the Government adopted a restrained fiscal policy, in view of the inflationary pressures that had emerged in the economy, and as the rise in development expenditures was constrained by physical bottlenecks. During 1977/78, the rate of expansion of expenditures picked up, reaching nearly 30 per cent. There were essentially two factors behind this increase. First, the sudden acceleration in the rate of inflation increased operating costs steeply and necessitated an adjustment of about 25 per cent in the salaries and fringe benefits of civil servants in mid-1977/78. Partly as a result, current expenditures rose by 18 per cent and contingent expenditures and advance payments by 70 per cent. Second, the alleviation of the physical bottlenecks allowed a considerable expansion in development expenditures, which rose by over 40 per cent in 1977/78.

(3) Overall budgetary developments

Although the average rate of growth of expenditures equaled the rate of growth in revenues during 1973/74-1977/78, the year-to-year growth rates of expenditures and revenues differed considerably (Table 17). During 1973/74 and 1974/75 expenditures grew at a slower rate than revenues. Consequently, in 1973/74 the budget deficit was considerably reduced and in 1974/75 a record surplus of Rls 140 billion was achieved. Starting in 1975/76, the growth rate of expenditures outstripped the rate of growth in revenues. Accordingly, the Government's finances were in near balance in 1975/76, and registered a small deficit in 1976/77. As the rate of increase of government expenditures accelerated in 1977/78 while the expansion in revenue was modest, the deficit increased further and reached the level of Rls 339 billion.

The financing data (Table 17), derived from the monetary accounts of the banking system and the external sector accounts, do not coincide with the budgetary data due to differences in timing and accounting practices, including the Central Government's practice of considering as expenditures transfers made from one government account to another government account at the Central Bank. This practice largely explains the discrepancies between the outcome as indicated by the fiscal accounts and the financing data. The data for 1977/78 show a considerable narrowing of the difference between the two sets of accounts both in absolute as well as in relative terms. The financing data reveal that during the five-year period ending 1977/78, the Government accumulated net deposits with the banking system up to 1976/77. In 1977/78, there was a turnaround as the stagnant oil revenues led the Government to resort to borrowing from the banking system to finance the deficit; net claims on the Government increased by Rls 351.4 billion as compared with a net rise in government deposits of Rls 62.8 billion in the previous year.

Table 17. Iran: Summary of Government Finances

(In billions of Iranian rials)

Year ended March 20	Actuals				Prelim.	Budget
	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79
<u>Revenues</u>	484.4	1,419.1	1,617.6	1,883.1	2,101.1	2,396.0
Oil and gas	311.3	1,205.2	1,246.8	1,421.5	1,497.8	1,541.8
Non-oil ^{1/}	153.5	189.2	335.3	414.9	536.5	714.2
Special ^{1/}	19.6	24.7	35.5	46.7	66.8	140.0
<u>Expenditures</u>	497.6	1,279.1	1,604.9	1,920.7	2,489.6	2,832.3
Current expenditures	316.8	752.5	964.8	1,094.0	1,289.8	1,750.7
Ordinary	(296.2)	(727.8)	(929.3)	(1,047.3)	(1,223.0)	(1,610.6)
Special	(19.6)	(24.7)	(35.5)	(46.7)	(66.8)	(140.0)
Development expenditures	161.2	348.7	526.8	684.1	959.4	1,231.6 ^{2/}
Foreign grants	--	2.3	1.2	3.3	3.2	...
Contingent expenditures and advance payments	--	175.6	112.1	139.3	237.2	...
Unfulfilled obligation (-)	--	--	--	--	--	-150.0
<u>Surplus (+) or deficit (-)</u>	<u>-13.2</u>	<u>140.0</u>	<u>12.7</u>	<u>-37.6</u>	<u>-388.5</u>	<u>-436.3</u>
<u>Financing items</u>	<u>-3.5</u>	<u>-302.3</u>	<u>-252.2</u>	<u>-149.4</u>	<u>308.0</u>	<u>436.3</u>
Domestic financing	-0.8	-92.1	-71.8	-61.5	368.5	379.8
Banking system (net) ^{3/}	(-8.0)	(-93.7)	(-80.3)	(-68.2)	(351.4)	(--)
Nonbank sources	(7.2)	(1.6)	(8.5)	(6.7)	(17.1)	(--)
External financing	-2.7	-210.2	-180.4	-87.9	-60.5	56.5
Net borrowing	(-1.9)	(-51.3)	(-14.0)	(7.8)	(13.9)	(136.5)
Acquisition of assets ^{4/}	(-0.8)	(-158.9)	(-166.4)	(-95.7)	(-74.4)	(-80.0)

Sources: Plan and Budget Organization; Ministry of Economic Affairs and Finance; and Bank Markazi Iran.

^{1/} Special revenues are primarily fees and user charges under the control of various ministries and agencies which are earmarked for particular uses. Expenditures financed from the revenues usually equal receipts.

^{2/} The amount for foreign grants is included in acquisition of assets (Rls 80 million), and is not available separately.

As recorded in the accounts of the Central Bank and the commercial and specialized banks.

^{4/} Includes some net foreign direct investment and net foreign loans extended.

In terms of external financing, Iran effected net repayments up to end-1975/76. In 1976/77 and 1977/78, Iran was a net borrower, but the magnitudes were relatively small. The amounts for acquisition of assets abroad, which include net foreign direct investment and net foreign loans, have been rising since 1973/74. The actual amounts disbursed for this purpose peaked in 1975/76 and were at about half that level in 1977/78.

c. The central government budget for 1978/79

The budget data for 1978/79 project a rise in the deficit to Rls 436.3 billion (Table 17). Revenues were estimated to increase by about 14 per cent, led by a projected 13 per cent and a 110 per cent increase in non-oil and in special revenues, respectively, while oil revenues were expected to rise by only 3 per cent (Tables 15 and 17). The increase in non-oil revenues was anticipated to reflect the rise in nominal income and improved collection methods. The Government is now using computers to identify companies that had not filed tax returns and is taking steps to collect tax arrears from these companies. The projected rise in special revenues reflected mainly the transfer of some social security receipts to central government agencies. On the expenditure side, the budget allocated Rls 1,750 billion for current and Rls 1,232 billion for development expenditures, representing increases of 36 per cent and 28 per cent, respectively, over the previous year (Tables 15 and 17). As the budget did not include a figure for contingent expenditures and advance payments and as it projected a shortfall of Rls 150 billion, overall expenditures were estimated to rise by 14 per cent in 1978/79. The growth in current expenditures during the first quarter has been limited to 18 per cent relative to the same quarter of the previous year and it is anticipated that the same growth rate will be maintained throughout the year. Capital expenditures, however, are anticipated to approximate budget allocations as the absorptive capacity of the economy has expanded in recent years. Capital expenditures are also to be directed to ongoing projects, aimed at further easing the physical bottlenecks, such as in electrical power, and at industries the inputs of which are not subject to physical constraints. Contingent expenditures and advance payments will be severely restricted. The actual budgetary outcome for 1978/79 is forecast to involve a somewhat smaller deficit than is provided for in the original estimates. The financing of the deficit will, like in 1977/78, rely heavily on net borrowing from the banking system. However, as contrasted with previous years, the budget anticipates a sharp rise in net foreign borrowing. This is expected to increase from Rls 13.9 billion in 1977/78 to Rls 136.5 billion in 1978/79. The net acquisition of foreign assets, which includes net foreign direct investment and net foreign loans extended, is projected to remain at about the same level as in 1977/78.

d. Government debt

The total debt of the Central Government remained relatively stable at around Rls 550 billion during the three-year period 1973/74-1975/76 (Table 18). In 1976/77 and 1977/78 there were sharp increases of 25 per cent and 40 per cent, respectively. In the former year this had resulted entirely from expanded internal gross borrowing, while in the latter year substantial internal and external gross borrowings had taken place. During 1973/74-1977/78, internal debt exhibited an upward trend, rising from Rls 280 billion to Rls 719 billion, while external debt exhibited a downward trend, falling from Rls 291 billion to Rls 178 billion in 1976/77 but reversed direction in 1977/78 and increased to Rls 253 billion. The increase in internal debt was predominantly due to the sale of government bonds with maturities ranging from two to seven years. Since end-1974/75, no Treasury bills have been outstanding or issued. The bulk of government bonds is currently held by the banking system; at end-1977/78, the Central Bank held 20 per cent and the commercial and specialized banks 68 per cent of government bonds (Appendix I, Table 45). The large share held by the commercial and specialized banks mainly reflects the regulations of the Central Bank requiring the banks to hold a proportion of their assets in government bonds. The nonbank sector held only 12 per cent of total government bonds; these were held primarily by government enterprises and agencies. The interest rate structure of government bonds has remained stable throughout this period; the rates have been 9.5 per cent on securities with two years maturity, 10 per cent on securities with five years maturity, and 10.5 per cent on securities with a seven-year maturity period. Interest payments on debt increased sharply in 1977/78, rising from Rls 27 billion to Rls 66.3 billion, as a result of the surge in government debt during 1976/77 and 1977/78.

Table 18. Iran: Government Debt

(In millions of Iranian rials)

Year ended March 20	1973/74	1974/75	1975/76	1976/77	1977/78
<u>Debt outstanding</u>					
Internal debt	<u>279.6</u>	<u>305.3</u>	<u>368.4</u>	<u>516.2</u>	<u>719.4</u>
Treasury bills	--	2.9	--	--	--
Government bonds ^{1/}	184.1	181.9	279.9	395.1	580.7
Other ^{2/}	95.5	120.5	88.5	121.1	138.7
External debt	<u>290.7</u>	<u>219.1</u>	<u>188.7</u>	<u>178.1</u> ^{3/}	<u>253.0</u> ^{3/}
Total debt	570.3	524.4	557.1	694.3	972.4

Source: Bank Markazi Iran.

^{1/} Includes net holdings by nonbank public.

^{2/} Other loans and advances by the banking system.

^{3/} Preliminary data subject to change.

e. The public enterprises

The operations of public enterprises have expanded at a rapid pace in recent years, reflecting the increased availability of financial resources following the sharp rises in oil prices in 1973 and 1974. The operating surpluses were substantial, rising from Rls 160 billion in 1973/74 to Rls 418 billion in 1976/77 (Table 19). During this period, almost all of the operating surpluses were transferred to the Central Government as its profit share. In turn, the Central Government provided grants for capital formation which covered a high proportion of capital formation. Throughout this period, the overall outcome of the operations of public enterprises was in near balance and, as a result, the level of domestic and foreign financing was relatively small. In 1976/77, total financing amounted to about 1 per cent of total revenues and grants.

Actual data for 1977/78 are not available. However, the budgetary projections indicated a continued fast expansion in both the revenues and expenditures of public enterprises accompanied by a decline in the operating surplus. During 1977/78, the net change in claims of the banking system on public enterprises declined substantially, reflecting mainly large transfers from the Government. The budget figures showed that Rls 539 billion would be received as grants from the Government during 1977/78 as compared with Rls 220.3 billion in 1976/77. The budget also indicated a substantial increase in foreign borrowing. The budgetary estimates for 1978/79 project a continuation of these trends for revenues and expenditures which are projected to rise, respectively, by nearly 38 per cent and 34 per cent over the 1977/78 budget levels. The operating surplus is projected to increase substantially and the overall deficit to decline marginally to Rls 120 billion. This is to be financed by recourse to foreign borrowing.

2. Money and banking

a. Introduction

The banking system in Iran comprises the Central Bank, 26 commercial banks, 7 specialized banks, and 3 regional development banks. The assets of the banking system have expanded at a fast pace in recent years; during 1973/74-1977/78, they grew at an average annual rate of 46 per cent. This growth was shared almost equally by the Central Bank, the commercial banks, and the specialized banks. At end-1977/78, the Central Bank accounted for 36.9 per cent of the assets of the banking system, the commercial banks for 49.2 per cent, the specialized banks for 13.8 per cent, and the regional development banks for 0.1 per cent.

The Central Bank of Iran was established in 1961, in accordance with the Monetary and Banking Law of 1960, with all the usual central banking functions. The Law was revised in 1972, expanding the Central Bank's powers to supervise and regulate the banking system. The Central Bank is, among other things, empowered to license, audit, and supervise the operations of all banks, to determine interest rates on deposits and loans, to set legal reserve requirements, to impose credit ceilings on banks, and to regulate the sectoral distribution of credit.

Table 19. Iran: Operations of Government Companies and Nonfinancial Public Enterprises^{1/}

(In billions of Iranian rials)

Year ended March 20	Actuals				Budget	
	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79
I. <u>Revenue and grants</u>						
1. Current revenue	341.0	1,254.7	1,624.0	2,021.8	2,326.9	3,203.0
a. Operating revenue	276.9	1,139.6	1,380.5	1,780.8	1,736.1	3,351.1
b. Other receipts ^{2/}	261.3	1,128.5	1,365.6	1,649.6	1,692.0	3,314.5
b. Other receipts ^{2/}	15.6	11.1	14.9	131.2	44.1	36.6
2. Capital revenue ^{2/}	--	--	--	--	--	--
3. Grants	64.1	115.1	243.5	241.0	590.8	851.9
a. Government current allocation	4.0	15.2	30.9	20.7	51.6	150.6
b. Government capital allocation	60.1	99.9	212.6	220.3	539.2	701.3
II. <u>Expenditure</u>						
1. Current expenditure	305.3	1,242.6	1,643.4	2,045.5	2,474.1	3,322.8
a. Operating expenditure	206.3	1,085.6	1,371.3	1,583.5	1,618.4	2,264.8
b. Less: depreciation reserves	120.2	207.2	320.0	263.0	694.9	815.0
c. Other expenditure	-19.2	-23.9	-27.7	-31.7	-44.3	-80.8
Taxes ^{3/}	105.3	902.3	1,079.0	1,352.2	967.8	1,530.0
Dividends	(12.7)	(43.6)	(41.4)	(42.8)	(45.3)	(61.3)
Government profit share ^{4/}	(3.8)	(8.3)	(8.7)	(4.1)	(2.0)	(2.9)
Other	(85.9)	(845.7)	(1,023.6)	(1,300.1)	(914.9)	(1,457.8)
Other	(2.9)	(4.7)	(5.3)	(5.2)	(5.6)	(8.0)
2. Capital expenditure	99.0	157.0	272.1	462.0	855.7	1,058.6
III. <u>Operating surplus (I.1.a-II.1.a+II.1.b)</u>	160.3	945.2	1,073.3	1,418.3	1,041.4	2,580.0
IV. <u>Current account surplus (I.1-II.1)</u>	70.6	54.0	9.2	197.3	117.7	1,086.9
V. <u>Total surplus or deficit (-) (I-II)^{2/}</u>	35.7	12.1	-19.4	-23.7	-147.2	-119.8
VI. <u>Financing</u>						
1. Domestic sources	-35.7	-12.1	19.4	23.7	147.2	119.8
a. Domestic borrowing (net)	-38.1	-16.2	4.5	-20.2	49.8	-0.6
Utilization	-2.8	1.0	6.0	37.4	54.2	16.1
Repayment	(5.5)	(10.5)	(18.6)	(53.1)	(90.5)	(51.3)
b. Current assets (net) ^{6/}	(-8.3)	(-9.5)	(-12.6)	(-15.7)	(-36.3)	(-35.2)
Utilization	-35.3	-17.2	-1.5	-57.6	-4.4	-16.7
Increase	(3.7)	(27.4)	(52.5)	(8.8)	(40.5)	(19.3)
Increase	(-39.0)	(-44.6)	(-54.0)	(-66.4)	(-44.9)	(-36.0)
2. Foreign sources	2.5	4.1	16.5	44.1	97.2	120.4
a. Borrowing	5.1	9.6	19.6	47.9	103.3	130.5
b. Repayment	-2.6	-5.5	-3.1	-3.8	-6.1	-10.1
3. Discrepancy	-0.1	0.0	-1.6	-0.2	0.2	0.0

Sources: Plan and Budget Organization and Bank Markazi Iran.

^{1/} Excludes the operations of the Central Bank of Iran, National Bank of Iran, Laborers' Welfare Bank, Insurance Bank of Iran, Industrial Credit Bank, Agricultural Cooperative Bank and the Iran Insurance Company.

^{2/} Data on sales of capital assets and other capital receipts are assumed to be included in "Other Receipts."

^{3/} Data by type of tax or taxing authority are not available.

^{4/} Consists primarily of royalties, balancing margins, and bonus payments made to the National Iranian Oil Company which, after the deduction of 2 per cent for the company's reserves, are transferred to the Central Government.

^{5/} In the absence of separate data any changes in inventories are included as financing under "Current Assets."

^{6/} Assumed to be entirely domestic.

Within the commercial banking system, a few institutions account for the preponderant share of assets. These are Bank Melli, Bank Sepah, Bank Saderat Iran, and Bank Bazergani. The commercial banks are predominantly owned by the private sector, with foreign participation in some cases. Bank Melli, the largest commercial bank, as well as Bank Sepah, Bank Bimeh Iran, and Bank Rejah Kargaran, are owned by the Government. With a total number of 7,617 commercial bank branches, Iran has an average of 213 branches per one million inhabitants, a considerably higher density of banks than many countries.

Of the seven specialized banks operating in Iran,^{1/} three, the Industrial Credit Bank, the Agricultural Cooperative Bank and the Mortgage Bank, are government owned. There is foreign participation in two, the Industrial and Mining Development Bank and the Development and Investment Bank.

The functions that the specialized banks perform differ considerably from those of the commercial banks. Commercial banks accept demand, time, and savings deposits, and provide mostly short-term lending. Their main sources of funds are the deposits. By comparison, specialized banks lend mainly on a long-term basis (five years or more) and have equity participation in new undertakings. Furthermore, the scope of lending activities of each specialized bank is circumscribed by its own area of specialization. The sources of funds of the specialized banks, some of which accept time and savings deposits, are mostly their own capital, government loans and deposits, and borrowing from abroad. The commercial and specialized banks also differ in the interest rates they pay for their funds and charge borrowers. In general, specialized banks receive low interest, long-term loans and deposits from the Government and charge a lower interest rate for their loans than commercial banks.

The three regional development banks in Khazar, Azarbiajan, and Khuzestan, were established in 1976 with the objective of promoting economic development in the provinces by providing loans for industrial, agricultural, construction, and transportation projects. Each of the three banks has a registered capital of Rls 1 billion and a paid-up capital of Rls 500 million. The shares of these banks are owned by the Agricultural Development Bank, the Industrial and Mining Development Bank, and the Ministry of Industry and Mines. The regional development banks receive loans from these institutions as well as from the Central Bank. Although they currently account for a very minor proportion of the total assets of the banking system, the assets of the regional banks have increased rapidly, rising from Rls 158 million at end-1975/76 to Rls 6.4 billion at end-1977/78. At end-1977/78, the regional banks had

^{1/} The specialized banks are: (1) the Industrial and Mining Development Bank of Iran (IMDBI); (2) the Industrial Credit Bank (ICB); (3) the Development and Investment Bank of Iran (DIBI); (4) the Agricultural Cooperative Bank (ACB); (5) the Agricultural Development Bank (ADB); (6) Bank Rhani (Mortgage Bank of Iran); and (7) Bank Sakhteman (Construction Bank).

extended Rls 5.5 billion in credit to the private sector and Rls 0.9 billion in credit to the Central Government. In addition to their capital, their funds consisted of credit from the Central Bank as well as loans, credits, and administered funds from the ACB, IMDBI, and the Ministry of Industry and Mines (Appendix I, Table 51).

Although not considered a part of the banking system, there were five savings and housing loan associations in operation at end-1977/78. These associations accept time and savings deposits, on which they pay the same interest rates as the commercial banks, and provide ten-year mortgages subject to certain limitations. At end-1977/78, almost 63 per cent of their liabilities were in the form of time and savings deposits and about 78 per cent of their assets consisted of credit extended to the private sector (Appendix I, Table 56). Although their assets, at Rls 67 million at end-1977/78, were extremely small relative to the assets of the banking system, these associations grew rapidly in 1977/78 and are anticipated to continue to expand at a fast pace.

b. Monetary developments

Monetary developments can be analyzed in the context of two different presentations. In the traditional presentation, the change in domestic liquidity (money and quasi-money) is shown as caused by the change in credit to the private sector, in net claims on the public sector, in net foreign assets, and in net unclassified liabilities. In the alternative presentation, the change in domestic liquidity is shown principally as reflecting the impact of the financial operations of the public and the private sectors. The monetary impact of the private sector's operations consists of the sum of the balance of payments outcome of the private sector and the change in credit to the private sector. The net domestic expenditures of the public sector is equal to the domestic expenditures minus the domestic revenues minus domestic nonbank financing of the public sector. This is equivalent to the balance of payments outcome of the public sector plus the change in net claims of the banking system on the public sector.^{1/} A detailed derivation of the alternative presentation from the traditional presentation is given in Appendix II.

The analysis in this section is based on the alternative presentation (Table 20) since, in countries like Iran where the Government receives a large proportion of its revenues in foreign exchange, the alternative presentation reflects more meaningfully the impact of the operations of the public and private sectors on domestic liquidity. While the traditional presentation (Appendix I, Table 46) may show that net claims on the public sector are declining, the net domestic expenditures of the public sector financed by foreign receipts can be contributing to the expansion in domestic liquidity. Similarly, even though credit to the

^{1/} Some further items under "other items (net)," such as import deposits of the public sector in Iran, may be included in determining net domestic expenditures.

private sector may be expanding, the overall monetary impact of private sector operations may be contractionary if the balance of payments deficit of the private sector is sufficiently large to offset the increase in private sector credit. During 1973/74-1977/78, monetary developments in Iran reflected in the main the expanded level of net domestic expenditures. Throughout this period, the net domestic expenditures of the public sector exhibited a strong upward trend contributing to the expansion in domestic liquidity while the private sector had an increasingly contractionary impact. The policies of the Central Bank during this period have aimed at constraining the growth in private sector credit in an attempt to restrain the growth in domestic liquidity.

In 1974/75 the rate of growth of domestic liquidity peaked at 57 per cent, reflecting a more than doubling in the net domestic expenditures of the public sector.^{1/} The monetary impact of the private sector's operations was contractionary to a minor degree as the balance of payments deficit of the private sector, which tripled, barely offset the expansion in private sector credit. At the beginning of 1974, the Central Bank had taken measures to constrain the growth in private sector credit. The Central Bank set credit ceilings instructing each commercial bank to limit its private sector lending to 30 per cent above the end-1973/74 level, revised the import deposit structure, and imposed a 15 per cent reserve requirement for commercial bank net short-term foreign liabilities in order to discourage external borrowing by commercial banks. However, by the start of the fourth quarter, a shortage of commercial bank liquidity emerged, constraining the banks' ability to finance Iran's expanded import requirements. Consequently, the Central Bank eased monetary policy; the legal reserve requirements were lowered to 25 per cent for demand deposits and to 12 per cent for time and savings deposits. In addition, government bond purchase requirements, which had been introduced in 1972, were reduced. This easing in monetary policy toward the end of the year allowed for the acceleration in the rate of growth of credit to the private sector to 43 per cent.

During 1975/76, the rate of increase in public net domestic expenditures started to level off while the net injection of liquidity due to private sector operations became increasingly contractionary. As a result, the rate of growth in domestic liquidity decelerated to 47 per cent. Within the private sector, it was the sharp increase in its balance of payments deficit that offset the record 55 per cent rise in credit to the private sector. This rise occurred in spite of the measures taken by the Central Bank during 1975/76 in efforts to stem the acute inflationary pressures that had emerged. Government bond purchase requirements for time and savings deposits were raised from 30 per cent to 45 per cent of the increase in these deposits until a ratio of 40 per cent, instead of 30 per cent, was reached. This was coupled with the requirement that 45 per cent of the increase in time and savings deposits was to be held in government securities of up to two years' maturity.

^{1/} In this section, net domestic expenditures are adjusted to include public sector import deposits and, as such, represent the net injection of liquidity due to public sector operations. See Appendix II.

Table 20. Iran: Factors Affecting Changes in Money and Quasi-Money--Alternative Presentation

(In billions of Iranian rials)

Year ended March 20	1973/74	1974/75	1975/76	1976/77	1977/78
A. <u>Changes in money and quasi-money</u>	<u>116.4</u>	<u>294.3</u>	<u>335.3</u>	<u>448.0</u>	<u>503.5</u>
B. <u>Public sector net domestic expenditures,^{1/} of which:</u>	<u>213.8</u>	<u>501.2</u>	<u>594.2</u>	<u>810.3</u>	<u>1,017.8</u>
Public sector balance of payments (surplus)	(223.9)	(654.0)	(485.8)	(799.4)	(828.0)
Change in claims on public sector	(-0.7)	(-26.8)	(41.2)	(19.7)	(227.1)
Change in public sector import deposits	(-16.6)	(-127.6)	(58.7)	(-15.5)	(-54.4)
C. <u>Monetary impact of private sector</u>	<u>-9.4</u>	<u>-91.0</u>	<u>-151.8</u>	<u>-214.2</u>	<u>-307.5</u>
Private sector balance of payments (deficit -) ^{2/}	-138.9	-301.4	-539.7	-638.3	-659.7
Change in claims on private sector	129.5	210.4	387.9	424.1	352.2
D. <u>Changes in net unclassified bank liabilities</u> <u>(increase -)^{3/}</u>	<u>-47.5</u>	<u>-113.0</u>	<u>-102.5</u>	<u>-84.9</u>	<u>-140.9</u>
E. <u>Discrepancy^{4/}</u>	<u>-40.5</u>	<u>-2.9</u>	<u>-4.8</u>	<u>-63.2</u>	<u>-65.9</u>

Source: Bank Markazi Iran and staff calculations.

^{1/} Derived as the sum of public sector net foreign exchange receipts, as recorded in the Foreign Exchange Receipts and Payments Statement (Table 22) and the increases in net bank claims on the public sector (including public sector import deposits) and nonbank holdings of government bonds. Data in U.S. dollars in the Foreign Exchange Receipts and Payments table were converted into Iranian rials at the average daily selling spot rates for foreign exchange receipts and average daily purchasing spot rates for foreign exchange payments.

^{2/} Includes errors and omissions.

^{3/} Excludes public sector import deposits.

^{4/} Discrepancy between changes in money and quasi-money as presented in the aggregate balance sheets of the banking system (line A) and as derived from lines B, C and D. The discrepancy arises from differences in accounting definitions and practices in the monetary and foreign exchange receipts and payments accounts.

Legal reserve requirements for time and savings deposits were raised to 15 per cent and for commercial bank short-term foreign liabilities to 30 per cent. In addition, a ceiling for private sector credit expansion by commercial banks was set at 40 per cent above the end-1974/75 level, but its application was eased during the year.

During 1976/77, the rate of growth of domestic liquidity slowed down to about 39 per cent reflecting the strong contractionary impact of the private sector which offset in part the sharp rise in public net domestic expenditures. The contractionary impact of the private sector resulted from the rise in its balance of payments deficit made possible in part by the easing of physical constraints. Furthermore, the rate of expansion of private sector credit dropped to 39 per cent. This was achieved mainly through the use of credit controls. For 1976/77, the Central Bank set credit ceilings of 25 per cent on private sector commercial bank credit above the end-1975/76 level, although in the course of the year it granted approval to certain banks to increase private credit by 30 per cent. The credit ceilings for specialized banks were set at 42 per cent above the end-1975/76 level. In addition, in November 1976 the rediscount rate was increased to 9 per cent from 7 per cent for industrial and agricultural papers and from 8 per cent for other papers.

The Central Bank continued its efforts to achieve a slowdown in the growth of credit to the private sector in 1977/78 and the Government adopted a more restrained fiscal policy with a view to reducing further the demand pressures in the economy at a time when price controls started to be relaxed. The Central Bank set for 1977/78 credit ceilings for commercial banks at 20 per cent and for specialized banks at 35 per cent above the end-1976/77 levels. This measure was accompanied by an increase in the rediscount rate to 10 per cent, a one percentage point increase in interest rates on loans, and a one percentage point increase in interest rates on time and savings deposits. Credit expansion to the private sector was limited to 23 per cent during 1977/78 as compared with 39 per cent a year earlier. While credit to the private sector from the specialized banks exceeded the ceiling, commercial bank credit, which increased by only 18 per cent, did not reach the ceiling. For commercial banks, there were factors operating on both the supply and demand sides. On the supply side, the commercial banks adopted a cautious stance in lending mainly due to the uncertainty with regard to real estate prospects. On the demand side, the slowdown in the economic activity of the non-oil sector as well as the decline in real estate speculation tended to dampen the demand for loans. This contrasted with the performance of specialized banks as their concentration on financing long-term investment led to a surge in the demand for their loans toward the last quarter of the year reflecting the pickup in economic activity. The lower rate of expansion in private sector credit for the year as a whole was coupled with a small increase in the balance of payments of the private sector. As a result, the contractionary impact of the private sector increased to Rs 308 billion as compared with Rs 214 billion in the previous year. This was coupled with a slowdown in the rate of increase of the net domestic expenditures of the public sector to 26 per cent from 36 per cent a year earlier. As a result, the rate of growth of domestic liquidity dropped to 32 per cent.

The slowdown in the rate of monetary expansion reflected developments during the first three quarters of 1977/78. Money and quasi-money grew by 14 per cent in the first three quarters as compared with 25 per cent in the same period of the previous year. However, mainly as a result of economic activity in the last quarter of 1977/78, which led to a sharp rise in specialized banks' private sector credit, domestic liquidity expanded by nearly 16 per cent in that quarter as compared with about 11 per cent in the same quarter of the previous year. The Central Bank is continuing to pursue a tight credit policy in 1978/79 relying in the main on quantitative credit controls. A ceiling on commercial bank private sector lending for 1978/79 has been set at 20 per cent above the end-1977/78 level and for specialized banks at 25 per cent.

For the period 1973/74-1977/78 as a whole, the expansion in domestic liquidity exceeded substantially the rate of growth of real non-oil GDP. Real non-oil GDP grew at an average annual rate of about 13 per cent while the annual growth rate of domestic liquidity averaged about 40 per cent per year. This contributed materially to the average increase in the non-oil GDP deflator of almost 17 per cent per year. Statistical analysis suggests that the liquidity created during this five-year period has been substantially absorbed.

c. Distribution of credit

The share of credit by the banking system for the agricultural, industrial, and construction sectors has evidenced a rising trend during 1973/74-1977/78 (Table 21), rising from 39.1 per cent to 51.2 per cent. Each of these sectors has also witnessed a rise in its share. The share of credit to the agricultural sector rose from 7.7 per cent to 9.7 per cent, to the industrial sector from 18.7 per cent to 24.9 per cent, and to the construction sector from 12.7 per cent to 16.6 per cent. This relative increase in credit for productive activities reflects in part faster expansion in the activities of specialized banks than those of the commercial banks. Credit extended by the specialized banks grew by nearly 50 per cent per year during this five-year period (Appendix I, Table 53) as compared with an average annual growth rate of about 35 per cent in private sector credit extended by the commercial banks. Credit to the industrial sector led the growth in credit, growing at an average annual rate of nearly 48 per cent. It was followed by the growth in credit to construction, which averaged 46 per cent per year, while credit to the agricultural sector grew by about 43 per cent per year. Credit for domestic trade, exports, imports, and other activities grew at slower rates.

Table 21. Iran: Distribution of Credit to the Private Sector^{1/}
(In billions of Iranian rials)

Year ended March 20	1973/74	1974/75	1975/76	1976/77	1977/78
Domestic trade	139.7	173.8	271.0	361.2	457.1
Exports	23.2	22.3	38.0	22.2	36.2
Imports	57.8	112.0	136.8	166.7	166.7
Agriculture	37.3	62.6	94.0	131.1	175.1
Industry	90.8	144.1	190.3	368.9	449.4
Construction	61.7	85.4	147.8	237.8	299.9
Other	76.2	91.7	190.6	176.9	220.6
Total	<u>486.7</u>	<u>691.9</u>	<u>1,068.5</u>	<u>1,464.8</u>	<u>1,805.0</u>

Source: Bank Markazi Iran.

^{1/} Credits to the private sector by the commercial and specialized banks. The data include bills of exchange and exclude domestic investments and undertakings of the banks.

d. The capital market

The Tehran Stock Exchange was established in 1968. The exchange deals in corporate equities and government and municipal bonds. Since its inception, the growth of the Stock Exchange has been constrained by a lack of interest on the part of the public in the acquisition of financial assets and the small number of financial instruments available in the market. There are over 80 companies listed in the Exchange and, while transactions in government bonds account for nearly 50 per cent of the total Stock Exchange transactions, most of these bonds are held by the banking system as part of their reserve requirements on time and savings deposits.

The Government has in recent years taken various measures that will contribute to the development of the domestic capital market. First, there is the industrial share redistribution program instituted in 1975, which is expected to have a substantial impact on the growth of the stock market over the long run as one requirement of the program is that participating firms list their shares on the Stock Exchange. Second, the Government participated in the establishment of the National Investment Company of Iran (NICI) in 1976, a private mutual fund providing financial services such as portfolio management, security analysis, and financial consulting. NICI's shares are listed on the Stock Exchange. Third, the Central Bank encouraged in 1976 the commercial and specialized banks in Iran to participate in the establishment of the Iranian Banks' Investment Company (IBIC) and the Iranian Banks' Construction Investment Company (IBCIC), each capitalized at Rls 1.5 billion. Two thirds of the initial capital of each company has been subscribed by the founding banks, while the residual shares are being sold to the general public; the founding banks have purchased shares in these new companies equivalent in value to 1-2 per cent of their reserves with the Central Bank. The objective of the companies is to facilitate the channeling of some financial resources of the commercial banks into long-term lending for industrial, agricultural and construction purposes. Both IBIC and IBCIC are permitted by their articles of incorporation to borrow from the banking system and to float bonds in the domestic capital market in order to supplement their financial resources. Fourth, the Government in July 1976 altered the Revised Trade Law to permit interest on all corporate bonds issued by public joint stock companies listed on the Stock Exchange to be received tax free.

III. The External Sector

1. Balance of payments^{1/}

a. Overall balance of payments developments

During 1973/74-1977/78 Iran's balance of payments performance has been characterized by a surge in oil exports, sharply increasing imports of goods and services, and stagnating non-oil exports. Nonmonetary capital outflows, which increased sharply during 1974/75 and 1975/76, declined in 1976/77. A net capital inflow was recorded in 1977/78.

After registering a record overall surplus of over SDR 4 billion in 1974/75 on account of a 270 per cent increase in oil prices, Iran registered an overall deficit of about SDR 830 million in 1975/76 (Table 22). This turnabout was caused primarily by a 53 per cent increase in import payments, while receipts from the oil sector remained relatively stable as prices rose only marginally and the volume of oil exported declined slightly. Net service payments also rose sharply. Consequently, the current account surplus declined from SDR 7.0 billion in 1974/75 to SDR 2.5 billion in 1975/76. At the same time, net capital outflows rose by 60 per cent in response to a doubling of disbursements of loans and investments abroad on the basis of commitments made during the previous year.

In 1976/77 receipts from the oil sector rose by 13 per cent, reflecting mainly the increase in oil prices. Import payments, on the other hand, grew by only 4 per cent, mainly due to transportation bottlenecks. As a result, even though non-oil exports increased only marginally and net service payments continued to expand rapidly, the current account surplus increased by 48 per cent to SDR 3.6 billion. This was accompanied by a decline of 40 per cent in net capital outflows, reflecting lower levels of foreign lending and investments. Iran's loans and investments abroad were curtailed by 24 per cent, while at the same time drawings on foreign lines of credit were doubled. Iran also received repayments of its loans abroad, amounting to about SDR 450 million. Reflecting these factors, Iran's balance of payments registered a surplus of over SDR 2.7 billion in contrast to a deficit in the previous year.

^{1/} The principal statistics relating to developments in the external sector are the statement on foreign exchange receipts and payments (Table 22) and the balance of payments (Appendix I, Table 57). The discussion in this section is based on the foreign exchange receipts and payments statement which is believed to be more current and accurate than the balance of payments statement. Apart from differences in coverage and timing, the main difference between the two statements is that the former treats the foreign-owned oil companies as nonresident, while the latter treats these companies as resident. Moreover, oil exports are valued at posted prices or official sales prices in the balance of payments rather than at actual market prices.

Table 22. Iran: Summary of Foreign Exchange Receipts and Payments

(In millions of SDRs)^{1/}

Year Ended March 20	1973/74	1974/75	1975/76	1976/77	1977/78
A. Receipts from oil exports^{2/}	<u>4,027</u>	<u>15,302</u>	<u>15,771^{3/}</u>	<u>17,806</u>	<u>17,557</u>
B. Other goods and services	<u>-3,735</u>	<u>-8,256</u>	<u>-13,321</u>	<u>-14,179</u>	<u>-16,356</u>
Exports	526	573	543	569	666
Imports	-4,119	-8,793	-13,410	-13,958	-15,214
Private sector ^{4/}	(-2,248)	(-4,156)	(-6,374)	(-6,873)	(-7,240)
Public sector	(-1,871)	(-4,637)	(-7,036)	(-7,085)	(-7,974)
Services (net)	-142	-36	-454	-790	-1,808
of which: interest payments	(-189)	(-274)	(-260)	(-261)	(-313)
C. Total (A + B)	<u>292</u>	<u>7,046</u>	<u>2,450</u>	<u>3,627</u>	<u>1,201</u>
D. Nonmonetary capital	<u>767</u>	<u>-1,636</u>	<u>-2,608</u>	<u>-1,552</u>	<u>851</u>
Official loans and credits (net)	625	-1,821	-2,410	-1,238	589
Drawings	(1,074)	(212)	(251)	(487)	(1,486)
Loans principals received back	(—)	(—)	(—)	(449)	(467)
Repayments	(-448)	(-1,085)	(-609)	(-618)	(-577)
Loans and investments	(-1)	(-948)	(-2,052)	(-1,556)	(-787)
Private capital (net)	142	185	-198	-314	262
E. Errors and omissions^{5/}	<u>-520</u>	<u>-996</u>	<u>-672</u>	<u>688</u>	<u>-104</u>
F. Overall balance	<u>539</u>	<u>4,414</u>	<u>-830</u>	<u>2,763</u>	<u>1,948</u>
G. Monetary movements (increase -)^{6/}	<u>-539</u>	<u>-4,414</u>	<u>830</u>	<u>-2,763</u>	<u>-1,948</u>
Foreign exchange holdings	-436	-3,378	1,648	-2,758	-2,040
Bank Markazi long-term loans	-100	—	—	—	—
IMF account	—	-445 ^{7/}	-540 ^{7/}	—	—
Use of SDRs	-3	-8	-10 ^{9/}	-5	-7
Other	—	-583 ^{8/}	-268 ^{9/}	—	99

Source: Bank Markazi Iran.

^{1/} U.S. dollars converted as follows, SDR 1.00: for 1973/74 = US\$1.20635; for 1974/75 = US\$1.21048; for 1975/76 = US\$1.19659; for 1976/77 = US\$1.15061; and for 1977/78 = US\$1.181037.

^{2/} Excludes rial purchases from the Iranian Oil Service Company and the Joint Venture Company which are incorporated in services (net).

^{3/} Includes the receipt of SDR 1,146 million from foreign owned oil companies which was due in 1974/75.

^{4/} Includes imports of nonmonetary gold.

^{5/} Includes discrepancies between the balance of payments outcome and changes in the net foreign assets of the banking system arising out of the use of different rates to convert monetary data from rials to SDRs. Also includes nonrecurrent transfers.

^{6/} Excluding changes in the net foreign assets of the specialized banks.

^{7/} Contributions to the Fund's oil facilities.

^{8/} Including SDR 247.5 million deposit with the Bank for International Settlements, SDR 43.2 million in foreign government securities, and SDR 288.7 million of the IBRD bonds.

^{9/} Net investments in new foreign government securities.

In 1977/78 the balance of payments registered an overall surplus of SDR 1.9 billion, about 30 per cent lower than in the previous year. This was due to a steep decline in the current account surplus, which resulted from a 9 per cent increase in imports, while receipts from the oil sector stagnated, coupled with a 130 per cent rise in net service payments. The decline in the current account surplus was somewhat cushioned by a reversal in the capital account which, after having experienced large net outflows in the previous three years registered a surplus of SDR 851 million in 1977/78. The turnaround on the capital account was caused by a 50 per cent decline in Iran's lending and investments abroad and a more than tripling of drawings on foreign loans. For the first time in several years, private capital also registered a net inflow.

b. Imports

Iran's imports during 1973/74-1977/78 have grown at a fast rate, reflecting the growth of domestic demand generated by increased income and the relaxation of import controls including the reduction in commercial benefit taxes.^{1/} Imports grew at an average annual rate of 81 per cent during the three-year period, 1973/74-1975/76. The growth of imports slowed down to less than 10 per cent in 1976/77 (Table 23) due to transportation bottlenecks. As these bottlenecks were largely eased by end-1976/77, imports rose by 14 per cent in 1977/78 on the basis of preliminary data, even though there was a slackening in the pace of economic activity. Since the import price index increased significantly only in 1974/75, the increase in the value of imports during the last five years has been mainly because of a higher volume of imports. While imports of both the public and private sectors increased rapidly, the share of the public sector in total imports increased sharply in 1974/75 to 53 per cent, from 45 per cent in the previous year on account of expanded state trading operations and higher defense-related imports. During the following three-year period, 1975/76-1977/78, the share of public sector imports averaged 52 per cent of the total.

Commodity composition of nondefense imports, which had remained broadly unchanged up to 1974/75, underwent a change starting 1975/76 when the shares of consumer and capital goods increased from 15 per cent and 20 per cent to 17 per cent and 30 per cent, respectively. The share of intermediate goods declined from around 65 per cent to 53 per cent (Table 23, and Appendix I, Table 58). In 1977/78 the share of consumer goods further increased to 19 per cent, while the share of capital goods declined to 28 per cent. The increase in the imports of consumer goods was mainly due to the increase in imports of food products, including beverages, which rose to 14 per cent of the total imports in 1977/78, from 9 per cent in 1973/74.

^{1/} See the next section on the Exchange and Trade System in Iran for details of import controls.

Table 23. Iran: Imports and Import Payments

(In millions of SDRs)^{1/}

Year ended March 20	1973/74	1974/75	1975/76	1976/77	Prelim. 1977/78
Imports ^{2/}	<u>3,098</u>	<u>5,464</u>	<u>9,774</u>	<u>10,922</u>	<u>12,325</u>
Consumer goods	462	839	1,667	1,876	2,342
Intermediate goods	1,885	3,525	5,192	5,806	6,569
Capital goods	751	1,100	2,915	3,240	3,414
Balance of payments adjustment ^{3/}	<u>871</u>	<u>2,218</u>	<u>3,065</u>	<u>3,111</u>	<u>3,615</u>
Total imports ^{4/}	3,969	7,682	12,839	14,033	15,940
Import payments ^{5/}	<u>4,119</u>	<u>8,793</u>	<u>13,410</u>	<u>13,958</u>	<u>15,214</u>
Private sector	2,246	4,147	6,272	6,647	7,189
Public sector	1,871	4,637	7,036	7,085	7,861
Nonmonetary gold	2	9	102	226	164

Source: Bank Markazi Iran.

1/ See Table 22, footnote 1.

2/ Imports according to customs returns and including oil sector imports.

3/ Mainly addition of military and other imports not reported in trade returns.

4/ Imports according to the balance of payments. (Total imports under A and B in Appendix I, Table 57.)

5/ Based on the foreign exchange receipts and payments statement and including imports financed by foreign loans.

The growth in capital goods imports was generated by higher imports of transportation equipment, machinery, and tools, whose share in total imports rose from an average of 35 per cent in 1973/74-1974/75 to 44 per cent during the next three years. This was primarily a reflection of the growth of the domestic manufacturing sector. The decline in the share of intermediate goods imported resulted from the stepped-up import substitution which led to a slowdown in the imports of chemical products, paper, semifinished textiles, and metals. Their share fell from 43 per cent in 1973/74-1974/75 to an average of 37 per cent during the next three years.

c. Exports

The non-oil export receipts (including gas exports) which grew at an average annual rate of 3 per cent during the four-year period, 1973/74-1976/77, rose by about 17 per cent in 1977/78 on account of higher exports of traditional goods (Table 22). In view of the fact that world prices of Iran's non-oil exports grew considerably during the last five years, the slow growth in their value reflected a decline in the volume exported. This was caused mainly by higher domestic demand. The share of these exports in total export receipts has remained more or less unchanged at about 3 per cent during the last four years. The authorities have recently introduced various measures to promote non-oil exports. These include subsidized provision of credit and port facilities, lower freight rates, and customs duties refunds.^{1/}

Excluding gas exports, whose share in non-oil export receipts has increased from 14 per cent in 1973/74 to 24 per cent in 1977/78, the structure of the other non-oil exports, which comprises traditional and agricultural goods, minerals, and industrial products, has remained more or less unchanged during the last four years. These exports declined in value from SDR 526 million in 1973/74 to SDR 469 million in 1976/77 before rising by 21 per cent to SDR 567 million in 1977/78 (Table 24). This increase took place despite an 11 per cent decline in the exports of industrial products and was due mainly to much faster increases in the exports of agricultural goods and minerals which constitute about 75 per cent of the other non-oil exports.

d. Direction of trade

Iran's direction of trade has remained more or less unchanged over the last five years. The share of the European Economic Community countries in Iran's imports, which stood at 43 per cent in 1973/74, declined slightly over the next two years, before rising to an average of 42 per cent during 1976/77 and 1977/78 (Appendix I, Table 59).

^{1/} For details, see the next section on the Exchange and Trade System.

Table 24. Iran: Commodity Composition of Non-Oil Exports^{1/}
(In millions of SDRs)^{2/}

Year Ended March 20	1973/74	1974/75	1975/76	1976/77	Prelim. 1977/78
<u>Traditional and agricultural goods</u>	<u>419</u>	<u>318</u>	<u>346</u>	<u>328</u>	<u>401</u>
Carpets	90	98	88	82	77
Cotton	124	71	114	106	91
Fresh and dried fruits	78	59	62	61	113
Skin and leather	24	23	24	28	35
Caviar	7	6	6	--	8
Casings	7	7	10	9	10
Gum tragacanth	8	5	4	3	3
Cumin seed	3	5	4	5	7
Other	78	44	34	33	57
<u>Mineral and metal ores</u>	<u>20</u>	<u>27</u>	<u>27</u>	<u>9</u>	<u>49</u>
<u>New industrial products</u>	<u>87</u>	<u>135</u>	<u>122</u>	<u>132</u>	<u>117</u>
Detergents and soap	5	10	18	17	16
Glycerine and chemicals	13	18	16	27	25
Shoes	9	6	8	5	10
Vegetable shortening	5	3	--	--	--
Ready-made clothes, knitwear and textiles	24	37	24	23	27
Cement, building stones and mosaic	6	3	2	2	2
Motor vehicles	10	18	24	21	15
Other	15	40	30	37 ^{3/}	22 ^{3/}
<u>Total^{4/}</u>	<u>526</u>	<u>480</u>	<u>495</u>	<u>469</u>	<u>567</u>

Source: Bank Markazi Iran.

1/ Exports according to customs returns.

2/ See Table 22, footnote 1.

3/ Including unclassified exports.

4/ Excluding exports of gas.

The share of the United States, on the other hand, rose from 13 per cent in 1973/74 to 20 per cent during 1974/75-1975/76, before declining to 16 per cent during the next two years. Japan, the third main supplier of Iran's imports, increased its share from 15 per cent in 1973/74 to 17 per cent in 1976/77, before declining to 15 per cent in 1977/78. Other important suppliers included Switzerland, the U.S.S.R., Australia, and India, which together accounted for 8 per cent of total imports in 1977/78.

During the five-year period, 1973/74-1977/78, the two most important destinations of Iran's non-oil exports were the U.S.S.R. and the Federal Republic of Germany, which absorbed on average 16 per cent each of such exports, followed by the United States which accounted for about 9 per cent (Appendix I, Table 60). Iran's bilateral trade partners, which included seven CMEA countries and the People's Republic of China, continued to account for the largest, though declining, share of Iran's exports; their share declined from the all-time high of 33 per cent in 1975/76 to 22 per cent in 1977/78. On the other hand, the share of other neighboring Middle Eastern countries has grown to 14 per cent in 1977/78 from 6 per cent in 1973/74.

e. Capital movements

In response to the expanded current account surpluses due to expanded oil export receipts, Iran significantly enlarged its loans, investments, and grants program in 1974/75 when it increased disbursements under this program by almost SDR 1 billion, of which SDR 835 million was for loans and grants (Table 22). These disbursements more than doubled in 1975/76. Thereafter, in view of the reduced current account surpluses, the disbursements were rolled back, and in 1976/77 they were 24 per cent less than in the previous year. They declined by another 49 per cent to SDR 787 million in 1977/78.

The increase in current account surpluses also resulted in a revision of Iran's external debt policy. In view of larger current receipts, drawings on existing loans were drastically cut, and repayment of existing outstanding debt was accelerated. Drawings in 1974/75 were reduced to 20 per cent of their level in the previous year, while repayments were raised by 142 per cent, thus reducing the outstanding public external debt by 25 per cent in that year (Table 25). This policy was pursued until 1977/78 when a slowdown in the current account receipts and the need for additional developmental expenditures necessitated recourse to foreign borrowing. Consequently, drawings on foreign loans increased threefold in 1977/78 to almost SDR 1.5 billion, thus reversing the capital outflows of the previous three years to net inflows. The total outstanding public external debt therefore increased to over SDR 3 billion. In view of the expanded current receipts, the debt service ratio has been declining and stood at 3 per cent in 1977/78, compared to 12 per cent in 1973/74.

Table 25. Iran: Drawings and Servicing of Public Sector External Debt^{1/}
(In millions of SDRs)^{2/}

Year Ended March 20	1973/74	1974/75	1975/76	1976/77	1977/78
A. Disbursements	1,074	212	251	487	1,486
B. Repayments	448	1,085	609	618	576
C. Net inflow (A-B)	626	-873	-358	-131	910
D. Outstanding debt at the end of the year ^{3/}	3,526	2,653	2,295	2,164	3,074
E. Interest payment	167	218	205	171	176
F. Debt service (B+E)	615	1,303	814	789	752
G. Debt service ratio ^{4/}	(12)	(7)	(4)	(3)	(3)

Sources: Bank Markazi Iran and Budget Organization.

^{1/} External debt with maturity of over one year, including debt with repayment in foreign exchange and in goods, but excluding debt with repayment in local currency. Central Bank borrowing is not included.

^{2/} See Table 22, footnote 1.

^{3/} These data, which include most debt operations of the Ministry of War, differ slightly from data on outstanding debt from other sources due to differences in coverage.

^{4/} Debt service payments as proportion of the total gross current receipts of foreign exchange.

Data on external public debt by creditors and maturity structure are available only for debt guaranteed or contracted by the Ministry of Economic Affairs and Finance and exclude borrowing by the Ministry of War. Available information indicates that at March 20, 1978 the U.S.S.R. was the largest creditor of Iran, providing 20 per cent of the total disbursed debt, followed by the United States which accounted for 15 per cent (Appendix I, Table 61). Other important creditors included the Federal Republic of Germany (12 per cent of total), France and the IBRD (9 per cent each), and the United Kingdom (4 per cent). The maturity structure, which had started shifting away from long-term to short- and medium-term loans in 1974/75, continued on the same trend. As of March 20, 1978 almost 18 per cent of the disbursed debt had a maturity period of more than one and up to five years, compared with 10 per cent at end-1976/77, and 84 per cent of outstanding disbursed debt had maturities up to 15 years (Appendix I, Table 62).

f. International reserves

Total net foreign assets rose sharply during the five-year period, 1973/74-1977/78 and stood at about SDR 10 billion at the end of 1977/78 (Table 26). The gross reserves of the monetary authorities, including lending to the Oil Facility, during this period rose at an annual average rate of about 80 per cent to almost SDR 10 billion or the equivalent of seven months of current payments of 1977/78. Foreign liabilities of the monetary authorities, including the net debtor position under bilateral payments arrangements, continue to be small. The net foreign liabilities of both commercial banks and specialized banks, which had grown rapidly through 1975/76, declined sharply in the following two years and stood at SDR 60 million and SDR 119 million, respectively, in 1977/78.

2. Exchange and trade system

Iran's regulations governing current payments are liberal. Considerable protection is provided to domestic industry and import restrictions were intensified somewhat during the last year. The official exchange rate policy also underwent a change; procedures followed since 1975 to adjust the rial/U.S. dollar rate were abandoned. While regulations governing the dual exchange market have remained unchanged, the share of the noncommercial market in the total foreign exchange transactions has increased and was accompanied by expanded central bank sales in this market.

a. Exchange system^{1/}

Effective February 12, 1975 the Iranian rial was pegged to the SDR at the equivalent of Rls 82.2425 per SDR with wider margins. The U.S. dollar, the intervention currency, is the only currency that is quoted. The authorities followed a procedure whereby the rial/U.S. dollar rate

^{1/} For a more detailed description of the exchange system and regulations governing payments and receipts, see IMF, 29th Annual Report on Exchange Restrictions, 1978, pp. 240-3.

was changed whenever the U.S. dollar/SDR rate, and consequently the implied rial/SDR rate, moved and remained outside the margins of 2.25 per cent around the fixed rate for five consecutive business days. A steady appreciation of the U.S. dollar during the period February 12, 1975 and June 3, 1976 necessitated 20 changes in this rate, resulting in the rial's depreciation against the dollar by about 6 per cent. Subsequently, however, the relative stability of the U.S. dollar allowed the rial/U.S. dollar rate to remain more or less unchanged until late 1977 when the depreciation of the U.S. dollar necessitated a slight appreciation of the rial to maintain the actual rial/SDR rate within the margins. The import-weighted exchange rate of the rial, on the other hand, after appreciating somewhat in the last half of 1976, experienced depreciation of about 7.7 per cent during 1977, most of which occurred in the last half of the year. In December 1977 alone it depreciated by 2.8 per cent.

On December 14, 1977 Iran discontinued the procedure followed since February 1975 to change the rial/U.S. dollar rate whenever the actual rate remained outside the margins for five consecutive business days. In further pursuance of the objective to avoid making frequent changes in the rial/U.S. dollar rate, the margins of 2.25 per cent were enlarged to 7.25 per cent with effect from April 1, 1978. The actual rial/SDR rate based on the U.S. dollar/SDR rate exceeded the upper margin starting on July 24, 1978. Iran abolished this margin effective July 31, 1978. No changes were made in the rial/U.S. dollar rate during the first seven months of 1978.

A dual exchange market system has been in operation within the banking system since January 1974. It consists of a commercial market where the official rial/U.S. dollar rate prevails and a noncommercial market where exchange rates can, in principle, fluctuate freely in response to market conditions. Active intervention by the Bank Markazi Iran in the latter market, however, through sales of foreign exchange to influence the rate and easy intermarket transfer transactions, have resulted in a virtually single market with identical exchange rates, except for a few months after the introduction of the dual market. The foreign exchange proceeds received by the public sector (mainly oil revenues) and, in principle, payments for imports and certain services such as travel, study, and medical treatment abroad, are settled in the commercial market, while all other transactions not authorized for the commercial market, including certain invisible payments and capital transactions, are settled in the noncommercial market. The size of the noncommercial market, which stood at about US\$2.0 billion in 1975/76, more than doubled to US\$4.2 billion or 20 per cent of total foreign exchange transactions in 1977/78, mainly because of higher nonfactor service payments, private capital outflows, and remittances by foreign workers in Iran. During the same period, the Bank Markazi Iran's sales of U.S. dollars to this market expanded from US\$700 million in 1975/76 or about 30 per cent of the size of the market to US\$2.1 billion in 1977/78 or 50 per cent of the transactions settled through it.

Table 26. Iran: Foreign Assets and Liabilities
of the Monetary Authorities^{1/}

(In millions of SDRs)

Year Ended March 20	1973/74	1974/75	1975/76	1976/77	1977/78
Total foreign assets (net)	<u>1,326</u>	<u>5,776</u>	<u>5,289</u>	<u>8,217</u>	<u>9,954</u>
Monetary authorities foreign assets (net) ^{1/}	<u>1,763</u>	<u>6,373</u>	<u>6,501</u>	<u>8,881</u>	<u>10,133</u>
Foreign assets	<u>1,775</u>	<u>6,536</u>	<u>6,668</u>	<u>9,102</u>	<u>10,360</u>
Gold	131	131	131	142	139
Holdings of SDRs	37	45	61	63	69
Reserve position in the Fund, of which:	48	493	1,038	998	966
Oil Facility	(—)	(445)	(990)	(930)	(900)
Foreign exchange	1,559	5,867 ^{2/}	5,438 ^{3/}	7,899	9,186
Foreign liabilities	<u>-34</u>	<u>-117</u>	<u>-103</u>	<u>-16</u>	<u>-215</u>
Bilateral balances (net)	<u>22</u>	<u>-46</u>	<u>-64</u>	<u>-205</u>	<u>-12</u>
Commercial banks (net)	<u>-145</u>	<u>-269</u>	<u>-541</u>	<u>-353</u>	<u>-60</u>
Specialized banks (net)	<u>-292</u>	<u>-328</u>	<u>-671</u>	<u>-311</u>	<u>-119</u>

Source: Bank Markazi Iran.

^{1/} Includes lending to the Fund under the Oil Facility.

^{2/} Includes SDR 247 million deposit with the Bank for International Settlements and SDR 43 million in foreign government securities.

^{3/} Includes SDR 281 million in foreign government securities.

Apart from the officially authorized commercial and noncommercial exchange markets within the banking system, certain exchange transactions take place in the bazaar market outside the banking system. The rates quoted in this unofficial market are identical or very close to the rates quoted in the noncommercial market.

b. Commercial policy

Iran's commercial policy has been primarily aimed at, on the one hand, providing sufficient protection to domestic producers to promote import substitution and, on the other hand, ensuring adequate supplies in the domestic market. In view of the increased budgetary financing needs over the last year, commercial policy measures are also being used to generate larger government revenues. The main instruments used for achieving these objectives include a system of prior approval for imports, commercial benefit taxes, state trading, and bilateral trade and payments agreements. Between 1974/75 and 1976/77 restrictions on imports were considerably eased in order to facilitate the flow of imports to Iran. In 1977/78, however, there was some reversal in this trend, as the number of items subject to prior approval of the Ministry of Commerce was increased while changes in commercial benefit taxes more or less cancelled each other out. At the same time, state trading was extended to the imports of iron and steel, which were to be effected through the Foreign Transactions Company, a subsidiary organization of the Ministry of Commerce. Imports of certain agricultural products through the State Trading Agency, the organization supporting producers and consumers, were also made subject to surcharges. The list of items subject to prior approval remained unchanged under the new trade regulations for 1978/79, with the exception of certain cotton textiles, the import of which was banned. At the same time, commercial benefit taxes have been raised on a large number of commodities, including petrochemical products, iron and steel, textiles, cement, tires, nonmetallic mineral products such as ceramics, and electric cables and wires, and lowered on two commodities. The increases were prompted by revenue and protection considerations.

Iran has continued to pursue a policy aimed at promoting non-oil exports. The instruments being used at present for this purpose are directed at reducing cost of production in order to facilitate the competitiveness of Iran's exports abroad. Apart from dissemination of information on market potential abroad, the policy includes reduced charges by the Government for the use of port facilities, lower freight charges, subsidized credit facilities for exporters through the Bank Markazi Iran, and an export guarantee scheme which includes a guaranteed fund to insure exporters against financial risks which are not covered under normal insurance contracts. In addition, the Iranian exporters of manufactured goods are granted rebates of customs duties paid on imported inputs contained in exports, as well as reductions in and exemptions from income taxes.

c. Trade and payments arrangements

Iran maintains 10 bilateral payments arrangements,^{1/} one of which is with Romania, a Fund member. These payments arrangements take the form of reciprocal clearing accounts, denominated in U.S. dollars or Iranian rials and maintained by the Bank Markazi Iran and the central bank or an appropriate state bank in the partner country. In addition, Iran has a clearing arrangement with Pakistan and Turkey within the framework of the Regional Cooperation for Development (RCD). It is proposed to create by 1986 a free trade zone encompassing the three countries, through a gradual reduction of tariff and nontariff barriers. In this context, tariff cuts of 10 per cent have been proposed for 15 broad groups of manufactured commodities covered by this arrangement.

After declining at an annual average rate of 52 per cent during the period 1974/75-1976/77, Iran's aggregate payments balance with bilateral trade partners improved considerably in 1977/78, when the overall deficit declined by 25 per cent to SDR 79 million (Table 27). This improvement was essentially because of a more than halving of Iran's net debtor position with the U.S.S.R. and the two RCD countries. The net debtor position also improved somewhat with the People's Republic of China and Poland. However, the payments position with Czechoslovakia and Romania continued to worsen.

Iran is a member of the Asian Clearing Union (ACU) which is a monetary arrangement between central banks of seven member countries.^{2/} It is aimed at providing a facility to settle, on a multilateral basis, payments for current international transactions among member countries by encouraging the use of participants' currencies in settlements and, thus, effecting economies in the use of their exchange reserves. Settlements for trade in crude oil, gas, their products, and capital are not handled by the ACU. In 1977 payments channeled through the ACU more than tripled to SDR 68 million, which was about 1 per cent of total transactions among the member countries. At the same time, in 1977 Iran's net debtor position rose to SDR 10.5 million from SDR 2.3 million during the previous year.

d. Capital

Regulations governing capital movements have remained unchanged. In accordance with the Law for the Attraction and Protection of Foreign Investment in Iran (1955) and regulations implementing the Law, foreign capital invested in approved development or productive activities in industry, mining, agriculture, or transport may be repatriated together with net profits in the form of foreign exchange and/or goods. Since October 12, 1975 foreign participation in domestic enterprises has become subject to ceilings; in investment activities involving special technological requirements, foreign participation is limited to 35 per cent.

^{1/} These include seven CMEA countries, North Korea, and the People's Republic of China. Iran signed an agreement with Turkey on July 5, 1978 which provides for sale of oil on credit by Iran valued at US\$150 million, the payments for which are secured by all payments that may be made to Turkey from Iran.

^{2/} Bangladesh, Burma, India, Iran, Nepal, Pakistan, and Sri Lanka. The ACU is operated by Bank Markazi Iran.

Table 27. Iran: Balances under Bilateral Payments Agreements and RCD Agreements^{1/}

(In thousands of SDRs)^{2/}

	Swing Limits	1973/74	1974/75	1975/76	1976/77	1977/78
Bilateral agreements	<u>23,365</u>	<u>25,832</u>	<u>-42,125</u>	<u>-60,407</u>	<u>-95,018</u>	<u>-74,837</u>
Bulgaria	2,500	-6,979	-2,393	-17,444	-5,301	-5,284
China, People's Rep. of	2,431	549	-6,721	-579	-13,684	-11,159
Czechoslovakia	2,072	-2,677	-7,400	-4,850	-16,409	-18,674
Germany, Democratic Rep. of	2,797	-3	2,015	-879	-313	-2,908
Hungary ^{3/}	2,072	1,141	-2,290	-3,263	-3,003	4,688
North Korea	730	--	264	522	267	755
Poland	2,487	-3,000	-8,010	-5,044	-10,458	-6,197
Romania ^{4/}	2,901	12,473	7,065	-3,385	-14,861	-23,78
U.S.S.R.	5,803	24,328	-24,655	-25,485	-31,256	-12,27
RCD	<u>3,316</u>	<u>-3,475</u>	<u>-3,445</u>	<u>-3,709</u>	<u>-9,626</u>	<u>-4,026</u>
Pakistan	1,658	...	-560	-887	-5,884	-994
Turkey	1,658	...	-2,885	-2,822	-3,742	-3,032
Total (net)	<u>26,681</u>	<u>22,357</u>	<u>-45,570</u>	<u>-64,116</u>	<u>-104,644</u>	<u>-78,863</u>

Source: Bank Markazi Iran.

1/ Minus sign indicates Iran's position as debtor; no sign indicates Iran's position as creditor.

2/ See Table 22, footnote 1.

3/ There are also seasonal credits of US\$3 million extended by Iran to Hungary.

4/ Additional credit facilities exist: special credits of US\$3 million; seasonal credits of US\$5 million; and supplementary credits of US\$9 million extended by Romania to Iran.

Table 28. Iran: Industrial Origin of Gross Domestic Product

(In billions of Iranian rials at constant 1974/75 prices)

Year ended March 20	1973/74	1974/75	1975/76	1976/77	1977/78 ^{1/}
Agriculture	286.5	303.3	324.0	341.7	339.0
Oil	1,450.6	1,441.6	1,264.5	1,384.6	1,284.9
Industry	387.7	436.8	535.8	615.2	668.8
Manufacturing and mining	(264.4)	(312.9)	(364.2)	(418.1)	(455.9)
Construction	(101.7)	(98.2)	(141.6)	(163.7)	(176.3)
Water and power	(21.6)	(25.7)	(30.0)	(33.4)	(36.6)
Services	749.6	889.1	1,025.0	1,171.1	1,283.0
Transport and communication	(81.8)	(99.2)	(125.8)	(138.4)	(144.0)
Banking and insurance	(103.2)	(137.2)	(172.7)	(194.9)	(208.7)
Trade	(141.8)	(158.7)	(190.2)	(220.3)	(241.1)
Ownership and dwellings	(124.6)	(133.1)	(143.5)	(155.5)	(168.4)
Public services	(225.8)	(276.6)	(295.3)	(351.9)	(402.3)
Private services	(72.4)	(84.3)	(97.5)	(110.1)	(118.5)
Gross domestic product (factor cost)	2,874.4	3,070.8	3,149.3	3,512.6	3,575.7
Net indirect taxes	92.0	89.0	100.1	84.1	112.4
Gross domestic product (market prices)	2,966.4	3,159.8	3,249.4	3,596.7	3,688.1
<u>Memorandum item:</u>					
Gross domestic product (factor cost)					
Non-oil sector	1,423.8	1,629.2	1,884.8	2,128.0	2,290.8

Source: Bank Markazi Iran.

^{1/} Preliminary.

Table 29. Iran: Industrial Origin of Gross Domestic Product
(In billions of Iranian rials at current prices)

Year ended March 20	1973/74	1974/75	1975/76	1976/77	1977/78 ^{1/}
Agriculture	234.4	303.3	333.9	426.3	485.0
Oil	587.5	1,441.6	1,375.8	1,678.1	1,658.0
Industry	332.4	436.8	621.1	860.2	1,145.5
Manufacturing and mining	(231.9)	(312.9)	(382.8)	(490.1)	(621.8)
Construction	(78.9)	(98.2)	(208.3)	(335.8)	(485.9)
Water and power	(21.6)	(25.7)	(30.0)	(34.3)	(37.8)
Services	629.3	889.1	1,146.6	1,488.4	1,903.8
Transportation and communication	(77.9)	(99.2)	(131.7)	(150.7)	(191.5)
Banking and insurance	(85.9)	(137.2)	(202.1)	(265.9)	(359.2)
Trade	(116.1)	(158.7)	(201.0)	(261.7)	(323.5)
Ownership and dwellings	(115.5)	(133.1)	(164.5)	(209.9)	(281.5)
Public services	(167.1)	(276.6)	(345.5)	(480.0)	(587.7)
Private services	(66.8)	(84.3)	(101.8)	(120.2)	(160.4)
Gross domestic product (factor cost)	1,783.6	3,070.8	3,477.4	4,453.0	5,192.3
Net indirect taxes	77.3	89.0	111.6	109.6	173.4
Gross domestic product (market prices)	1,860.9	3,159.8	3,589.0	4,562.6	5,365.7
<u>Memorandum item:</u>					
Gross domestic product (factor cost)					
Non-oil sector	1,196.1	1,629.2	2,101.6	2,774.9	3,534.3

Source: Bank Markazi Iran.

^{1/} Preliminary.

Table 30. Iran: Use of Resources

(In billions of Iranian rials at constant 1974/75 prices)

Year ended March 20	1973/74	1974/75	1975/76	1976/77	1977/78 ^{1/}
1. Consumption expenditures	1,447.0	1,785.9	1,998.2	2,079.4	2,215.7
Private sector	(1,019.1)	(1,157.6)	(1,275.7)	(1,283.4)	(1,429.7)
Public sector	(427.9)	(628.3)	(722.5)	(796.0)	(786.0)
2. Gross domestic fixed capital formation	456.8	562.0	880.9	1,022.6	1,069.9
Private sector	(200.4)	(225.2)	(420.9)	(490.6)	(439.0)
Public sector	(256.4)	(336.8)	(460.0)	(532.0)	(630.9)
3. Consumption plus gross domestic capital formation	1,903.8	2,347.9	2,879.1	3,102.0	3,285.6
4. Exports of goods and nonfactor services	1,502.2	1,479.7	1,318.0	1,469.2	1,378.9
5. Total domestic expenditures and exports (3+4) = Supply (6+7+8)	3,406.0	3,827.6	4,197.1	4,571.2	4,664.5
6. Imports of goods and nonfactor services	504.6	667.8	986.2	1,083.2	1,250.8
7. Statistical error	-65.0	--	-38.5	-108.7	-274.4
8. Gross domestic product (market prices)	2,966.4	3,159.8	3,249.4	3,596.7	3,688.1
9. Net factor income	-65.9	-6.1	3.6	18.1	-41.6
10. Gross national product (market prices)	2,900.5	3,153.7	3,253.0	3,614.8	3,646.5
11. Terms of trade adjustment	-585.7	--	-38.3	94.0	152.9
12. Gross national income (market prices) (adjusted)	2,314.8	3,153.7	3,214.7	3,708.8	3,799.4

Source: Bank Markazi Iran.

^{1/} Preliminary.

Table 31. Iran: Use of Resources

(In billions of Iranian rials at current prices)

Year ended March 20	1973/74	1974/75	1975/76	1976/77	1977/78 ^{1/}
1. Consumption expenditures	1,208.9	1,785.9	2,197.9	2,586.0	3,245.5
Private sector	(883.5)	(1,157.6)	(1,390.5)	(1,582.4)	(2,171.7)
Public sector	(325.4)	(628.3)	(807.4)	(1,003.6)	(1,073.8)
2. Gross domestic fixed capital formation	363.3	562.0	1,065.6	1,427.4	1,789.8
Private sector	(160.4)	(225.2)	(521.6)	(684.4)	(725.6)
Public sector	(202.9)	(336.8)	(544.0)	(743.0)	(1,064.2)
3. Consumption plus gross domestic capital formation	1,572.2	2,347.9	3,263.5	4,013.4	5,035.3
4. Exports of goods and nonfactor services	643.4	1,479.7	1,430.0	1,780.0	1,817.6
5. Total domestic expenditures and exports (3+4) = supply (6+7)	2,215.6	3,827.6	4,693.5	5,794.2	6,852.9
6. Imports of goods and nonfactor services	354.7	667.8	1,104.5	1,231.6	1,487.2
7. Gross domestic product (market prices)	1,860.9	3,159.8	3,589.0	4,562.6	5,365.7
8. Net factor income	-24.5	-6.1	4.3	20.4	-54.1
9. Gross national product (market prices)	1,836.4	3,153.7	3,593.3	4,583.0	5,311.6

Source: Bank Markazi Iran.

^{1/} Preliminary.

Table 32. Iran: Wholesale Price and Cost of Living Indices

(1974/75 = 100)

Year ended March 20	Weights	1973/74	1974/75	1975/76	1976/77	1977/78	Quarterly Averages								
							1976/77				1977/78				1978/79
							Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Wholesale price index	100.0	85.5	100.0	105.3	119.5	136.9	112.9	114.5	121.0	129.5	135.0	133.4	135.4	143.6	149.7
Domestically produced and consumer goods	(67.9)	(84.3)	(100.0)	(105.9)	(123.0)	(142.2)	(116.1)	(116.8)	(123.9)	(135.0)	(141.5)	(137.6)	(139.7)	(149.8)	(156.1)
Imported goods	(29.0)	(89.0)	(100.0)	(104.0)	(110.7)	(124.1)	(105.5)	(108.5)	(113.4)	(115.4)	(118.9)	(122.8)	(125.4)	(129.4)	(135.5)
Exported goods	(3.1)	(92.4)	(100.0)	(103.5)	(125.2)	(140.5)	(113.0)	(119.7)	(128.1)	(139.9)	(143.3)	(140.8)	(137.0)	(140.8)	(142.4)
Cost of living index	100.0	86.6	100.0	109.9	128.1	160.2	119.4	121.8	130.2	140.9	154.2	158.5	161.2	166.9	173.5
Of which: food, beverages and tobacco	(37.6)	(83.9)	(100.0)	(105.7)	(118.7)	(142.2)	(118.3)	(111.1)	(116.3)	(128.9)	(139.9)	(133.7)	(139.1)	(156.2)	(...)
Housing and fuel	(22.8)	(83.7)	(100.0)	(118.9)	(159.1)	(216.9)	(133.1)	(150.0)	(171.0)	(182.1)	(206.0)	(227.1)	(222.6)	(212.0)	(...)
House furnishing and household operation	(8.7)	(84.1)	(100.0)	(115.3)	(128.3)	(146.5)	(121.3)	(124.0)	(129.6)	(138.1)	(143.1)	(144.2)	(147.5)	(151.3)	(...)
Clothing	(12.9)	(88.9)	(100.0)	(108.9)	(121.1)	(146.6)	(112.2)	(116.3)	(123.0)	(133.0)	(139.1)	(143.9)	(149.0)	(154.4)	(...)

Source: Bank Markazi Iran.

Table 33. Iran: Index of Wages, Salaries and Fringe Benefits of Employees of Large Manufacturing Establishments^{1/}

(1974/75 = 100)

Year ended March 20	Annual Averages		Quarterly Averages						
	1975/76	1976/77	1976/77				1977/78		
			Q1	Q2	Q3	Q4	Q1	Q2	Q3
Food, beverages and tobacco ^{2/}	144.9	188.0	156.9	173.6	187.6	234.0	193.2	224.4	223.5
Textiles, clothing and leather products	134.1	168.2	137.8	154.3	157.2	223.7	166.0	174.6	180.1
Wood and wood products	143.1	202.1	165.4	184.5	182.9	275.7	192.4	202.1	207.5
Paper and paper products	165.1	216.8	177.3	201.7	207.2	280.9	239.3	259.6	271.2
Chemical, basic materials and products	144.4	201.5	173.0	178.7	196.8	257.4	224.6	251.1	256.8
Nonmetal mining products (except oil and coal)	151.2	216.8	172.8	210.5	199.8	283.9	247.9	281.7	264.2
Basic metals	120.3	162.9	152.0	156.9	158.4	184.4	178.9	192.0	192.4
Fabricated metal products, machinery and equipment	157.4	233.6	172.9	215.8	214.0	331.9	246.1	266.1	282.8
Cotton ginning	103.3	146.1	74.3	87.7	258.9	163.4	88.8	93.0	279.5
Overall index ^{3/}	142.8	195.3	158.8	180.6	185.4	256.4	206.3	226.1	231.5

Source: Bank Markazi Iran.

^{1/} Industries classified according to ISIC code.

^{2/} Not including wages, salaries and fringe benefits paid to employees of slaughter houses and of the sugar industry.

^{3/} Weighted according to value of output of each industry.

Table 34. Iran: Employment in Main Economic Sectors

Year ended March 20	1973/74	1974/75	1975/76	1976/77
	(In thousands)			
Agriculture	3,677	3,642	3,485	3,418
Oil	50	50	60	62
Industry	2,894	3,193	3,119	3,300
Manufacturing and mining	(2,035)	(2,184)	(2,141)	(2,285)
Construction	(776)	(925)	(887)	(915)
Water and power	(83)	(84)	(91)	(100)
Services	2,841	2,854	3,043	3,199
Transport and communication	(448)	(488)	(555)	(593)
Commerce and banks	(831)	(835)	(890)	(931)
Other services	(1,562)	(1,531)	(1,598)	(1,675)
Total	<u>9,462</u>	<u>9,739</u>	<u>9,707</u>	<u>9,979</u>
	(In per cent of total)			
Agriculture	38.9	37.4	35.9	34.3
Oil	0.5	0.5	0.6	0.6
Industry	30.6	32.8	32.1	33.1
Manufacturing and mining	(21.5)	(22.4)	(22.1)	(22.9)
Construction	(8.2)	(9.5)	(9.1)	(9.2)
Water and power	(0.9)	(0.9)	(0.9)	(1.0)
Services	30.0	29.3	31.4	32.0
Transport and communication	(4.7)	(5.0)	(5.7)	(5.9)
Commerce and banks	(8.8)	(8.6)	(9.2)	(9.3)
Other services	(16.5)	(15.7)	(16.5)	(16.8)
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Imperial Government of Iran, Plan and Budget Organization, Information Division, Economic Trends of Iran (fifth edition), March 1978.

Table 35. Iran: Agricultural Value Added by Sector
(In billions of Iranian rials at constant 1974/75 prices)

Year ended March 20	1973/74	1974/75	1975/76	1976/77	1977/78 ^{1/}
Arable farming	187.0	197.1	208.1	220.4	209.6
Livestock	90.7	97.2	106.4	111.7	118.1
Forestry	6.8	7.1	7.8	7.6	9.0
Fishing	2.0	1.9	1.7	2.0	2.3
Total	286.5	303.3	324.0	341.7	339.0

Source: Bank Markazi Iran.

^{1/} Preliminary.

Table 36. Iran: Production of Principal Agricultural Crops

(In thousand tons)

Year ended March 20	1973/74	1974/75	1975/76	1976/77	1977/78 ^{1/}
Wheat	4,600	4,700	5,500	6,000	5,500
Barley	923	863	1,400	1,500	1,230
Rice	1,334	1,313	1,430	1,600	1,400
Cotton (unginned)	615	715	470	510	535
Sugar beets	4,240	4,300	4,670	5,200	4,150
Oilseeds	57	79	100	130	105
Green tea	93	96	80	88	116
Tobacco	15	14	15	19	15

Source: Ministry of Agriculture and Rural Development.

^{1/} Preliminary.

Table 37. Iran: Selected Data on Rural Cooperatives

Year ended March 20	1973/74	1974/75	1975/76	1976/77	1977/78
Number of rural cooperatives	2,717	2,847	2,858	2,886	2,925
Number of members of rural cooperatives (in thousands)	2,263	2,488	2,685	2,868	2,983
Capital of rural cooperatives (in millions of Iranian rials)	3,857	4,678	5,690	6,962	8,385

Sources: Land Reform Organization, and Ministry of Agriculture and Rural Development.

Table 38. Iran: Petroleum Production and Exports

(In million barrels)

	1973	1974	1975	1976	1977
<u>Crude oil production</u>	<u>2,139.3</u>	<u>2,197.9</u>	<u>1,952.7</u>	<u>2,153.0</u>	<u>2,066.9</u>
OSCO ^{1/} (Consortium)	1,968.1	2,022.9	1,779.5	1,980.6	1,861.1
NIOC (Naft-e-Shah)	6.1	6.6	6.2	6.7	6.4
Other companies	165.1	168.4	167.0	165.5	199.4
<u>Exports</u>	<u>2,026.9</u>	<u>2,061.8</u>	<u>1,807.6</u>	<u>1,981.9</u>	<u>1,853.6</u>
Crude oil	1,926.5	1,959.8	1,705.4	1,903.7	1,780.1
OSCO	(1,701.8)	(1,699.4)	(1,427.5)	(1,424.5)	(1,172.0)
NIOC ^{2/}	(58.1)	(92.6)	(111.8)	(312.7)	(414.5)
Other companies ^{3/}	(166.6)	(167.8)	(166.1)	(166.4)	(193.6)
Refined products ^{4/}	100.4	102.0	102.2	78.2	73.5

Source: National Iranian Oil Company.

^{1/} OSCO is the Iranian Oil Service Company.

^{2/} Includes exports by NIOC of oil produced by OSCO.

^{3/} Includes the share of NIOC from joint ventures.

^{4/} Exports of refined products by NIOC.

Table 39. Iran: Refinery Output

(In million barrels per annum)

	1973	1974	1975	1976	1977	Capacity 1978
Abadan refinery	149.7	155.9	159.0	160.5	177.5	230.0
Teheran refinery (I and II) ^{1/}	32.5	34.1	57.4	64.0	71.7	81.0
Kermanshah refinery	5.8	6.2	5.7	6.7	6.3	6.5
Shiraz refinery	2.2	12.3	12.1	14.7	15.3	16.0
Masjid-I-Sulaiman topping plant	10.2	7.7	5.0	6.8	6.7	24.0
Lavan topping plant ^{2/}	--	--	--	--	3.6	7.0
Isfahan refinery ^{3/}	--	--	--	--	--	36.5
Tabriz refinery	--	--	--	--	--	29.2
Total	200.4	216.2	239.2	252.7	281.1	430.2
<u>Memorandum item:</u>						
Total capacity		245.0			364.5	430.2

Sources: National Iranian Oil Company and the Iranian Oil Service Company.

^{1/} Teheran refinery II, with a capacity of 44 million barrels per annum, started to operate in 1975.

^{2/} The Lavan topping plant began operations in March 1977.

^{3/} The Isfahan refinery will have a capacity of 73 million barrels per annum when it is in full operation.

Table 40. Iran: Foreign Exchange Receipts from the Oil Sector^{1/}
(In millions of SDRs)^{2/}

Year ended March 20	1973/74	1974/75	1975/76	1976/77	1977/78
<u>Regular receipts from export of oil</u>	<u>4,027</u>	<u>15,302</u>	<u>15,771</u>	<u>17,806</u>	<u>17,539</u>
Trading companies affiliated with the Consortium ^{3/}	3,722	13,396	14,454 ^{4/}	14,536	12,696
Joint venture companies	151	712	586	541	684
NIOC	154	1,194	731	2,729	4,159
<u>Rial purchases</u>	<u>178</u>	<u>123</u>	<u>153</u>	<u>142</u>	<u>92</u>
Iranian Oil Service Company	40	...	...	...	...
Joint venture companies	138	123	153	142	92
<u>Special receipts and payments (net)</u>	<u>-196</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Advance payments - Iranian Oil Service Company (net)	-196	--	--	--	--
Total	4,009	15,425	15,924	17,948	17,631
<u>Memorandum item:</u>					
Regular receipts from the oil sector as percentage of total current foreign exchange earnings	(69)	(89)	(86)	(84)	(81)

Source: Bank Markazi Iran.

^{1/} The presentation in this table follows the statement on Foreign Exchange Receipts and Payments, Table 22, in which the foreign-owned oil companies are treated as nonresidents.

^{2/} Converted at the rates given in footnote 1, Table 22.

^{3/} Includes payments of the balancing margin by the trading companies affiliated with the Consortium.

^{4/} Includes the receipt of SDR 1.146 million which was due in 1974/75.

Table 41. Iran: Direction of Petroleum Exports by OSCO^{1/}

(In per cent of total)

	1973	Crude Oil				Petroleum Products				
		1974	1975	1976	1977	1973	1974	1975	1976	1977 ^{2/}
Western Europe	41.2	44.5	46.6	41.6	43.3	4.9	14.0	15.3	1.0	7.8
Japan	34.9	26.9	27.1	18.9	16.4	14.8	14.4	14.0	7.2	13.1
Asia (except Japan)	7.2	5.0	2.3	7.8	9.3	19.8	21.8	22.8	33.8	32.2
Africa	3.5	5.3	6.8	13.5	7.2	19.8	12.3	10.3	4.9	3.2
North America	11.7	16.7	15.0	14.1	20.5	3.7	3.0	3.2	0.0	0.0
South America	0.3	0.5	0.4	2.1	2.3	1.2	2.0	2.7	0.4	0.0
Australia	0.2	0.2	0.7	0.9	0.7	8.6	6.8	5.7	4.6	0.4
Other areas	1.0	0.9	1.1	1.1	0.3	27.2	25.7	26.0	48.1	43.3
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: National Iranian Oil Company.

^{1/} Iranian Oil Service Company.

^{2/} First half year.

Table 42. Iran: Privately-Financed Construction Starts in Urban Areas

Year ended March 20	Annual Averages					Quarterly							
	1973/74	1974/75	1975/76	1976/77	1977/78	1976/77				1977/78			
						Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Construction starts													
Number of starts (in thousands)	72	86	87	112	124	33	35	26	18	35	35	31	23
Aggregate floor space (in million square meters)	11.8	15.4	18.9	30.1	26.5	10.9	8.7	6.4	4.0	8.3	7.3	5.5	5.3
(In thousands of Iranian rials)													
Average cost													
Per structure	673	1,027	1,863	2,919	3,979	3,204	2,686	3,064	2,637	3,154	2,559	2,304	3,248
Per square meter	4.1	5.7	8.6	10.9	13.1	9.7	11.0	12.2	11.8	13.4	12.3	12.8	14.1

Source: Bank Markazi Iran.

Table 43. Iran: Production Index for Large Manufacturing Establishments^{1/}
(1974/75 = 100)

Year ended March 20	Weights ^{2/}	Annual Averages		Average for First
		1975/76	1976/77	Three Quarters 1977/78
Food, beverages and tobacco	21.6	108.4	122.8	121.7
Slaughtering and beef products	(0.7)	105.8	108.1	114.8
Dairy products (pasteurized)	(0.8)	127.7	146.6	164.4
Vegetable oils	(2.6)	109.3	113.1	117.9
Biscuits, bakery products	(1.7)	104.0	106.9	116.4
Sugar	(5.7)	102.7	107.4	84.8
Alcoholic beverages (excluding beer)	(0.6)	93.5	120.1	138.2
Beer	(0.4)	114.0	124.7	133.8
Nonalcoholic beverages	(1.4)	126.1	180.5	282.7
Tobacco	(7.2)	108.6	129.5	113.5
Other	(0.5)	114.6	124.7	148.4
Textiles, clothing and leather products	15.9	116.0	124.6	131.5
Spinning and weaving	(13.1)	107.9	106.6	101.8
Shoes (machine made)	(1.0)	104.4	118.8	113.9
Carpets and rugs (machine made)	(0.8)	230.3	361.0	563.4
Other	(1.0)	137.2	168.3	176.2
Wood and wood products	0.5	119.5	143.0	171.3
Paper and paper products	1.7	105.2	125.0	150.0
Chemical, basic materials and products	15.3	108.6	129.7	149.4
Basic chemical materials	(4.7)	107.4	98.4	117.5
Plastic materials	(1.2)	95.8	143.0	174.4
Cosmetics and soap	(1.8)	116.7	137.6	158.9
Petroleum products (excluding refineries of NIOC)	(2.6)	102.7	128.2	138.1
Automotive tires	(1.4)	108.3	162.8	218.2
Other	(3.6)	115.1	151.2	160.1
Nonmetal, mining products (except oil and coal)	9.1	119.6	146.6	156.5
Glass	(1.1)	120.0	164.1	158.1
Brick and glazed tile	(1.4)	135.4	178.2	221.3
Cement	(4.9)	118.8	131.4	136.6
Other	(1.7)	108.4	153.8	158.9
Basic metals	10.5	108.0	112.8	137.0
Ferrous	(9.3)	110.7	116.2	146.3
Nonferrous	(1.2)	87.9	87.4	67.5
Fabricated metal products, machinery and equipment	24.7	124.7	157.3	155.4
Heavy industrial machinery	(1.3)	140.0	242.2	277.2
Household and nonhousehold machinery and equipment	(3.7)	128.4	153.4	158.4
Radio, television and telephones	(2.9)	111.2	110.4	117.9
Electrical equipment and accessories	(2.7)	120.7	147.2	158.4
Automobiles	(10.5)	126.5	154.2	141.8
Other	(3.6)	124.5	183.7	175.6
Other manufacturing industries	0.7	82.2	92.0	113.9
Cotton ginning	(0.7)	82.2	92.0	113.9
Overall index	100.0	114.5	133.7	141.3

Source: Bank Markazi Iran.

^{1/} Industries classified according to ISIC code.

^{2/} Weights are based on proportion of value added in 1974/75.

Table 44. Iran: Operations of Other Public Sector Agencies^{1/}

(In billions of Iranian rials)

Year ended March 20	Actuals				Prelim. Actual 1977/78	Budget 1978/79
	1973/74	1974/75	1975/76	1976/77		
<u>Revenues</u>	<u>18.6</u>	<u>44.0</u>	<u>52.1</u>	<u>58.5</u>	<u>90.2</u>	<u>105.0</u>
Contribution from Central Government	11.2	35.0	42.0	44.8	67.5	77.0
<u>Expenditures</u>	<u>18.6</u>	<u>44.0</u>	<u>52.1</u>	<u>58.5</u>	<u>90.2</u>	<u>105.0</u>

Sources: Plan and Budget Organization

^{1/} Includes 58 organizations, primarily charitable whose expenditures are largely financed by central government contributions and which are subject to central government approval.

Table 45. Iran: Outstanding Government Securities by Holders

(In billions of Iranian rials)

Year ended March 20	Changes						Total Outstanding 1975/76	Total Outstanding 1976/77	Total Outstanding 1977/78
	1971/72	1972/73	1973/74	1974/75	1975/76	1976/77				1977/78
<u>Treasury bills</u>	-3.0	--	2.9	-2.9	--	--	--	--	--
Central Bank	--	--	1.3	-1.3	--	--	--	--	--
Other banks	--	--	1.3	-1.3	--	--	--	--	--
Nonbank sector ^{1/}	-0.3	--	0.3	-0.3	--	--	--	--	--
<u>Defense bonds</u>	-2.8	--	--	--	--	--	--	--	--
Central Bank	-2.8	--	--	--	--	--	--	--	--
Other banks	--	--	--	--	--	--	--	--	--
Nonbank sector ^{1/}	--	--	--	--	--	--	--	--	--
<u>Government bonds^{1/}</u>	17.2	36.7	91.9	-2.2	100.0	113.2	185.6	281.9	395.1
Central Bank	1.0	20.6	69.9	-74.9	29.5	15.7	36.8	63.6	79.3
Other banks	9.8	11.2	15.1	70.8	62.0	90.8	131.7	174.7	265.5
Nonbank sector ^{1/}	6.4	4.9	6.9	1.9	8.5	6.7	17.1	43.6	50.3
<u>Total</u>	14.1	36.7	94.8	-5.1	100.0	113.2	185.6	281.9	395.1
Central Bank	-1.8	20.6	71.2	-76.2	29.5	15.7	31.8	63.6	79.3
Other banks	9.8	11.2	16.4	69.5	62.0	90.8	131.7	174.7	265.5
Nonbank sector ^{1/}	6.1	4.9	7.2	1.6	8.5	6.7	17.1	43.6	50.3

Source: Bank Markazi Iran.

^{1/} A major part is held by government enterprises and agencies and private institutions.

Table 46. Iran: Factors Affecting Changes in Money and Quasi-Money

(In billions of Iranian rials)

Year ended March 20	1973/74	1974/75	1975/76	1976/77	1977/78
<u>Money and quasi-money</u>	<u>116.4</u>	<u>294.3</u>	<u>335.4</u>	<u>448.0</u>	<u>503.5</u>
Money	44.0	124.5	119.3	164.7	179.3
Quasi-money	72.4	169.8	216.1	283.3	324.2
<u>Foreign assets (net)</u>	<u>51.7</u>	<u>351.3</u>	<u>-49.9</u>	<u>104.6</u>	<u>118.7</u>
<u>Domestic assets (net)</u>	<u>64.7</u>	<u>-57.0</u>	<u>385.3</u>	<u>343.4</u>	<u>384.8</u>
Claims on private sector	129.5	210.4	387.9	424.1	352.2
Claims on public sector (net)	-0.7	-26.8	41.2	19.7	227.9
Central Government (net) ^{1/}	(-11.6)	(-95.7)	(-80.3)	(-68.2)	(351.4)
Government agencies (net) ^{2/}	(10.9)	(66.9)	(121.5)	(87.9)	(-123.5)
Other items (net, increase -)	-64.1	-240.6	-43.8	-100.4	-195.3
Import deposits	(-27.0)	(-123.7)	(52.7)	(-23.3)	(-52.7)
Capital accounts	(-22.0)	(-72.9)	(-55.8)	(-51.6)	(-106.0)
SDR allocation	(--)	(-0.1)	(0.2)	(--)	(-0.4)
Other items	(-15.1)	(-43.9)	(-40.9)	(-25.5)	(-36.2)
<u>Changes in per cent</u>					
Money and quasi-money	(29.1)	(57.1)	(41.4)	(39.1)	(31.6)
Money	(27.7)	(61.4)	(36.5)	(36.9)	(29.3)
Quasi-money	(30.0)	(54.2)	(44.8)	(40.5)	(33.0)
Claims on private sector	(35.5)	(42.6)	(55.1)	(38.8)	(23.2)

Source: Bank Markazi Iran.

^{1/} Includes Treasury General, Ministries and their affiliated departments.^{2/} Includes government affiliated agencies, government companies and municipalities.

Table 47. Iran: Monetary Survey^{1/}

(In billions of Iranian rials)

Year ended March 20	1973/74	1974/75	1975/76	1976/77	1977/78
<u>Foreign assets (net)</u>	<u>112.2</u>	<u>463.5</u>	<u>413.6</u>	<u>518.2</u>	<u>636.9</u>
Central Bank	147.8	513.2	511.5	682.8	834.1
Commercial banks	-11.8	-22.4	-43.7	-69.5	-49.8
Specialized banks	-23.8	-27.3	-54.2	-95.1	-147.4
<u>Claims on public sector (net)</u>	<u>88.5</u>	<u>61.7</u>	<u>102.9</u>	<u>122.6</u>	<u>350.5</u>
Central Government (net) ^{2/}	66.4	-27.3	-107.5	-175.7	175.7
Claims	(246.4)	(267.3)	(326.8)	(465.9)	(652.9)
Deposits, loans, credits, and administered funds	(-180.0)	(-294.6)	(-434.3)	(-641.6)	(-477.2)
Government agencies (net) ^{3/}	22.1	89.0	210.4	298.3	174.8
Claims	(52.0)	(178.6)	(298.0)	(494.3)	(385.8)
Deposits, loans, credits, and administered funds	(-29.9)	(-89.6)	(-87.6)	(-196.0)	(-211.0)
<u>Claims on private sector</u>	<u>494.2</u>	<u>704.6</u>	<u>1,092.5</u>	<u>1,516.6</u>	<u>1,868.8</u>
Commercial banks	394.6	544.8	821.8	1,110.2	1,318.3
Specialized banks	99.6	159.8	270.5	403.5	545.0
Regional development banks	--	--	0.2	2.9	5.5
<u>Assets = Liabilities</u>	<u>694.9</u>	<u>1,229.8</u>	<u>1,609.0</u>	<u>2,157.4</u>	<u>2,856.2</u>
<u>Money</u>	<u>202.7</u>	<u>327.2</u>	<u>446.5</u>	<u>611.2</u>	<u>790.5</u>
Currency in circulation	86.4	131.2	182.2	249.2	325.5
Demand deposits	116.3	196.0	264.3	362.0	465.0
<u>Quasi-money</u>	<u>313.1</u>	<u>482.9</u>	<u>699.0</u>	<u>982.3</u>	<u>1,306.5</u>
Time deposits	156.8	248.0	348.7	499.6	660.8
Savings deposits	156.3	234.9	350.3	482.7	645.6
<u>Import deposits</u>	<u>56.8</u>	<u>180.5</u>	<u>127.8</u>	<u>151.1</u>	<u>203.8</u>
Private sector	26.1	22.2	28.2	36.0	34.3
Public sector	30.7	158.3	99.6	115.1	169.5
<u>Capital accounts</u>	<u>81.5</u>	<u>154.4</u>	<u>210.2</u>	<u>261.8</u>	<u>367.8</u>
<u>SDR allocation</u>	<u>5.1</u>	<u>5.2</u>	<u>5.0</u>	<u>5.0</u>	<u>5.4</u>
<u>Other items (net)</u>	<u>35.7</u>	<u>79.6</u>	<u>120.5</u>	<u>146.0</u>	<u>182.2</u>

Source: Bank Markazi Iran.

^{1/} Comprises the Central Bank, commercial banks, specialized banks, and regional development banks.

^{2/} Includes Treasury General, ministries and their affiliated departments.

^{3/} Includes government affiliated agencies, companies and municipalities.

Table 48. Iran: Monetary Accounts of Bank Markazi Iran

(In billions of Iranian rials)

	1973/74	1974/75	1975/76	1976/77	1977/78
Foreign assets	150.6	552.9	519.8	694.0	843.0
Gold	(10.8)	(10.8)	(10.8)	(10.9)	(11.0)
Gold with IMF	(3.9)	(3.9)	(3.9)	(3.7)	(3.4)
Special drawing rights	(3.0)	(3.7)	(4.9)	(5.3)	(6.3)
Foreign exchange ^{1/}	(132.9)	(504.5)	(500.2)	(674.1)	(822.3)
Claims on public sector	235.6	308.6	418.8	659.5	598.6
Central Government ^{2/}	(201.1)	(151.3)	(147.2)	(192.8)	(238.8)
Government agencies ^{3/}	(34.5)	(157.3)	(271.6)	(466.7)	(359.8)
Claims on specialized banks	4.8	4.4	22.1	55.4	103.2
Claims on commercial banks	40.4	33.7	77.6	94.6	74.4
Regional Development Banks	--	--	--	1.5	2.5
<u>Assets = Liabilities</u>	<u>431.3</u>	<u>869.6</u>	<u>1,038.3</u>	<u>1,505.0</u>	<u>1,622.7</u>
Reserve money	188.2	310.9	419.7	566.9	736.2
Note issue (net)	(105.1)	(158.9)	(230.3)	(319.2)	(398.6)
Bank deposits ^{4/}	(83.1)	(152.0)	(189.4)	(347.7)	(337.6)
Public sector deposits	153.0	259.5	359.7	631.7	463.9
Central Government ^{2/}	(128.0)	(213.7)	(311.6)	(514.7)	(343.3)
Government agencies ^{3/}	(25.0)	(45.8)	(48.1)	(117.0)	(119.6)
Import deposits	56.8	180.5	127.8	151.1	203.8
Foreign liabilities	2.8	9.7	8.3	11.2	9.0
Capital accounts	8.5	34.3	49.2	55.9	55.9
SDR allocation	5.1	5.2	5.0	5.0	5.4
Other items (net)	16.9	69.5	68.6	83.2	148.5

Source: Bank Markazi Iran.

^{1/} Includes bilateral payments agreements credits and subscriptions to international agencies.

^{2/} Includes Treasury General, ministries and their affiliated departments.

^{3/} Includes government affiliated agencies, government companies and municipalities.

^{4/} Includes legal deposits and banks' sight and time deposits.

Table 49 . Iran: Consolidated Accounts of Commercial Banks

(In billions of Iranian rials)

Year ended March 20	1973/74	1974/75	1975/76	1976/77	1977/78
Reserves	97.7	170.2	221.3	295.6	388.4
Notes and coins in till	(18.7)	(27.5)	(47.6)	(67.7)	(72.2)
Deposits at Central Bank	(79.0)	(142.7)	(173.7)	(227.9)	(316.2)
Foreign assets	20.4	25.9	38.3	35.1	55.4
Claims on public sector	39.3	110.2	170.3	263.9	404.4
Central Government ^{1/}	(39.3)	(110.2)	(167.4)	(258.1)	(398.9)
Government agencies ^{2/}	(--)	(--)	(2.9)	(5.8)	(5.5)
Claims on private sector	394.6	544.8	821.8	1,110.2	1,318.3
<u>Assets = Liabilities</u>	<u>552.0</u>	<u>851.1</u>	<u>1,251.7</u>	<u>1,704.8</u>	<u>2,166.5</u>
Demand deposits	111.4	187.1	253.0	342.9	445.2
Time and savings deposits	296.2	459.7	660.6	920.2	1,230.8
Public sector deposits	19.3	50.6	54.0	50.9	61.5
Central Government ^{1/}	(19.3)	(50.6)	(54.0)	(50.9)	(61.5)
Government agencies ^{2/}	(--)	(--)	(--)	(--)	(--)
Loans, credits and administered funds of the public sector	2.6	4.3	4.7	41.5	40.5
Foreign liabilities	32.2	48.3	82.0	104.6	105.2
Capital accounts	28.5	56.0	79.8	101.7	143.1
Credit from Central Bank	40.4	33.7	77.6	94.6	74.3
Other items (net)	21.4	11.4	40.0	48.4	65.9

Source: Bank Markazi Iran.

^{1/} Includes Treasury General, ministries and their affiliated departments.^{2/} Includes government affiliated agencies, government companies and municipalities.

Table 50. Iran: Consolidated Accounts of Specialized Banks

(In billions of Iranian rials)

Year ended March 20	1973/74	1974/75	1975/76	1976/77	1977/78
Cash and deposits with					
Bank Markazi Iran	4.2	9.5	16.1	22.1	24.7
Claims on public sector	23.5	27.1	35.7	36.0	34.9
Central Government ^{1/}	(6.0)	(5.8)	(12.3)	(14.2)	(14.4)
Government agencies ^{2/}	(17.5)	(21.3)	(23.4)	(21.8)	(20.5)
Claims on private sector	99.6	159.8	270.5	403.5	545.0
Foreign assets	0.5	0.2	0.8	0.4	0.6
<u>Assets = Liabilities</u>	<u>127.8</u>	<u>196.6</u>	<u>323.1</u>	<u>462.0</u>	<u>605.2</u>
Demand deposits	4.9	8.9	11.3	19.1	19.8
Time and savings deposits	16.9	23.2	38.4	62.1	75.7
Deposits on public sector	7.2	9.9	11.5	12.0	15.1
Central Government ^{1/}	(7.2)	(9.9)	(11.5)	(12.0)	(15.1)
Government agencies ^{2/}	(--)	(--)	(--)	(--)	(--)
Loans, credits and administered funds of public sector	27.8	60.1	92.1	99.8	106.0
Foreign liabilities	24.3	27.5	55.0	95.5	148.0
Capital account	44.5	64.1	80.2	102.7	122.8
Credit from Central Bank	4.8	4.4	22.1	55.4	103.7
Other items (net)	-2.6	-1.5	12.5	15.4	14.6

Source: Bank Markazi Iran.

^{1/} Includes Treasury General, ministries and their affiliated departments.^{2/} Includes government affiliated agencies, government companies and municipalities.

Table 51. Iran: Consolidated Accounts of Regional Development Banks

(In millions of Iranian rials)

Year ended March 20	1975/76	1976/77	1977/78
Reserves	--	1	2
Notes and coins in till	(--)	(--)	(--)
Deposits at Central Bank	(--)	(--)	(2)
Claims on public sector	--	794	922
Central Government ^{1/}	(--)	(794)	(922)
Government agencies ^{2/}	(--)	(--)	(--)
Claims on private sector	158	2,910	5,455
<u>Assets = Liabilities</u>	<u>158</u>	<u>3,705</u>	<u>6,379</u>
Demand deposits	4	3	22
Time and savings deposits	--	--	3
Public sector deposits	--	--	--
Central Government ^{1/}	(--)	(--)	(--)
Government agencies ^{2/}	(--)	(--)	(--)
Loans, credits and administered funds	--	1,600	2,100
Capital accounts	1,000	1,542	1,549
Credit from Central Bank	--	1,489	2,499
Other items (net)	-846	-929	206

Source: Bank Markazi Iran.

^{1/} Includes Treasury General, ministries, and their affiliated departments.

^{2/} Includes government affiliated agencies, government companies and municipalities.

Table 52. Iran: Commercial Banks' Liquidity and Debt to Central Bank

(In billions of Iranian rials)

Year ended March 20	1973/74	1974/75	1975/76	1976/77	1977/78
1. <u>Total liquid assets</u>	<u>97.7</u>	<u>170.2</u>	<u>221.3</u>	<u>295.6</u>	<u>385.9</u>
a. Legal deposits with Central Bank	72.2	115.4	160.4	213.1	270.2
b. Sight deposits with Central Bank	6.8	27.3	13.3	14.8	43.5
c. Cash in till	18.7	27.5	47.6	67.7	72.2
2. <u>Gross free liquid assets</u> (b+c)	<u>25.5</u>	<u>54.8</u>	<u>60.9</u>	<u>82.5</u>	<u>115.7</u>
3. <u>Rediscounts</u>	<u>3.6</u>	<u>7.8</u>	<u>14.1</u>	<u>4.4</u>	<u>0.9</u>
4. <u>Net free liquid assets</u> (2-3)	<u>21.9</u>	<u>47.0</u>	<u>46.8</u>	<u>78.1</u>	<u>114.8</u>
5. <u>Credit to private and</u> <u>public sectors</u>	<u>433.9</u>	<u>655.0</u>	<u>992.1</u>	<u>1,374.1</u>	<u>1,722.6</u>
Private sector ^{1/}	394.6	544.8	821.8	1,110.2	1,318.3
Public sector ^{1/} , of which:	39.3	110.2	170.3	263.9	404.3
Legally required ^{2/}	(57.3)	(114.4)	(181.9)	(--)	(--)
6. <u>Total deposit liabilities</u>	<u>429.5</u>	<u>701.6</u>	<u>972.3</u>	<u>1,357.1</u>	<u>1,778.0</u>
Demand deposits	117.8	201.9	278.7	384.0	499.2
Private sector	(111.4)	(187.1)	(253.0)	(342.9)	(445.2)
Public sector	(6.4)	(14.8)	(25.7)	(41.1)	(54.0)
Time and savings deposits	311.7	499.7	693.6	973.1	1,278.8
Private sector	(296.2)	(459.7)	(660.6)	(920.2)	(1,230.8)
Public sector	(15.5)	(40.0)	(33.0)	(52.9)	(48.0)
7. <u>Debt to Central Bank</u> ^{3/}	<u>40.4</u>	<u>33.7</u>	<u>77.5</u>	<u>94.0</u>	<u>74.4</u>
	(In per cent)				
8. <u>Liquidity ratios</u>					
Total liquid assets/deposit liabilities (1:6)	22.7	24.3	22.8	21.8	21.7
Gross free liquidity assets/ deposit liabilities (2:6)	5.9	7.8	6.3	6.1	6.5
Net free liquid assets/ deposit liabilities (4:6)	5.1	6.7	4.8	5.8	6.5

Source: Bank Markazi Iran.

^{1/} Beginning 1972/73, public sector credit from the commercial banks consists mainly of government bonds.

^{2/} Government bonds held as part of the legal reserve requirement.

^{3/} Advances and bills rediscounted.

Table 53. Iran: Credit to the Private Sector
by Specialized Credit Institutions^{1/}

(In billions of Iranian rials)

Year ended March 20	1973/74	1974/75	1975/76	1976/77	1977/78
Industrial and Mining Development Bank	29.0	43.5	88.0	124.9	165.1
Industrial Credit Bank	18.2	31.6	54.6	74.7	94.9
Agricultural Cooperative Bank	30.1	45.2	52.6	66.0	81.2
Mortgage Bank	17.4	23.9	35.1	65.6	95.0
Development and Investment Bank	1.7	4.9	9.5	15.5	19.9
Agricultural Development Bank ^{2/}	3.2	9.7	26.5	48.8	69.9
Construction Bank	--	1.0	4.4	8.0	17.4
Total	<u>99.6</u>	<u>159.8</u>	<u>270.7</u>	<u>403.5</u>	<u>543.4</u>

Source: Bank Markazi Iran.

^{1/} The data include direct investments and equity participation by the specialized banks. The Workers' Welfare Bank, a publicly-owned institution deriving its funds from the Social Insurance Organization and lending for construction of worker housing, is not officially considered to be a specialized bank.

^{2/} Formerly the Agricultural Development Fund of Iran (established in 1968).

Table 54. Iran: Central Bank Rediscount Rates and Interest Rates on Bank Deposits and Government Securities

(In per cent per annum)

	As of Dec. 1969	Aug. 1970	Oct. 1971	Mar. 1972	July 1972	Dec. 1972	Aug. 1973	Sept. 1973	Jan. 1975	Nov. 1976	June 1977
Central Bank's rediscount rates											
Industrial and agricultural paper	8		7				8		7	9	10
Other eligible paper	3		7			7-1/2	9		8	9	10
Maximum interest rates on:^{1/}											
Savings deposits (rials)											
Up to 1,000	5-1/2	4-1/2		6-1/2			7				8
1,001-20,000	5-1/2	4-1/2		6-1/2			7				8
20,001-50,000	5-1/2	4-1/2		6-1/2			7				8
50,001-100,000	5-1/2	4-1/2		6-1/2			7				8
100,001-200,000	5-1/2	4-1/2		6-1/2			7				8
Over 200,001	5-1/2	4-1/2		6-1/2			7				8
Time deposits											
Up to 29 days	None	None		6-1/2			8				9
30-89 days	5-1/2	5		6-1/2			8				9
90-179 days	6-1/2	5-1/2		6-1/2			8				9
180-269 days	7-1/2	6-1/2		6-1/2			8				9
270-364 days	7-1/2	6-1/2		6-1/2			8				9
365-729 days	8	7-1/2		7-1/2			9				10
Over 729 days	8	7-1/2		7-1/2			9				10
Coupon rates on government bills and bonds											
Treasury bills											
3 month	8							6			
6 month	6							7			
1 year	6							8			
Bonds											
1 year	8										
2 year	9							9			
3 year	9							9-1/2			
5 year					8			10			
7 year					9			10-1/2			

Source: Bank Markazi Iran.

^{1/} "None" indicates a zero rate of interest.

Table 55. Iran: Legal Reserves Requirements and Other Monetary Instruments

	As of Sept. 1973	Jan.	Feb.	April	Aug. 1974	Sept.	Nov.	Dec.	Jan.	March 1975	Aug.	April 1976	April 1977
<u>Legal reserve requirements (in per cent) on:</u>													
Demand deposits	23 ^{1/}		30						25				
Time deposits	15								12		15		
Savings deposits	15								12		15		
Net short-term foreign liabilities ^{2/}							15				30		
<u>Other instruments</u>													
Credit ceilings	Imposed ^{3/}			Raised ^{4/}		Raised ^{5/}				Raised ^{6/}	Raised ^{7/}	Lowered ^{8/}	Lowered ^{9/}
Government bond purchase requirements	Imposed ^{10/}								Lowered ^{11/}		Raised ^{12/}		
Other					Revised import deposit struc- ture ^{13/}			Revised regula- tions for public sector imports ^{14/}					

Source: Bank Markazi Iran.

^{1/} Reserve requirements on demand deposits were to rise progressively to 30 per cent by February 1974.

^{2/} Exempted long-term borrowing by specialized banks and commercial bank borrowing of two years' duration or more.

^{3/} Private sector credit ceilings were set for each commercial bank at 20 per cent over credit outstanding in March 1973. For those banks for which the ratio of outstanding credit to capital was less than 10, credit ceilings were set at 25 per cent. Total increase in private credits, including specialized banks, was set at Rls 85 billion for 1973/74.

^{4/} Private sector credit ceilings set at 15 per cent over credit outstanding at the end of March 1974 for the next six months.

^{5/} Private sector credit ceilings set at 30 per cent for 1974/75.

^{6/} Private sector credit ceilings for 1975/76 set at 35 per cent over credit outstanding at the end of March 1975.

^{7/} Credit ceilings for 1975/76 were increased by 5 per cent to 40 per cent.

^{8/} Commercial banks' credit ceilings for 1976/77 were set at 25 per cent over level at the end of March 1976 but under certain conditions with the approval of the Central Bank of Iran the ceilings for individual banks may be increased 5 per cent. Specialized banks' credit ceilings for 1976/77 were set at 42 per cent.

^{9/} Commercial banks' credit ceilings for 1977/78 were set at 20 per cent over level at the end of March 1977. Specialized banks' credit ceilings were set at 39 per cent for 1977/78.

^{10/} For time and savings deposits, 50 per cent of the increase in these deposits was to be invested in Treasury bills and government securities with maximum of two years' maturity until holdings of such securities reached 40 per cent of outstanding savings deposits and 20 per cent of outstanding time deposits; these ratios were to be maintained thereafter.

^{11/} For time and savings deposits, 30 per cent of the increase in these deposits was to be invested in government securities with maximum of two years' maturity until holdings of such securities reached 25 per cent of total outstanding savings and time deposits; this ratio was to be maintained thereafter.

^{12/} For time and savings deposits, 45 per cent of the increase in these deposits was to be invested in government securities of up to two years' maturity until holdings of such securities reached 40 per cent of total outstanding time and savings deposits.

^{13/} Import deposits reduced to a flat 15 per cent (formerly 15 per cent, 40 per cent, and 100 per cent) for nonfood imports and abolished for all food imports.

^{14/} Previously, most government agencies' accounts with the Central Bank had been debited, at the time letters of credit were opened, for the full value of imports. In the supplementary budget for 1974/75, ministries and other public sector agencies, upon approval of the Plan and Budget Organization, were no longer required to follow this procedure.

Table 56. Iran: Summary of Assets and Liabilities
of Savings and Housing Loans Associations

(In millions of Iranian rials)

Year ended March 20	1976/77	1977/78
Assets:		
Notes and coins in till	586	64
Claims on banks	7,019	8,324
Claims on private sector ^{1/}	33,291	52,712
Other	2,271	6,351
<u>Assets = Liabilities</u>	<u>43,167</u>	<u>67,451</u>
Liabilities:		
Deposits of the private sector	32,849	42,507
Savings deposits	(23,933)	(24,260)
Time deposits	(8,916)	(18,247)
Claims of Bank Markazi Iran	2,354	5,150
Claims of banks	--	3,236
Capital account	4,548	9,994
Other	3,416	6,564

Source: Bank Markazi Iran.

^{1/} Includes investment and shares in private companies.

Table 57. Iran: Balance of Payments
(In millions of SDRs)^{2/}

Year Ended March 20	1973/74	1974/75	1975/76	1976/77	Prelim. 1977/78
A. Oil sector (net)^{3/}	4,283	15,591	16,123	18,369	17,919
Exports, f.o.b.	7,069	17,207	16,582	20,855	19,665
NIOC	(246)	(856)	(1,165)	(3,571)	(4,908)
Trading companies affiliated with the consortium ^{4/}	(6,264)	(14,929)	(13,894)	(15,554)	(12,454)
Joint venture companies	(559)	(1,422)	(1,523)	(1,730)	(2,303)
Imports, c.i.f. ^{5/}	—	—	—	—	—
Direct investment	-2,425	-1,267	-151	-2,162	-1,491
Direct investment income	-361	-349	-308	-324	-255
B. Other goods and services and unrequited transfers (net)	-3,516	-7,160	-12,621	-14,072	-16,868
Exports, f.o.b. ^{6/}	598	589	664	628	728
Imports, c.i.f. ^{7/}	-3,969	-7,682	-12,838	-14,033	-15,940
Trade balance	-3,371	-7,093	-12,174	-13,405	-15,212
Services (net)	-143	-39	-432	-652	-1,550
Travel (net)	(-77)	(-246)	(-378)	(-683)	(-585)
Investment income (net)	(-143)	(135)	(387)	(276)	(334)
Government, n.i.e. (net)	(-145)	(-134)	(-596)	(-15)	(-919)
Other services (net)	(222)	(206)	(155)	(-230)	(-380)
Official grants	-2	-28	-15	-15	-106
C. Capital (net)	746	-1,680	-2,674	-1,705	413
Direct investment	173	368	552	536	642
Private nonbank capital	-25	-174	-750	-859	-965
Official loans and suppliers' credits	600	-1,862	-2,474	-1,382	736
Others ^{8/}	-2	-12	-2	—	—
D. Net errors and omissions	-976	-2,337	-1,658	171	484
E. Total (B through D)	-3,746	-11,177	-16,953	-15,606	-15,971
F. Total (A through D)	537	4,414	-830	2,763	1,948
G. Monetary movements^{9/}	-537	-4,414	830	-2,763	-1,948
Net IMF account	—	-445	-540	—	—
Commercial banks (net)	126	124	272	-188	-293
Bank Markazi short-term liabilities	5	10	12	-14	-3
Bank Markazi long-term liabilities	-100	—	—	—	—
Bilateral balances (net)	7	68	18	141	-193
Other foreign assets (increases -)	-572	-4,158	1,078	-2,697	-1,452
Monetary gold (increases -)	—	-5	—	—	—
SDR holdings	-3	-8	-10	-5	-7

Source: Bank Markazi Iran.

1/ Revised.

2/ See Table 22, footnote 1 for conversion from U.S. dollars to SDRs.

3/ The oil consortium and other foreign-owned companies are treated as resident in this table, whereas Table 22 treats them as nonresident. Total net transactions of the oil sector differ between these two methods of presentation.

4/ Consortium of oil companies prior to nationalization.

5/ Oil sector imports are included in the total imports under "other goods and services (net)."

6/ Includes gas exports.

7/ Includes nonmonetary gold.

8/ Includes U.S. government holdings of Iranian rials, U.S.S.R. and Romania's holdings of rials, and subscriptions to IBRD and IDA and related liabilities.

9/ Excluding changes in net foreign assets of the specialized banks.

Table 58. Iran: Commodity Composition of Imports According to Standard International Trade Classification^{1/}(In millions of SDRs)^{2/}

Year Ended March 20	1973/74	1974/75	1975/76	1976/77	Prelim. 1977/78
<u>Foods and live animals</u>	<u>271</u>	<u>704</u>	<u>1,299</u>	<u>1,027</u>	<u>1,331</u>
Dairy products and eggs	26	54	73	103	160
Pulses and their products	94	381	468	284	555
Sugar its derivatives, and honey	63	130	449	211	148
Tea, coffee, chocolate, spices and other similar products	16	27	30	37	49
Fruits and vegetables	17	26	109	132	86
Other	55	86	170	260	333
<u>Beverages and tobacco</u>	<u>4</u>	<u>11</u>	<u>22</u>	<u>67</u>	<u>111</u>
<u>Raw nonfood materials, excluding fuel products</u>	<u>157</u>	<u>284</u>	<u>308</u>	<u>317</u>	<u>370</u>
Raw caoutchouc	20	27	33	42	37
Textile yarns not included elsewhere	80	150	164	128	136
Various unprocessed fertilizers and minerals	25	32	29	39	49
Other	32	75	82	108	147
<u>Minerals, fuel and related products</u>	<u>12</u>	<u>11</u>	<u>14</u>	<u>20</u>	<u>24</u>
<u>Vegetable and animal oils and fats</u>	<u>50</u>	<u>198</u>	<u>243</u>	<u>119</u>	<u>135</u>
Vegetable oils	42	182	202	103	123
Other	8	16	41	16	12
<u>Chemical products</u>	<u>295</u>	<u>536</u>	<u>698</u>	<u>703</u>	<u>875</u>
Chemicals and their compounds	51	97	117	127	148
Materials used in dyes and tanning	37	59	58	64	62
Pharmaceuticals and medical products	80	123	174	184	210
Plastics, cellulose, and artificial gums	65	107	146	191	245
Chemical materials and products not mentioned above	50	80	68	101	86
Other	12	70	135	36	123
<u>Goods which are classified according to their primary materials</u>	<u>1,038</u>	<u>1,816</u>	<u>2,793</u>	<u>3,565</u>	<u>3,599</u>
Paper, cardboard and related products	72	140	119	146	185
Various yarns and related products	187	252	255	467	567
Goods made from nonmetal minerals	85	86	202	337	432
Iron and steel	483	954	1,542	1,539	1,208
Other	211	384	675	1,076	1,207
<u>Transportation, machinery, and tools</u>	<u>1,163</u>	<u>1,742</u>	<u>4,156</u>	<u>4,803</u>	<u>5,348</u>
Nonelectric machinery	666	939	2,122	2,798	2,908
Electric machinery, tools, and appliances	258	338	669	853	1,146
Transportation vehicles	239	465	1,365	1,152	1,294
<u>Miscellaneous products</u>	<u>106</u>	<u>161</u>	<u>239</u>	<u>300</u>	<u>530</u>
Scientific and professional tools	61	97	140	149	209
Various products and goods not mentioned above	41	43	60	97	222
Other	4	21	39	54	99
<u>Goods not classifiable by type</u>	<u>2</u>	<u>1</u>	<u>2</u>	<u>1</u>	<u>--</u>
<u>Total^{3/}</u>	<u>3,098</u>	<u>5,465</u>	<u>9,774</u>	<u>10,922</u>	<u>12,325</u>

Source: Bank Markazi Iran.

^{1/} Imports according to Customs returns.^{2/} See Table 22, footnote 1.^{3/} Excluding military and other imports not reported in customs returns.

Table 59. Iran: Imports by Country of Origin^{1/}
(In millions of SDRs)^{2/}

Year Ended March 20	1973/74	1974/75	1975/76	1976/77	Prelim. 1977/78
United States	404	1,092	1,911	1,706	1,972
Germany, Federal Republic of	607	979	1,691	1,943	2,329
Japan	455	826	1,549	1,906	1,874
United Kingdom	291	437	863	747	801
France	149	199	431	606	555
India	46	94	364	257	185
Italy	117	165	348	633	690
Netherlands	75	127	276	382	406
Belgium	90	141	247	262	246
Switzerland	61	103	226	411	370
Australia	44	56	160	149	197
U.S.S.R.	178	223	141	96	209
Romania	40	48	140	128	135
Sweden	45	66	126	123	160
Spain	18	29	84	107	111
Kuwait	22	22	80	...	...
Korea, Republic of	13	31	74	148	135
Canada	20	46	70	89	99
Austria	32	61	64	83	124
Turkey	13	32	62	...	...
South Africa	30	54	53	93	173
China, People's Republic of	21	97	51	...	...
Brazil	44	20	49	...	...
Finland	24	50	48	63	86
Other	259	466	666	990	1,468
Total^{3/}	3,098	5,464	9,774	10,922	12,325

Source: Bank Markazi Iran.

^{1/} Imports according to customs returns.

^{2/} See Table 22, footnote 1.

^{3/} Excluding military and other imports not reported in trade returns.

Table 60. Iran: Non-Oil Exports by Country Destination^{1/}
(In millions of SDRs)^{2/}

Year Ended March 20	1973/74	1974/75	1975/76	1976/77	Prelim. 1977/78
U.S.S.R.	85	78	92	69	80
Germany, Federal Republic of	88	77	68	75	83
United States	46	38	39	31	63
Italy	19	14	25	29	29
Kuwait	12	18	22	15	29
Hungary	11	11	19	13	15
China, People's Republic of	6	6	19	7	10
Japan	36	26	16	16	6
France	20	22	14	13	14
Saudi Arabia	7	11	14	22	27
Egypt	—	8	13	—	—
United Kingdom	24	18	12	14	20
Bulgaria	11	2	11	—	—
Dubai	6	9	10	9	12
Czechoslovakia	10	8	9	8	5
Yugoslavia	11	3	8	—	—
India	5	6	8	—	—
Romania	12	11	8	12	6
Poland	8	5	7	12	10
Jordan	—	3	7	—	—
Switzerland	12	11	6	6	8
Bahrain	7	6	6	6	13
South Africa	12	3	5	1	32
Austria	4	2	5	16	5
Other	74	84	52	95	100
Total ^{3/}	526	480	495	469	567

Source: Bank Markazi Iran.

^{1/} Exports according to Customs returns.

^{2/} See Table 22, footnote 1.

^{3/} Excluding exports of gas.

Table 61. Iran: External Debt of the Plan Organization and Ministry of Economic Affairs and Finance by Creditor Countries and Institutions as of March 20, 1978^{1/}

(In millions of SDRs)^{2/}

Public Sector	Cumulative Total of External Debt			Cumulative Repayment of Principal	Outstanding Balance
	Contracted	Undisbursed	Disbursed		
IBRD	396.4	101.0	295.4	166.9	128.5
Austria	25.7	—	25.7	20.4	5.3
Belgium	38.7	24.4	14.3	3.1	11.2
Bulgaria	1.2	—	1.2	1.1	0.1
Czechoslovakia	33.9	0.1	33.8	22.1	11.7
France	304.3	6.3	298.0	217.2	80.9
Germany, Federal Republic of	403.9	2.4	401.5	326.5	75.0
Hungary	12.9	0.3	12.6	6.2	6.4
India	44.7	6.0	38.7	33.0	5.7
Italy	82.0	1.7	80.3	60.3	20.0
Japan	105.4	0.5	104.9	74.6	30.3
Poland	1.9	—	1.9	1.4	0.4
Romania	56.6	18.7	37.9	37.2	0.7
United Kingdom	145.1	7.2	137.9	119.1	18.8
United States	488.5	1.4	487.1	326.8	160.3
Aid (including PL 480)	(212.8)	(—)	(212.8)	(165.5)	(47.3)
Export-Import Bank	(169.9)	(0.9)	(169.0)	(72.7)	(96.3)
Other	(105.8)	(0.5)	(105.3)	(88.6)	(16.7)
U.S.S.R.	706.3	69.1	637.2	300.2	337.1
Yugoslavia	15.9	0.9	15.0	11.6	3.4
Other	612.3	0.5	611.8	171.2	440.6
Total	3,475.5	240.6	3,235.2	1,898.8	1,336.3

Source: Ministry of Economic Affairs and Finance, Bureau for Studies on International Loans and Credits.

^{1/} External public debt incurred or guaranteed by the Plan Organization (up to March 20, 1973) and the Ministry of Economic Affairs and Finance (since March 21, 1973). The table does not include loans incurred by the Ministry of War.

^{2/} Converted from U.S. dollars at \$1.181037 = SDR 1.00.

Table 62. Iran: Maturity Structure of External Debt of the Plan Organization and the Ministry of Economic Affairs and Finance as of March 20, 1978^{1/}

(In millions of SDRs)^{2/}

Original Maturity	Contracted		Disbursed		Undisbursed	
	Amount	Per cent	Amount	Per cent	Amount	Per cent
Over 1 and up to 5 years	571.7	16.4	568.5	17.6	3.2	1.3
Over 5 and up to 10 years	1,040.1	29.9	970.2	30.0	69.9	29.1
Over 10 and up to 15 years	1,271.0	36.6	1,177.7	36.4	93.3	38.8
Over 15 and up to 20 years	387.4	11.1	333.2	10.3	54.2	22.5
Over 20 years	<u>205.3</u>	<u>5.9</u>	<u>185.3</u>	<u>5.7</u>	<u>20.0</u>	<u>8.3</u>
Total	3,475.5	100.0	3,234.9	100.0	240.6	100.0

Source: Ministry of Economic Affairs and Finance, Bureau for Studies on International Loans and Credits.

1/ External public debt incurred or guaranteed by the Plan Organization (up to March 20, 1973) and the Ministry of Economic Affairs and Finance (since March 21, 1973). The Table does not include loans incurred by the Ministry of War.

2/ Converted from U.S. dollars at \$1.181037 = SDR 1.00.

Iran: The Alternative Monetary Presentation

The traditional monetary presentation as it appears in International Financial Statistics shows domestic liquidity as:

$$(MO + QM) = CPS + CGS + NFA - OIN \quad (1)$$

where

- MO = Cash in circulation plus demand deposits with the banking system
- QM = Savings and time deposits with the banking system
- CPS = Claims on the private sector by the banking system
- CGS = Claims on the public sector by the banking system
- NFA = Net foreign assets of the banking system
- OIN = Other items net, or unclassified net liabilities of the banking system. For Iran, this is composed of import deposits of the public sector (IDG) and other unclassified net liabilities of the banking system (OLN)

The budgetary operations and financing of the public sector are given by

$$G - R = \Delta CGS + LD + LF \quad (2)$$

$$= GD + GF - RD - RF \quad (3)$$

where

- G = Public sector expenditures
- GD = Domestic public sector expenditures
- GF = Foreign public sector expenditures
- R = Public sector revenues
- RD = Domestic public sector revenues
- RF = Foreign public sector revenues
- LD = Domestic nonbank financing
- LF = Foreign financing

Net foreign receipts of the public sector (NFRG) are given by

$$NFRG = RF - GF + LF \quad (4)$$

and net domestic expenditures of the public sector (NDEG) by

$$NDEG = GD - RD - LD \quad (5)$$

Substituting (3) and (4) into (5),

$$NDEG = \Delta CGS + NFRG \quad (6)$$

However, since in Iran the public sector has import deposits with the banking system, the increases in these have to be deducted from NDEG to obtain the monetary injection due to public sector operations (NDEG1):

$$\text{NDEG1} = \Delta\text{CGS} + \text{NFRG} - \Delta\text{IDG} \quad (7)$$

Accordingly, taking differences, equation (1) can be rewritten as

$$\Delta(\text{MQ} + \text{QM}) = \text{NDEG1} + \Delta\text{CPS} + (\Delta\text{NFA} - \text{NFRG}) - \Delta\text{OLN} \quad (8)$$

However, the net foreign receipts of the private sector (NFRP) are given by

$$\text{NFRP} = \Delta\text{NFA} - \text{NFRG} \quad (9)$$

and the net injection of liquidity due to private sector operations (NILP) by

$$\text{NILP} = \Delta\text{CPS} + \text{NFRP} \quad (10)$$

Equation (8) can therefore be rewritten as

$$\Delta(\text{MO} + \text{QM}) = \text{NILP} + \text{NDEG1} - \Delta\text{OLN} \quad (11)$$

Equation (11) represents the alternative presentation showing the changes in domestic liquidity due to the injection of liquidity arising from the private and public sector operations.

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