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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

THE FOURTH DEVELOPMENT PLAN
AND THE ECONOMIC PROSPECTS
OF
IRAN

(in two volumes)

VOLUME I
OVERALL VIEW

February 25, 1969

Europe, Middle East and North Africa Department

Public Disclosure Authorized

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CURRENCY EQUIVALENTS

1 U. S. dollar	=	75.75 rials
1 rial	=	0.0132 U. S. dollar
1 billion rials	=	13.2 million U. S. dollars

THE FOURTH DEVELOPMENT PLAN
AND THE ECONOMIC PROSPECTS
OF IRAN

Volume I - Overall View

Volume II - Agriculture

VOLUME I

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This report was prepared by a Mission that visited Iran in July-August 1968. The members of the Mission were: Robert Maubouché, Chief of Mission; Gabriele Sciolli, General Economist; Percival Bono, Livestock Specialist; Donald Campbell, Irrigation Engineer; Hans Kordik, Agronomist; Gustave Massiah, Transport Economist; David Reese, Agricultural Economist; Stanislaw Wellisz, Industrial Adviser; Myrtle Timmins, Secretary.

BASIC DATA

Area: 1,648,000 km²

Population:

Total: 25.323 million (census of November 1966)
 Rate of growth: 3 percent per annum
 Density: 15.4 per square kilometer

<u>Gross Domestic Product at factor cost</u>	<u>1967</u>	<u>1962</u>	<u>1959</u>
Total in billions of current rials	566.1	357.1	283.0
Total in billions of 1959 rials	500.5	331.6	283.0

Sectoral distribution	<u>1965-1967</u>	<u>1959-1961</u>
As percent of average GDP		
Agriculture	23	30
Manufacturing and Mining	12	10
Petroleum	23	18
Power and Transport	8	9
Construction	5	4
Government Services	9	8
Other Services	20	21

Rate of growth (at 1959 prices) 1959-1967: 6.5 percent per annum
 1962-1967: 8.6 percent per annum

<u>Gross National Product at market prices</u>	<u>1967</u>	<u>1962</u>	<u>1959</u>
Total in billions of current rials	562.3	349.8	284.6
Per capita 1967 - U.S.\$287			

<u>Percent of GNP at market prices</u>	<u>1967</u>	<u>1962</u>
Gross investment	19.0	12.7
Public sector	(9.4)	(4.2)
Private sector	(9.6)	(8.5)
Net exports of goods and services	4.8	8.8
Net factor income	-7.7	-7.8
Gross national savings	16.1	13.7

Gross National Savings as percent of investment 84.4 107.4

Money and Prices

	<u>March 1968</u>	<u>Change 1962-67</u>
	(billion rials)	(in % p.a.)
Money supply	75	11
Time deposits	64	21
Bank credit to public sector, net	36	21
Bank credit to private sector	109	13

Rate of change in prices (in percent)	<u>1967</u>	<u>Annual Change</u> <u>1962-1967</u>	
Wholesale price index	-	1.2	
Cost of living index	0.1	1.5	

	<u>1967</u>	<u>As % of GDP</u> <u>(at market prices)</u>	
<u>Government Operations</u>	<u>(billion rials)</u>	<u>1967</u>	<u>1963</u>
Government current receipts	107.6	17.7	15.2
Government current expenditure	76.5	12.6	12.3
Current surplus	31.1	5.1	2.8
Government capital outlays	61.2	10.1	4.4

	<u>1967</u>	<u>As % of GDP</u> <u>(1967)</u>	<u>Change</u> <u>1962-1967</u>
<u>External Trade</u>	<u>(billion rials)</u>	<u>at market prices</u>	<u>(in % p.a.)</u>
Exports of goods and services	139.2	23.0	11.3
of which petroleum ship- ments <u>a/</u>	(116.0)	(19.1)	(11.4)
Imports of goods and services	112.4	18.5	17.3

Composition of merchandise exports	<u>1967</u>	<u>1962</u>
	<u>(as % of export earnings)</u>	
Petroleum, net	82.4	78.1
Cotton	3.6	4.8
Carpets	4.8	4.0
Fruits	2.0	4.3
Others	7.2	8.8

<u>Balance of Payments (U.S. \$ million)</u>	<u>1967</u>	<u>1962</u>
Trade, net	521	467
Invisible, net	-743	-423
Government capital receipts, net	200	8
Others, net	9	- 25
Change in reserves, net	13	- 27

<u>Foreign Exchange Position (U.S. \$ million)</u>	<u>March 1968</u>
Gross foreign exchange reserves	393
EF position	
Quota	125
Drawings	31

<u>External Public Debt</u>	
Total outstanding (March 22, 1968)	: U.S.\$1,745 million
Debt service ratio (% of 1967 net export earnings):	12.1

a/ Valued on the basis of posted prices.

SUMMARY AND CONCLUSIONS

1. Iran has a booming economy. More remarkably, rapid economic growth has been accompanied by financial stability. During the period of the Third Plan, October 1962 - March 1968, output grew at an annual rate of 8.6 percent in real terms, thus exceeding the target rate of 6 percent. Meanwhile prices and money supply as percentage of GNP remained fairly steady. However, the expansion of domestic credit, especially to the public sector, was accompanied by a drawing down of foreign exchange reserves.

2. The petroleum sector currently contributes 75 percent of total export earnings and about half the Government's current revenues. Net export receipts increased at an annual average rate of 13 percent between 1962 and 1966. In 1967, a 19 percent growth rate boosted oil receipts to \$850 million. The growth in these revenues enabled the investment rate to rise from 13 to 19 percent of GNP during the Third Plan period.

3. The population is characterized by a 3 percent overall rate of growth and a great concentration in the main cities. Official documents state that "full attention will be accorded to program for family planning", but government action has so far been limited to authorizing the sale of birth control devices.

4. During the Third Plan, the two primary objectives of output growth and monetary stability were attained. Private investment in construction and industry considerably exceeded expectations, helped by the support given to them by the Government in the form of import protection, low taxation and relatively easy credit facilities. Development expenditures of the public sector also exceeded the initial Plan's target. On the other hand, many projects were undertaken which were apparently unrelated to the priorities of the Plan, which seems to indicate that despite their legal power and competence, the planning authorities have not always exercised sufficient control over investment. In agriculture, large dams and farm credits connected to the land reform took the place of the more rapidly productive projects envisaged in the Plan. Physical achievements lagged far behind actual expenditure, especially in transportation. Delays in the construction of large scale projects in manufacturing resulted in substantial shortfalls in public industrial investment. The building-up of education and health facilities also failed to reach the Plan's targets. It would therefore appear that the Iranian Plan was in practice considered more like a general outline of desirable objectives towards which the economy should tend than as a policy document with specific targets to which the Government strictly adhered.

5. On the fiscal side also, there were major departures from the intentions of the Plan. The September 1962 Law, which enacted the Plan for the public sector, provided for a substantial decline in the proportion of oil revenue devoted to financing current expenditure. Despite an unexpected increase in the Government's financial resources, the fast growth of current expenditure prevented the devotion of oil revenue to investment to the extent envisaged. In 1967, 42 percent of oil revenue was still devoted to current expenditure, as compared to 20 percent expected by the Plan Law. Defense expenditure was the fastest growing item in the current budget throughout the 1962-1967 period. The increase in oil revenue also reduced the pressure to increase taxes; total tax revenue only accounts for 10 percent of GNP.

6. The objectives of the Fourth Plan (1968-1972) are ambitious, perhaps even too ambitious. The Plan's target of a 9.4 percent rate of increase in GNP will probably not be achieved. Chiefly because of expected shortfalls in agricultural and petroleum production, the mission projects instead a 7 percent growth rate. This is still a quite commendable expansion which would lead to a per capita income of around \$350 by 1972. The other objectives of a reduction in the unemployment rate and a more balanced income distribution, which are again major aims of the Plan, will be more difficult to reach.

7. In relation to the expansion of production there is great scope for improvement in the utilization of existing facilities. More consistent management of such assets can yield higher returns and save substantial financial resources. Moreover, most ongoing projects in agriculture, transportation and construction are not likely to benefit the economy quickly. In addition, the scale of present investment projects in industry is such that any delay in construction considerably affects total output and possible exports. Finally, future investment and production in the petroleum sector are subject to a considerable degree of uncertainty.

8. Total fixed capital formation in the 1968-1972 period, as estimated by the Mission, may be around 740 billion rials (\$9.8 billion), as compared to the Plan's target of 810 billion rials. The difference is relatively small and is confined to the private sector where investment prospects in agriculture and industry in the next four years do not seem as favorable as expected by the Iranian authorities. Investment in the public sector almost trebled within the last three years. It should be possible to double its outlay between 1967 and 1972. The core of the program consists of a few large projects in irrigation, metallurgy, petrochemicals and gas. The construction of these projects and related investments in transportation and power started before the inception of the Fourth Plan; they largely determined the size and the composition of the program. Total development expenditure would thus be similar to the allocation in the Plan but smaller in volume since increases in costs already incurred are likely to offset delays in construction.

9. On the basis of present policies, public savings will be insufficient to finance 70 percent of total capital outlays of the central government as envisaged in the Fourth Plan. Even if the growth of current expenditure was reduced to 8 percent from 1969 onwards - compared with a budget estimate of 18 percent in the first year of the Plan - and if changes were made in the tax structure to add 15 percent to the expected yield of non-oil taxes in 1969, public savings would still finance less than 60 percent of government capital expenditure in the Fourth Plan period. Already there are signs of mounting monetary pressures due in part to demands of the public sector on the banking system.

10. Obviously much also depends on future government revenue from oil. The Fourth Plan projects an 18.4 percent annual rate of increase. Due to a combination of special factors (especially advance payments, change in the period for assessment and the effect of the closure of the Suez Canal), a 22 percent rate will probably be attained in 1968, the first year of the Plan. These circumstances are unlikely to be repeated. The Mission assumes a more conservative annual rate of 11.5 percent for the Plan period, which implies that the receipts of the Government from the Consortium will increase by 7 percent annually from 1969 to 1972. The total shortfall would amount to about \$1 billion for the Plan period.

11. Moreover, exports of other goods and services will probably fall short of the Plan's targets, owing mainly to delays in the construction of the export oriented industries of petrochemicals and aluminum. On the other hand, if purchases abroad for defense purposes remain at their current level, imports may grow by 10 percent per annum as compared to 13 percent forecast in the Plan. In total, if investment reaches the projected level, the deficit on current transactions would grow from \$220 million in 1967 to \$520 million in 1972.

12. In these circumstances, external gross capital requirements are estimated at about \$3 billion as compared to the Plan estimates of \$2.2 billion. The main difference lies in the estimates of possible oil revenues. After providing for a loan pipeline in 1972 slightly larger than the present \$1.0 billion and reasonable delays for loan disbursements, Iran, to attain its investment target, would need to contract about \$4.0 billion in the next five years as against approximately \$2.0 billion contracted during the Third Plan. If Iran's foreign partners provide assistance to this extent on rather favorable terms the debt service ratio would be likely to rise from 8 percent in 1967 to more than 18 percent in 1972.

13. Iran should weigh the advantages it sees in attaining the investment which may be physically possible during the Plan period against the effect on its future creditworthiness. The demand for future external assistance is in any case such as to suggest the need for a common understanding between Iran and its foreign partners of its development problems and policies to encourage a program of lending on terms appropriate to the circumstances of the country.

CHAPTER I

INTRODUCTION

1. Iran has a booming economy. Moreover, economic growth has been accompanied by financial stability. Such achievements are sufficiently uncommon to raise the question of whether this achievement is likely to continue. Iran has the natural, mineral and energy resources, the domestic market and the labor supply to support development changes. Until the late fifties, however, the Government did not express its determination to pursue those changes by direct and comprehensive action. A number of major projects were undertaken by the Plan Organization during the Second Plan period but the Government relied mainly on private initiative and capital for promoting economic growth. This was sufficient to assure satisfactory growth rates but, in the early sixties, the Government felt that more drastic changes were needed if Iran was to turn into a modern integrated economy.

2. The increase in petroleum revenues provided the means to finance some structural changes. The major undertaking along those lines was the land reform. The second step was a more deliberate policy towards industrialization. While continuing its assistance to private industry, the Government recently embarked on a program of large scale investments. These actions were prompted by the desire to diversify the economy and spread the investment benefits throughout the country. But structural changes are costly. In fact, the Government waited until petroleum exports had reached such a volume that new policies did not entail drastic shifts in the allocation of resources.

3. The Plan Organization is the executive body of the High Planning Council which meets every week under the chairmanship of the Prime Minister. The Plan Organization has responsibilities for programming, allocating and channeling funds for the public sector. It therefore has the legal authority and means to orient government economic activities. The balanced manner in which the Third and Fourth Development Plans were written is an evidence of the ability of government officials to formulate economic problems. These two elements of power and competence are rarely combined in a developing country.

4. Nevertheless, although the planning mechanisms are formally adequate and the human competence favorable to successful planning, it cannot be said that there has been a determined policy of adhering to the Plan's specific targets after these have been approved. In fact, the Third Development Plan was never approved in its entirety and substantial sectoral and project allocations of capital were apparently unrelated to the Plan priorities. The global investment target and a rough breakdown of public sector allocations were revised a number of times with the latest revision taking place four years after the inception of the Plan. These revisions could mean that the Plan was adapted to changing economic conditions and therefore was a permanent policy instrument, but there is evidence to suggest that they were rather a reflection of changes in overall financial availabilities.

5. Though planning is intended to achieve the best allocation of scarce resources, it is only one element in the promotion of growth. While its planning has been rather loose, the Government's policies have been quite deliberate in preserving price stability, implementing the land reform and stimulating investment generally and private initiative in particular. These policies, together with other reforms intended to modernize Iran have benefitted from the considerable increase in financial resources in recent years.

CHAPTER II

ECONOMIC DEVELOPMENTS IN 1962-1967^{1/}

6. The Third Development Plan terminated its five and a half year period in March 1968. A new five-year Plan has just begun. These development plans are not only useful tools for assessing economic prospects; they are also an expression of choice between policies or at least between objectives. As such, they give information on the Government's intentions in economic matters. Beyond the purely quantitative approach which is somewhat deceiving in Iran, it is therefore interesting to compare what the Government's development priorities were in the early sixties and the extent of their achievements during the Third Plan period.

7. The two primary objectives of the Third Plan were output growth and monetary stability. Economic performance in this respect was remarkable and the Plan reached its objectives. However, the Government had some difficulties, at least initially, in the utilization of the main instrument of implementation, namely the public investment program.

A. Economic Expansion

Output Growth

8. Output during the Third Plan grew at an annual rate of 8.6 percent in real terms, thus exceeding the 6 percent target of the Plan. The expansion of the economy was steady, starting from a somewhat depressed situation in the early sixties. The rapid growth over the period is somewhat exaggerated by the fact that national accounts underestimated the value of output in the early years, particularly for industry and agriculture. ^{2/}

^{1/} The Iranian year is based on the solar calendar recently run from March to March. Year 1345 is thus March 21, 1966-March 20, 1967. For the sake of simplicity the solar year is equated to the closest Gregorian year throughout this report as often done in Iran. For instance 1345 is shown as 1966 (or a difference of 621 years).

^{2/} The implied aggregate capital-output ratio for the Third Plan period was about 2.1:1 which is rather low for a developing country. In addition to the overestimation of the growth of GDP other possible explanations are (i) a possible underestimation of gross fixed capital formation (e.g. private investment in agriculture); (ii) the existence of underutilized capacity at the end of the Second Plan; (iii) the high growth in agricultural production which was essentially the result of good weather conditions; and (iv) the rise in petroleum production. On these bases, the overall capital-output ratio is not very significant. Sectoral capital-output ratios which usually are more meaningful cannot be computed because of lack or unreliability of data on sectoral investment and production.

9. Growth in industry and agriculture contributed 30 percent to the increase in total value added. Another 30 percent came from the petroleum sector. The growth in agriculture has its main explanation in a series of good crops at the end of the Plan period, especially in wheat and barley which account for about one-third of total agricultural production. In industry, three traditional sectors, food processing, textiles and carpets still contributed approximately 60 percent of the increase in industrial value added, but newer industries, mainly metal working and machinery, expanded rapidly (at about 12 percent).

Table 1

GDP at Factor Cost

	Annual Growth	Percentage	
	Rate (percent)	Composition	
	<u>1962-1967</u>	<u>1962</u>	<u>1967</u>
Agriculture	3.4	27.9	21.9
Industry	10.6	11.0	12.0
Petroleum	13.2	19.8	24.3
Power and Transport	7.2	8.9	8.3
Construction	13.0	4.0	4.9
Government Services	10.5	7.6	8.3
Other Services	8.1	20.8	20.2
<u>Gross Domestic Product</u>	<u>8.6</u>	<u>100</u>	<u>100</u>

10. Together with the primary target of output increase, the Third Plan identified as main secondary objectives the creation of employment opportunities and changes in income distribution. The latter could be obtained, it was hoped, through increased taxation of the wealthy classes, investment in agriculture and appropriate regional distribution of expenditure on social services and education. Whereas the expected investment program was to provide, in the view of the planners, sufficient employment opportunities for the additional supply of manpower, it was much less certain that the initial backlog of unemployment would really be reduced. On the whole the expectations of the Third Plan with respect to the secondary objectives were rather cautious: "As the primary objective is to increase total production, it cannot be claimed that the Third Plan will necessarily bring about appreciable changes in income distribution or will create maximum employment opportunities." In fact, progress in the desired direction has been slow.

Employment

11. Between 1956 and 1966 ^{1/}, employment of persons in the labor force (i.e. between 15 and 64 years of age) increased at an average rate of 1.8 percent. ^{2/} As the labor force grew by 2.2 percent, unemployment somewhat increased. ^{3/} Unemployment is concentrated in the cities where the creation of new job opportunities did not keep pace with urbanization which took place at a 5 percent annual rate. The unemployed mainly consist of unskilled workers. Apart from some surpluses in the service sector, especially in public administration and a few government enterprises, underemployment mainly exists in agriculture. Agriculture still remains the predominant employment sector with close to half of the total, although it contributed only 24 percent to domestic output in 1966. There is no large scale program devised specifically for the resorption of unemployed workers. The main labor absorptive industries in Iran, i.e. textiles and food processing, provide less than 10 percent of total employment.

12. The labor market is not organized and scanty information on wages and salaries is available. Wages in agriculture and for unskilled workers in general are still in the neighborhood of 60 to 70 rials (i.e. less than \$1) per day, except for temporary jobs in construction where they go up to 110 rials. They have only slightly increased in the recent years and lag behind the advances in average labor productivity and per capita income. The salaries of technical and managerial personnel have considerably gone up and stand at levels comparable to European standards. Workers in the private sector do not yet enjoy any health, employment or retirement benefits.

Income Distribution

13. Per capita GNP was equivalent to \$287 in 1967. Over the last ten years, the average rate of increase of per capita income has probably been about 4 percent annually. During the Third Plan period, it was about 5 percent in real terms. This income growth has been accompanied by an expansion of the middle class in the cities and a consolidation of income in the upper classes of Iranian society. The increase in income has been quite different in rural and urban areas.

^{1/} Information on the labor force and employment is available only on the basis of the last two demographic censuses.

^{2/} Employment of persons between 10 and 14 years of age increased by 8 percent and accounted in 1966 for more than 11 percent of total employment (mostly in the carpet industry).

^{3/} In November 1966, 9.5 percent of the active population was apparently unemployed according to the Iranian definition of the active population which includes some children but excludes most women.

14. Rural consumption per capita increased between 1959 and 1966 at an annual rate of about 2 percent in real terms ^{1/}. In 1959 per capita consumption in rural areas was less than half of that in the cities. It also grew more slowly and was estimated at less than 10,000 rials in 1966. At the lower level of income, the increase in per capita income in rural areas was probably similar to that in per capita consumption. Since 1959, the discrepancy between urban and rural incomes has thus probably widened.

E. The Investment Program

Capital Expenditure

15. The Third Plan assumed that the growth in output of 6 percent per annum could be achieved by having investment increasing at the same rate, once proper emphasis was put on projects with relatively short gestation periods. In fact, total fixed capital formation over the 1962-1967 period was considerably higher than projected by the Plan and rose at an annual growth rate of 17 percent in real terms. Whereas actual public investment was close to the Plan target, fixed capital formation in the private sector considerably exceeded the expectations.

Table 2

Gross Fixed Capital Formation

(in billions of current rials)

	<u>1962</u>	<u>1967</u>	<u>Total 1962-1967 period</u>
Public	14	53	173
Private	30	54	249
<u>Total</u>	<u>44</u>	<u>107</u>	<u>422^{a/}</u>

a/ The total in constant prices would be 418 billion rials (Bank Markazi).

^{1/} This growth in rural consumption seems a maximum when compared with the 2.7 percent annual increase in the real value added by the primary sector and a 1.2 percent annual growth in the rural population.

16. Little information is available on the private sector except for industry and construction, which accounted for 60 percent of total private investment. Private investment in industry was 46 billion rials for the 1962-1967 period thus exceeding the Plan target of 30 billion rials. No investment however took place in any of the major private industries foreseen in the Plan, namely wallboard, paper and viscose manufacturing. On the other hand, several important enterprises, not mentioned in the Plan, came into being, including truck and bus assembly plants, rubber tire plants and a rolling mill. This indicates the difficulty of planning for the private sector.

17. The public development program underwent several changes during the Plan period. The first draft of the Third Plan, prepared in 1961, was a comprehensive Plan including sectorial chapters. Financial difficulties, which the Third Plan document had anticipated, called for an immediate reduction of the projected investment. The development program for the public sector eventually became the only part of the Third Plan presented to the Parliament in September 1962. This Law regulated the distribution of oil revenues between the ordinary and investment budgets and put a ceiling to the growth in current expenditures. The revised version of the public development program reduced the original allocation of 190 billion rials (of which 158 billion for fixed investment) to 145 billion rials. It also entailed some changes in the composition with less emphasis on industry and more on agriculture, power and oil. An unexpected rise in oil revenues led to major revisions in 1964 and 1966 which, however, did not change significantly the shares of the various sectors.

18. Generally speaking, one of the most important problems of the past has been the control by the Plan Organization over the implementation of the public investment program. The Plan Organization is the executive agency of the High Planning Council. In addition to its planning role, it allocates funds to the various ministries and other public agencies. Scrutiny of the use of these funds by the Plan Organization has not, so far, been sufficient to prevent waste and distortion, which have been aggravated by the existence of various ministries and agencies operating in the same area (as in the case of agriculture or education).

Table 3

Comparison of Third Plan Allocations and Actual Expenditure^{a/}
in the Public Sector

(percentages)

	Plan Document (1961)	Allocations			Actual ^{b/} 1962-1967
		Third Plan Law (1962)	Third Plan (1964)	Third Plan (1966)	
Agriculture and Irrigation	19	24	22	22	23
Industry and Mines	18	12	11	10	8
Electricity and Fuel	13	18	14	18	16
Transportation and Communication	22	21	25	25	27
General and Social Administration	28	25	28	25	26
<u>Total</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Equivalent Total in billions of rials	(190)	(145)	(200)	(216)	(205)

a/ Including 35 billion rials of recurrent development expenditure.

b/ Including second half of 1962 only according to the Third Plan.

19. Public capital expenditure over the Third Plan period was 170 billion rials, somewhat higher than the original allocation of the Third Plan. Capital expenditure in 1967 was 53 billion rials as against 15 billion rials in 1963. The higher investment level at the end of the period is explained in part by the pressure to realize the Plan targets once the difficulties in getting the various projects started were overcome.

20. The planners were very well aware of the difficulties to achieve an investment program based on projects with short gestation periods and they put them very clearly in arguing against the faster rate of capital formation which some people had pressed for. "Essentially due to basic shortages such as skilled manpower and proper institutions, additional funds can be spent more readily on large construction schemes such as dams, roads, and housing projects, than on important agricultural development schemes, on education, health or on feeder road programs. The expected rate of return from an expanded plan of this nature is not likely to be high."

21. Capital expenditures have actually been very high in infrastructure, as indicated by the fact that three-quarters of the fixed capital formation in the public sector went for construction. Dams and other irrigation schemes, which account for 60 percent of total investment in agriculture, and main roads have absorbed a very substantial amount of public expenditure allocations. Large investments also took place in government buildings and staff housing which, as stated in official Iranian documents, do not seem to have been justified.

22. A large proportion of expenditure in agriculture, outside irrigation, was for the land reform. Part was used to buy land to be resold on credit to landless cultivators. An equally large share went for short-term credit to the latter to finance current consumption. As a result, relatively little was spent for those production support programs aimed at increasing the productivity of the agricultural sector.

23. In the transport sector, which shows the highest financial achievement, delays in the preparation of projects, and inadequate engineering preparation have had a serious impact on the physical realizations, particularly in the case of roads where, even though disbursements have exceeded the Plan allocations, actual construction represented less than 60 percent of the Plan targets. Notwithstanding these shortfalls, transport capacity was on the whole adequate with the exception of feeder roads where the Plan failed to come up with the desirable expansion.

24. As to industry, there was a substantial shortfall in the public program for which only 17 of the 22 billion rials allocated by the Plan in its latest 1966 revision ^{1/} were spent. More than half of the shortfall is attributable to delays in construction of major public sector enterprises. Only 5.3 billion rials of the planned 14 billion rials investment in steel and petrochemicals was actually invested. The construction of a number of important projects was largely delayed until the Fourth Plan. Finally, one should stress the very low investment, even in financial terms, in education and health which the Third Plan had considered as very important complementary facilities for the longer term development of the economy.

The Financing of Government Expenditure

25. The absolute level of public savings and their role in financing public investment (about 65 percent of the actual expenditure in the Plan period) was not on the whole substantially different from what the Third Plan had envisaged. Total public savings during the Third Plan period were 111 billion rials, compared with the 98 billion rials projected by the Plan. However, the Third Plan document had stated that the projected savings-investment gap of the public sector could not be covered entirely by

^{1/} The original allocation of the Third Plan was 31 billion rials.

prospective borrowing and that therefore "an increase in taxation and substantial economies in non-development expenditure" would be necessary in order to finance the projected level of investment.

26. This additional savings effort did not materialize. While government revenue increased at more than 15 percent per annum, as against the projected 8 percent, the growth in current expenditure was almost 12 percent instead of the 7.5 percent considered in the Plan. At the same time, capital expenditure more than tripled between 1963 and 1967, and debt repayment also increased, particularly towards the end of the period as a result of substantial repayments for defense loans.

Table 4

Central Government Savings, Investment
And Overall Deficit as Percent of GNP

	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
Savings	3.1	3.2	4.4	6.0	5.5
Investment	4.0	5.4	8.0	7.4	9.5
Overall Deficit ^{a/}	1.7	3.1	4.8	2.4	5.4

a/ Including debt repayment.

27. There was a very rapid increase in the overall deficit between 1963 and 1965. In 1966, concern over price stability called for a reduction in the deficit. This was achieved through increases in revenues and containment of investment expenditure, owing to the higher priority given by the Government to certain current expenditure. This latter consideration together with only a modest increase in non-oil revenues was responsible for the drop of savings in 1967. In that year investment expenditure rose by 40 percent and the overall deficit more than doubled with respect to 1966.

28. Increased reliance on both domestic and foreign borrowing was necessary to finance the rising level of public expenditure. In particular, the role of foreign borrowing has become very significant and in 1967 it financed about one-third of the deficit. Whereas no disruptive effects originated from the financing of past deficits, it is doubtful, as we shall see when discussing the financing of the Fourth Plan, that any substantial increase in the deficit is possible without serious repercussions on the economy.

29. The questions raised by the growth in current expenditure relate not only to its overall rate, but also to the changes in its composition. Expenditure for general services, defense and security has been the fastest growing item, followed at a good distance by social and economic outlays. This contrasts with the case of many developing countries where excessive increases in current expenditure are often attributable to the great expansion in the government social and economic services. As already remarked in the last Bank report on Iran ^{1/}, it is difficult not to find the expansion in general services excessive. Attention must, in particular, be drawn to the increasing role of defense expenditure even though army recruits are staffing various Health, Education and Development Corps. Total outlays for defense purposes, including current expenditure and construction currently account for about 5 percent of GNP.

Table 5
Central Government Current Expenditure^{a/}

(in billions of rials)

	<u>1962</u>	<u>1967</u>	Budget Estimate <u>1968</u>	Annual Growth Rate <u>1962-1967</u>
General Services	4.6	9.1	10.0	14.7
Defense and Security	15.9	31.7	38.7	14.8
Social and Economic Services	19.2	32.0	34.6	10.8
Others	4.3	3.7	7.2	
<u>Total</u>	<u>43.9</u>	<u>76.5</u>	<u>90.5</u>	<u>11.8</u>

^{a/} These include the current expenditure of the ordinary budget and the so-called recurrent development expenditure, i.e. those expenditures originated by the investment program of the Government, mostly in the field of agriculture, education and health. In the initial years of the Plan the latter type of current expenditure was financed directly by the budget of the Plan Organization. Subsequently, they were financed through ad hoc transfers of oil revenues by the Plan Organization to the ordinary budget.

^{1/} IBRD, Current Economic Position and Prospects of Iran, AS-123a, dated March 24, 1967.

30. The very rapid increase in government revenues between 1962 and 1967 was essentially due to the fact that oil revenues grew at 18 percent per annum, as against the Plan law projection of 7 percent. At the same time non-oil revenue, which now accounts for half of total revenue, increased at 12 percent showing an elasticity of 1.4 with respect to GNP. The proceeds of income and property taxes were growing the fastest thanks to more efficient administration and collection of arrears. No classification of the proceeds by income groups is available and the redistribution effect of this taxation is questionable. At any rate, direct taxes still accounted for less than 10 percent of total government revenue in 1967.

31. Customs duties have been so far the main source of non-oil revenue. According to the Third Plan document their rate of growth should have been below 5 percent in view of the expected foreign exchange restrictions and the increasing importance of imports of capital and intermediate goods. In fact, they grew at about 17 percent reflecting mostly the sharp rise in imports which was made possible by the unexpectedly high level of oil revenues. The most important indirect taxes levied domestically are taxes on sugar, tea, tobacco and kerosene which altogether account for about 10 percent of total revenue. So far only two types of production taxes, on cars and records, have been introduced on the grounds that the country is engaged in building a domestic industry which should not be burdened with fiscal charges.

Table 6

Central Government Current Revenue

(in billions of rials)

	<u>1962</u>	<u>1967</u>	<u>Budget Estimate 1968</u>	<u>Annual Growth Rate 1962-1967</u>
Oil Revenue	23.7	54.0	66.1	17.9
Direct Taxes	4.7	10.6	11.7	17.6
Indirect Taxes	12.7	29.6	35.6	18.4
Revenue from Government				
Agencies	7.2	9.3	9.3	5.3
Others	4.6	4.1	4.0	-
<u>Total</u>	<u>52.9</u>	<u>107.6</u>	<u>126.6</u>	<u>15.3</u>

32. The pressure to increase the role of traditional taxes which still account for less than 10 percent of GNP has been reduced by the allocation of a substantial share of oil revenues to current expenditure. The Third Plan law contained a disposition whereby the share of oil revenues allocated to the ordinary budget, which mostly consists of current expenditure, was to be reduced from 45 to 20 percent by the end of the Plan period. Though the letter of the law was respected ^{1/}, the proportion of oil revenue allocated to current expenditure went down to 42 percent only during the Plan period.

Table 7
Allocation of Oil Revenues^{a/}
(in billions of rials)

	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>Budget Estimate 1968</u>
<u>Total Oil Revenue</u>	<u>27.7</u>	<u>36.4</u>	<u>39.5</u>	<u>47.4</u>	<u>54.0</u>	<u>66.1</u>
of which:						
for current expenditure	16.4	23.1	19.0	16.7	22.9	30.0
As % of current expenditure	(33.0)	(42.0)	(32.0)	(25.0)	(30.0)	(33.0)
of which:						
for investment	11.3	13.3	20.5	30.7	31.1	36.1
As % of investment	(77.0)	(60.0)	(67.0)	(81.0)	(58.0)	(46.0)

^{a/} For the institutional distribution of oil revenues between the ordinary budget and the Plan Organization, see Table 16 in Annex I.

33. In the early period of the Plan oil revenues were running higher than public investment, largely because of limitations on the spending capacity of the Government. In more recent years, however, oil revenues were close to the amount of public investment. ^{2/} Furthermore, even in those years in which the amount of oil revenues exceeded investment expenditure, the allocation of oil revenues to current expenditure was substantially larger than such surplus, thus compelling the Government to increase its borrowing for the financing of the investment program.

^{1/} See Annex I, Table 16.

^{2/} In 1966 oil revenues were still higher than investment expenditure but this was due to the stabilization program of the Government which did not allow investment expenditure to rise in view of the failure to curb current expenditure.

Public Enterprises

34. Public enterprises play an important role in many key sectors, including power, railways, banking, petroleum and steel. Most of their profits, originating in few government monopolies (tea, sugar, tobacco) and the National Iranian Oil Company, were transferred to the central government. At the same time the Government made substantial capital contributions to enterprises in the power, steel, gas and petrochemical sectors. In 1968, more than 50 percent of government capital expenditures was to be transferred to these enterprises for the expansion or starting (as in the case of the steel mill) of their investment programs.

35. The main problems with the public enterprises which operate in the modern sectors (such as petrochemical, mechanical industry, etc.) is one of adequate managerial and organizational setup. For a number of enterprises engaged in the production of final consumers goods, which have often been taken over by the Government as a result of salvage operations, it is a question of struggling against obsolete machinery, weak market position, etc. However, since no accounts are available it is impossible to appraise the actual financial performance of the enterprises. Nor is it possible to appraise the relationship between the operations of the public enterprises and those of the central government. ^{1/} Budget estimates are available since 1965 and they are presented together with the central government budget. More detailed discussion, based on the budget estimates is given in Annex II.

C. The Monetary Stability

Price Stability

36. Price stability has been one of the most important targets of the Iranian Government because of its impact on the balance of payments and the real income of a large portion of the population. Furthermore, price increases call for adjustments in unit wages which would have been difficult for the productive system to absorb in view of the relative inefficiency of a number of industries. In fact, prices remained relatively stable, with the wholesale and cost of living indexes increasing respectively by 6 and 8 percent between 1962 and 1967. The stability has been particularly remarkable over the last three years of the period in which the wholesale price index was virtually unchanged and the cost of living index increased by only 2 percent.

^{1/} Actual data on the Special Accounts of the Treasury are also unavailable. These funds are financed by earmarked revenues, especially the proceeds of various fines and penalties, shares of municipalities revenues and several contributions by individuals and enterprises. Only some of these funds have recently been integrated into the ordinary budget.

37. A first explanation of the behavior in prices is of a statistical nature, namely that the two indexes are by now ten years old and do not adequately reflect the intervening changes in GDP and the consumer basket. There was also a series of very good crops starting in 1965, following a period of adverse weather conditions which culminated in 1964 with food prices increasing by more than 7 percent over 1963. In addition, one should mention the existence of unutilized productive capacity in the country in the early period of the Plan. Finally pressures of domestic demand were met by substantial increases in imports financed in part by drawing down exchange reserves.

Credit Policies

38. Institutional credit plays a relatively limited role in satisfying the requirements of the economy, because of the traditional reliance on the non-organized money market. Its role, however, has been rapidly increasing over the last five years. Bank domestic credit expanded at an average rate of 19 percent. The expansion in domestic credit has been made possible in part by a very sharp increase in time deposits ^{1/} which rose from 7 to 11 percent of GNP between 1962 and 1967. Since 1965 declines in net foreign assets accompanied credit expansion. Money supply remained fairly stable at about 13 percent of GNP throughout the Plan period.

39. Credit to the private sector increased by 18 percent, with a moderate slowdown in 1965 and 1967, when the public sector relied heavily on the banking system. Net drawing on the banking system by the central government increased at an average rate of 30 percent between 1962 and 1967, but during this period government agencies showed a continuous accumulation of their net deposits. ^{2/} Whereas during the Third Plan the monetary authorities have been able to assure a constant credit expansion to the private sector, while at the same time satisfying the credit requirements of the public sector, there are now indications that any substantial increase in the public sector claims may lead to a squeeze on the private sector if price stability is to be maintained and adequate foreign exchange reserves are to be assured.

40. Expansion of credit during the Third Plan was not accompanied by the development of institutions to channel private savings. The absence of a capital market may retard the expansion of the private sector or at least the satisfactory allocation of private financial resources. Private enterprises have, up to now, mainly relied on money lenders established in the

^{1/} Excluding importers' deposits initiated in 1964.

^{2/} The deposit of an oil bonus amounting to 13.9 billion rials on account of government agencies explains the absolute decline in net credit to the public sector for 1964.

Bazaar, where interest rates are very high, often above 20 percent. Large companies are still largely run on a family basis, and the public is reluctant to buy more companies' capital shares. A stock exchange was recently established but only few stocks are being traded by the Industrial and Mining Development Bank of Iran. The proposed reform of the Trade Code, which requires compliance with standard accounting rules, would certainly increase the confidence of the public in investing their savings through the organized capital market. At present, increasing speculation in land and urban construction is diverting a substantial amount of private savings from more productive uses.

Balance of Payments

41. The foreign exchange position followed the vicissitudes of the current account of the balance of payments. Apart from 1964 when an oil bonus boosted government receipts from abroad, net capital movements were never enough to reverse the results of current transactions. Official loans did not play a major role in the balance of payments until 1967. There was little foreign private investment other than by the oil companies. Foreign exchange reserves which went up until 1965 deteriorated afterwards so that official reserves at the end of 1967 were equivalent to about three months' imports as compared to about five months at the end of 1962.

Table 8

Factors Affecting the Foreign Exchange Position

(in billions of rials)

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
Trade Surplus	35.0	41.0	29.7	32.5	35.6	39.1
Net Exports of Services	- 4.1	- 5.8	- 6.7	-11.2	-11.1	-12.3
Net Investment Income	-27.6	-31.5	-28.1	-31.6	-36.2	-43.5
Capital Movements	- 1.3	- 1.3	12.5	5.8	10.1	15.7
Change in Reserves <u>a/</u>	- 2.0	- 2.4	- 7.4	4.5	1.6	1.0

a/ Including errors and omissions.

42. The trade surplus, which in 1962 exceeded the profit remittances of the oil companies, now falls short of them. Meanwhile, net imports of services (including purchases of armaments) have trebled. Consequently, the current account of the balance of payments moved from a surplus of 3.3 billion rials in 1962 to a negative position in 1964 and a substantial deficit of 16.7 billion rials (\$222 million) in 1967.

Table 9

Oil Revenue and External Current Account

(\$ million)

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
<u>Current Receipts</u>	<u>570</u>	<u>619</u>	<u>715</u>	<u>818</u>	<u>941</u>	<u>1139</u>
<u>Oil Sector a/</u>	<u>437</u>	<u>471</u>	<u>569</u>	<u>608</u>	<u>711</u>	<u>848</u>
Others	133	148	146	210	230	291
<u>Current Payments</u>	<u>526</u>	<u>570</u>	<u>783</u>	<u>955</u>	<u>1097</u>	<u>1361</u>
<u>Balance on Current Account</u>	<u>44</u>	<u>49</u>	<u>-68</u>	<u>-137</u>	<u>-156</u>	<u>-222</u>

a/ Iran's foreign exchange receipts from the private oil companies actually ranged between 50 percent and 55 percent of the accounting value of petroleum shipments as shown in the balance of payments. The difference is due to the operations of oil companies; profit remittances and imports of goods and services on one hand, local expenditures on the other hand.

43. Export earnings, however, have exceeded by about \$1,200 million the projections implicit in the Third Plan. Oil exports increased by 11.4 percent annually, as compared to an anticipated rate of 6.5 percent. Even the other exports considerably exceeded the Plan target rate of 3 percent. The composition of total exports did not change much during the period. The substantial share of petroleum remained virtually unchanged at more than 80 percent of total exports. Woolen carpets still account for 27 percent of non-oil exports and cotton shipments 21 percent. Leather products and mineral ores sales abroad have doubled since the early 1960's but they represent only 10 percent of non-oil exports. Very few export items receive a subsidy. On the whole, Iranian exports have been competitive in international markets of Western Europe and the United States. The share of exports to Eastern countries has remained about 23 percent.

44. The boom in merchandise imports was associated with the investment activity of the country. Purchases of industrial and mining equipment abroad which accounted for 9 percent of total imports in 1962 represented 16 percent of the 1967 total. Agricultural equipment imports did not follow such a trend and amounted to 2.4 billion rials at the end of the Third Plan. In total, imports of capital goods increased by more than 20 percent annually over the period while consumer goods imports grew by less than 6 percent. The relatively slow growth of consumer goods imports reflects the good agricultural crops of the last two years, and the substitution effect of domestic production.

CHAPTER III

THE FOURTH PLAN TARGETS

A. Overall View

45. Planning in Iran has been handicapped by the scarcity of reliable statistics. Basic data on agricultural and industrial production are lacking. Most government institutions make up their own statistics; several sets of national accounts are thus issued every year. When drafting the Fourth Plan, the Plan Organization borrowed parts of the accounts prepared by the Central Bank and the Ministry of Economy separately. Since then these accounts have been revised and the statistical foundation of the Plan is no longer adequate. The Bank Mission has modified the official series prepared by the Central Bank with the main purpose of eliminating statistical discrepancies. Strong reservations can still be expressed about the accuracy of production and investment figures as finally shown.

46. Probably because of the difficulty in appraising the present state of the economy quantitatively and thus in spelling out the nature of future government activities in physical and economic terms, the Fourth Plan appears on several occasions as a collection of financial allocations. These allocations are mainly budgetary appropriations of the Plan Organization to the various ministries. Scanty information is available as regards the public sector as a whole, including other government institutions and public enterprises. Private investment, finance or production often are residuals, once overall targets were set.

47. The precision of the quantitative targets of the Plan or the revisions made here could thus be misleading. To a certain degree also, the uncertainty about future oil revenue can inhibit planning efforts. This uncertainty should not be exaggerated, nonetheless, when appraising the economic prospects of Iran. With a total investment target of \$10.8 billion the Iranian authorities estimate that the need for gross borrowing will be \$2.2 billion. They assume that oil revenue will be \$6.5 billion, an amount which implies an 18.4 percent rate of increase between 1967 and 1972. The Mission projects oil revenues at a more conservative rate of 11.5 percent, or a shortfall of about one billion dollars from the Plan targets; at the same time, projected expenditure for investment is also approximately one billion dollars lower than the Plan projection. Nevertheless, the external gap is one billion dollars higher, the implication being that internal savings are likely to fall far short of the Plan's expectation.

48. The general objectives of the Fourth Plan are commendable: an acceleration of economic growth, a more equitable distribution of income, a reduction in the dependence upon imports and a diversification of exports. A fifth objective, the improvement of administrative services is to be attained by the introduction of basic reforms, the extension of modern management techniques and the strengthening of the defense power of the country. No more explanation is given in the Plan about the steps to be taken in those matters.

49. Growth was the major achievement of the economy in recent years. It was the primary goal of the Third Plan together with monetary stability. The Fourth Plan projects that GNP will grow at an annual rate of 9.4 percent in the 1968-1972 period. This is to be attained thanks to large investments in industry and agriculture and also increases in productivity. Such a target appears to the Mission to be somewhat too ambitious. Though a relatively high rate of growth is likely to be achieved, the Mission's projections lead to more moderate estimates.

50. A better income distribution is the second objective of the Fourth Plan as it was that of the Third Plan. The provision of more employment is claimed to be the major source of improvement. About one million new jobs are to be created during the 1968-1972 period. This seems a difficult target to reach, the more since it implies that 200,000 new jobs will be available in the agricultural sector. Even if this target is reached, the apparent unemployment will still be close to 10 percent of the active population in 1972. No transfer of income through labor intensive public works in rural areas or more progressive taxation is envisaged. On the contrary, the Plan states that social and welfare services will heavily rely on the self-help principle and that one-third of rural development projects will be financed by local savings. The objective of containing the discrepancy between rural and urban incomes and of improving the lot of the poorest classes in the cities is a difficult one, and the Fourth Plan does not seem to contain precise indications on how it is to be attained.

51. On the other hand, government protection of domestic production against competitive imports has been effective and the third objective of the Fourth Plan is likely to be reached in several sectors. The Plan aims at reducing the dependence on basic consumer goods imports first, and then on raw materials, capital goods and services. The Plan does not make clear, however, to what extent this would be attained through the continuation of import protections and government assistance or an improvement in productivity and competitiveness. The economic and financial implications of such policies differ considerably.

52. Finally, the diversification of export products is to be achieved through a gradual reduction of dependence on export of oil and agricultural raw materials. This will mainly result from the implementation of Third Plan projects in gas, aluminum, and petrochemicals. Some delays are likely to occur in these undertakings, but the objective will ultimately be reached.

53. The Fourth Plan accentuates the recent tendency of the public sector to take the lead in the total investment of the country. Besides investment in infrastructure and social services, the Government intends to carry out a number of industrial and agricultural ventures whose size requires financial means beyond private capacity or whose importance involves national interest. Apart from these ventures, no major departure is noticeable from the Third Plan document which attached the same importance to industrial investment. Actual shortfalls reflected delays in the progress of large scale projects which should be completed in the next few years. In agriculture also, the completion of dams and the development of vast irrigation schemes will follow the lines sketched by the Third Plan.

Table 10
Capital Expenditure of Plan Organization^{a/}

	Percentage Distribution		billions of rials			
	Third Plan Actual	Fourth Plan Projection	1963	1967 ^{c/}	1968 ^{b/} Budget Estimate	1968-72 ^{d/} Average
	Agriculture	22	22	5.1	8.9	12.5
Industry	10	22	0.6	6.6	16.7	18.6
Petroleum and Power	19	15	0.8	15.6	20.0	12.5
Transportation and Communication	30	24	5.5	14.4	16.6	19.4
Construction	7	6	0.9	3.1	4.2	4.8
Others	12	11	1.7	4.8	6.9	9.1
<u>Total</u>	<u>100</u>	<u>100</u>	<u>14.6</u>	<u>53.4</u>	<u>76.9</u>	<u>82.8</u>

a/ For purposes of comparability with data available on the Third Plan, this includes only Plan Organization's fixed investment and capital transfers to the private sector. The table therefore differs from text Tables 11 and 15 which show fixed investment only by both the Plan Organization and public enterprises.

b/ First year of the Fourth Plan. Those budgetary allocations will probably not be utilized in totality.

c/ Last year of the Third Plan.

d/ Average of Fourth Plan estimates. No annual phasing of expenditure is given in the Plan document.

54. The Fourth Plan estimates gross fixed capital formation at 810 billion rials, which is twice as much as the amount realized during the previous Plan. The investment rate, however, increased substantially in the last years of the Third Plan. After allowing for the particular role of the oil industry, investments accounted for 19 percent of GNP in 1967. The Fourth Plan estimates that 25 percent of GNP will be invested in 1972. This program therefore implies that the absorptive capacity of Iran will continue to increase rapidly. A summary presentation of the investment and production possibilities of the main economic sectors is made in the following paragraphs.

Table 11
Composition of Fourth Plan Fixed Investment^{a/}
(in percent)

	<u>Public Sector^{b/}</u>	<u>Private Sector</u>	<u>Total</u>
Agriculture	17	11	14
Industry	20	33	25
Petroleum	9	14	12
Power	10	-	6
Transportation	25	7	17
Construction	5	18	11
Others	14	17	15
<u>Total</u>	<u>100</u>	<u>100</u>	<u>100</u>

a/ For absolute amounts, see text Table 15.

b/ Includes public enterprises and excludes capital transfers to private sector.

B. Prospects in the Main Sectors

Agriculture^{1/}

55. Future government strategy in the agricultural sector is not wholly clear. The land reform, which was carried out according to the original intention in recent years, created many small landholders. The Fourth Plan now puts an emphasis on large scale farming. In addition to the cooperatives established in connection with the land reform, the government intends to set up joint stock farming cooperatives averaging one thousand hectares. During the Plan period an experiment is expected to be carried out by about one hundred companies resulting from the merger of small holdings. Finally, "agro-Businesses" in the form of

^{1/} See Volume II, Agriculture.

private enterprises with possible public participation are supposed to play a major role in developing and farming newly irrigated areas. On the other hand, the government seems to concentrate more on limited projects than on the development of the rural sector as a whole. There are regional projects such as Ghazvin, many of which were begun in prior years. There are also crop production processes in which package of seed, machinery and subsidized fertilizer and credit are supplied to farmers. Two programs for rice and oil seeds production were thus recently initiated in specific areas; they have some promise of success. Other programs for wheat, cotton, sugar beets and fodder have yet to be put into operation.

56. The diversity of goals and means will not be harmful to future agricultural growth if the Government is able to support all these programs satisfactorily and set priorities among them. Too many public institutions, including several ministries, deal with agricultural matters, each one pursuing different policies with insufficient coordination. Very limited extension services are provided to the farmers despite the assistance of the Army Development Corps. Research is generally not adequately oriented and carried out. Institutional credit extended to farmers has mainly been absorbed by land purchase to carry out the land reform and for non-productive purposes. Some improvement in marketing and price policies, which do not at present offer adequate incentive to farmers, can be expected in the near future if the changes now under consideration are given sufficient support by the Government.

57. On balance, most Fourth Plan targets appear to be overstated in view of the limitations in government capacity and other institutional constraints. Probable physical achievements in investment for irrigation will be considerably less than the Plan projections, but capital expenditure should be close to the Plan estimates owing to cost revisions. The main shortfalls in the expenditure out of the planned allocations should occur in the agricultural sector proper, especially for livestock and the protection of natural resources. Total development expenditures in the next five years can be expected to amount to about 100 billion rials, or roughly one-fifth below the Fourth Plan target. 1/

58. It is also unlikely that agricultural output in Iran will increase as rapidly as the Fourth Plan anticipates. Still the existence of a dynamism and a willingness to adopt improved methods of production among many Iranian farmers suggests that there is scope for reasonable growth during the next five years. The use of fertilizers will play an important role in this respect. The Fertilizer Distribution Company, which was recently established by the Government, will therefore be hard-pressed by the private demand which is expected to almost double in the Plan period. The availability of other inputs--improved seeds, pesticides and agricultural machinery--will probably not be a major impediment. In addition to these actions

1/ See Volume II, Table 17, page 44.

on yield improvement, the expansion of the irrigated area should bring about increases in the output of fodder and most cash crops, particularly oil seeds and sugar beets. There is much room for, but little likelihood of, a major expansion in livestock feeding based upon fodder crop production, agricultural by-products or feed concentrates. The Plan targets for the production of meat and milk will probably not be reached. For the agricultural sector as a whole, annual output growth should not exceed 3.5 percent annually in the next five years. On the basis of detailed projections, the Bank anticipates that the value added by agriculture will increase by about 2.6 percent per year in the 1967-1972 period, as compared to the very ambitious Plan target of 4.4 percent.

58a. Continued agricultural growth depends to a great extent on changes to raise the efficiency of the institutional framework and to improve existing methods of cultivation, including the use of water. The coordination of government policies as regards research, extension and credit will be essential. There will also have to be a marked improvement in the overall employment climate, policies which affect careers in agriculture and the capacity of institutions to provide agricultural education and training. In non-irrigated areas, extensive investigation should be followed by active programs to obtain changes in the current system of fallowing, better integrated dry farming with fodder cultivation, improved techniques of soil management and crops and varieties most suitable for dry land farming. Future livestock development will depend largely upon the establishment of fattening operations, better integration of animal husbandry with crop farming, rehabilitation of pastures, control of animal disease, and improvement of local breeds. With respect to irrigation, ground water development deserves highest priority in the immediate future. In the longer run, there is pressing need for a countrywide study of both surface and ground water resources and the formulation of public policy to encourage their economic exploitation.

Industry

59. Iranian industry still consists mainly of the small-scale production of consumer goods for the domestic market. Steps were taken, however, during the Third Plan, towards the constitution of a new pattern of production. Large-scale investments have begun in capital goods industries, especially in metallurgy. Some export-oriented industries should come into production in the next few years, mainly in petrochemicals. Investment and production during the Fourth Plan period will be dominated by these commitments. They will also depend upon future policies with respect to the protection of industrial enterprises.

60. The limitation of competition was one of the main instruments of the industrialization policies. The Government tried to assure what it calls a "reasonable" degree of competition. Import control and a licensing system of new investments were the means to achieve this policy. Quantitative meas-

1/ See Volume II, Table 16, page 43.

ures prohibit the import of a number of specific goods whose domestic supply is considered sufficient to meet local demand. This supplements the import taxation which is already substantial. Besides customs duties, most imports are subject to ad valorem commercial taxes whose rates usually range from 25 to 80 percent. A system of registration fees and advance deposits also increases the cost of imports. Domestic competition is also controlled by the requirement of an authorization for investment. This licensing system has been effectively enforced in the most modern branches of manufacturing. Protection of industries and of uncompetitive production at home is thus assured.

61. It is difficult to assess the effect on the efficiency of Iran's industry and the cost of industrialization for domestic consumers. Competition varies from industry to industry. On the whole, ex-factory prices substantially exceed the costs of competing foreign goods as a result of high profit margins but above all of high production costs. Available equipment is used with low intensity since idle time is high owing to inadequate layouts and production schedules. Poor quality control results in a high percentage of rejects and in disruption of the productive processes. The size of the domestic market limits production, like car manufacturing, to an uneconomically small scale. Iranian producers prefer to purchase intermediate goods from foreign sources or to manufacture their own because of poor quality and the uncertain delivery schedule of domestic goods. As a consequence, there is a high degree of vertical integration and needless duplication and underutilization of specialized facilities.

62. Mining is still in its infancy, with small mines scattered throughout the country. Extraction of the Bafk iron ore, at an initial rate of one million tons per year, and of the Kerman coal deposits will begin during the Fourth Plan to provide raw materials and fuel for the Esfahan steel mill. Negotiations for the exploitation of what may be considerable copper deposits are in progress, but actual production is unlikely to start before 1973. Because of the mounting interest in those deposits, investment for copper will probably surpass the Plan's provisions.

63. The Fourth Plan foresees a total industrial investment of 210 billion rials for 1968-1972, that is about three times as much as realized in the previous five years. In contrast to the Third Plan, the allocation for industry in the public sector will probably be utilized because short-falls on new projects are likely to be balanced by overruns on on-going investments. However, private investment will probably fall short of the target. Production goals, calling for an annual increase of 13 percent in value added by manufacturing also appear somewhat excessive, if one takes into account that some projects may not materialize, that the start-up of new investments has been delayed and that final completion of others will probably spill over into the Fourth Plan period. Considerable contribution to industrial output is expected to be made by the steel mill and petro-

chemical projects in the early seventies. Production growth is therefore likely to slow down somewhat in the next couple of years and pick up again by 1972. For the Fourth Plan period as a whole, value added by manufacturing should increase at a rate of about 11 percent annually.

Table 12

Industry - Plan Targets and Mission Forecasts, 1968-1972

	<u>Investment</u> (billions of current rials)			<u>Value Added</u>
	<u>Private</u>	<u>Public</u>	<u>Total</u>	<u>Average Annual Growth Rate (percent)</u>
Plan	120	90	210	13.1
Mission	96	91	187	11.0

64. Medium-term prospects for the growth of Iranian industry may be favorable but it should not be forgotten that existing enterprises, and probably foreseeable investments also, rely heavily on government support. This support - indirectly financed by oil revenues - is provided in the form of import protection, low taxation and relatively easy credit facilities. Present policies assume that increases in productivity will progressively take place and result in better competitive positions on international markets, but employment and regional development objectives have weighed heavily in decisions regarding existing and planned investments.

Petroleum

65. As far as we can see at present, two elements will affect the situation of the petroleum industry in the next five years. The dominance that the Consortium has exercised over crude oil production and exports of Iran will be somewhat reduced by the expansion in the operations of the other oil companies. This will diminish to some extent the uncertainty regarding future oil revenues of the Iranian Government. The second element will be the construction of a pipeline for export to the USSR and domestic consumption of the gas which is still unutilized.

66. It is the policy of the Consortium members to adjust the net crude oil production in Iran as "would reasonably reflect the trend of supply and demand for Middle East crude oil"; the current forecast for the Middle East as a whole is a 7 percent annual rate of increase. The Fourth Plan is based on a 15.9 percent increase in revenues from the Consortium. In 1968 Iran succeeded in obtaining a 21 percent revenue increase which will be higher than the corresponding output. Given market conditions, it would be rather optimistic to assume that the growth rate in government revenue from the Consortium will exceed 7 percent from 1968 on, i.e. 9.6 percent over the Fourth Plan period as a whole. On this basis, total oil revenue from the Consortium would then fall short by about \$1,000 million from the Plan targets for the 1968-1972 period.

67. Non-Consortium oil production is less subject to market constraints because of the smaller amounts which are involved and the greater diversification of its markets. It is generally expected that a maximum of 182 million barrels will be reached in 1970. The prevailing market prices for oil are expected to decline, possibly by as much as one-fourth over the Plan period. Taking this decline into account, together with the agreements already signed by NIOC with the Eastern countries, it is possible that the Plan target of \$600 million will be reached.

68. This more conservative view would imply that total oil revenue would increase at 11.5 percent per annum between 1967 and 1972, compared with 18.4 percent projected by the Plan and oil exports would increase at 8.6 percent per annum from 1968 to 1972, as compared to a Plan projection of 16.4 percent. This downward revision of the order of \$1 billion for the Plan period would mean a reduction of one-fourth in exports of goods and services for 1972 and a reduction of about 1 percent in the annual growth rate in GNP during the Plan period.

Table 13

Projections of Government Oil Revenues, 1968-1972

	(\$ million)					
	1967 <u>Actual</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>
Consortium						
Plan		863	1,004	1,161	1,350	1,559
Mission	715	863	923	988	1,057	1,131
Other Oil Companies						
Plan		19	69	101	106	112
Mission	26	32	69	101	106	112
NIOC Exports						
Plan		22	29	37	44	52
Mission	-	7	29	37	44	52
<u>Total</u>						
Plan		904	1,103	1,299	1,501	1,723
Mission	741	902	1,022	1,126	1,208	1,295

69. It is difficult to say to what extent the utilization of Iran's gas reserves, according to the present Plan, will be a profitable operation. The construction of 750 miles of pipeline from the Iranian oil fields to the USSR border with branch lines to Esfahan and Tehran has already begun. The first phase of the project to be completed in 1970 would reportedly cost 33.8 billion rials (\$450 million), excluding engineering costs. It will be financed in part by a USSR loan of \$75 million and credits from European contractors. By 1970, sales to USSR should amount to about 3.0 billion rials. The completion of the second phase in 1973 is expected to increase exports to 4.7 billion rials. By that time, the total cost of the project is reckoned at 50 billion rials. Prices of future domestic sales are currently under study; the tariff will probably be designed to yield a joint maximum profit for gas and petroleum products.

Transportation

70. There have been great changes in Iran's transport facilities, particularly highways, during the past ten years. A decade ago there were few all-weather highway connections between major population centers; these were either served by the railway or remained virtually isolated. Now almost every major town in the country is linked by major roads; many are also served by railways and scheduled airlines. Port capacity more than doubled in the last five years with a heavy concentration in the Khorramshahr-Bandar Shahpur complex in the Persian Gulf.

71. Important changes are taking place both in volume and in direction of traffic. The decentralization of industries is increasing the demand for transport away from the traditional Trans-Iranian axis from the Persian Gulf to Tehran. The expected growth in agricultural production should result in a reduction of imports and an increase in the general internal exchange between surplus and deficit regions. The increasing trade with the USSR has added to the importance of the transportation network in the northern part of the country. The prospects for lead, zinc and copper mining are likely to require a further expansion of both land transport and port facilities in the southeastern region.

72. With these developments, the Government's administrative requirements have become considerably more complex. But under the present organization, responsibility for investment programming and policy decisions on transport matters is diffused among various agencies, without effective coordination. The management of each sector leaves something to be desired. Improvement is expected to take place, however, in the planning of future roads and the organization of the ports.

73. The Fourth Plan provides 80 billion rials for public investment in transportation, or about 20 percent of the total public investment program for the next five years. Because of possible delays in project preparation and construction, physical achievements will fall short of Plan targets. On the other hand the Plan document often underestimates investment costs. On the basis of present costs and likely physical achievements, total public investment in transportation will probably be of a magnitude similar to that projected by the Plan. However, if improvements in management and productivity were realized, especially for the ports and the railway, a number of projects could be delayed without creating any serious bottleneck.

C. Summary Evaluation

74. The Fourth Plan's targets for production are probably too ambitious. The growth rate in the value added by the three sectors of agriculture, industry and petroleum altogether is not likely to exceed about 7.3 percent as compared to the Plan rate of 11.3 percent. Other sectors should grow by approximately 7.8 percent annually. ^{1/} Total GDP at current factor costs is therefore projected to increase at an average annual rate of 7.5 percent. Because of their faster growth, petroleum and industry will assume a relatively greater share of GDP in 1972 than at the beginning of the Fourth Plan. The contribution of agriculture to GDP will drop from 22 percent in 1967 to 17 percent in 1972.

^{1/} The Fourth Plan's projection of the value added by agriculture, industry, construction and water, power and gas implies an 8.5 percent annual growth rate whereas the other sectors' contribution to GDP would increase by 7.5 percent (excluding petroleum). The Mission's projections are respectively 6.4 percent and 6.9 percent which probably reflects more accurately the relationship between physical output on the production of services.

Table 14

Projections of GDP

	billions of rials		Annual Rate of Growth	
	1967	1972	1967-1972 period	
	<u>Actual</u>	<u>Mission</u>	<u>Mission</u>	<u>Plan^{a/}</u>
Agriculture	109.4	124.4	2.6	4.4
Mining	.8	1.6	14.9	14.9
Manufacturing	59.3	99.9	11.0	13.0
Construction	24.7	38.8	9.4	9.9
Water and Power	9.3	20.2	16.8	16.8
Transport and Communication	32.4	48.8	8.5	
Wholesale and Retail Trade	38.9	52.9	6.3	
Private Services	35.2	46.8	5.9	
Dwellings	27.3	36.2	5.8	
Government Services	41.7	61.2	8.0	
Petroleum	121.5	186.9	9.0	15.3
<u>Total GDP at 1959 factor cost</u>	<u>500.5</u>	<u>717.7</u>	<u>7.5</u>	<u>10.0</u>
<u>Total GDP at current factor cost</u>	<u>566.1</u>	<u>812.7</u>		

a/ No explicit output target is given by the Plan for several sectors.

75. Investment projects in the Fourth Plan are, of course, at different stages of preparation or construction. The core of the investment program, however, consists of a few large projects in irrigation, metallurgy, petrochemicals and gas, which are under way. These projects require investments in power, water supply, transportation, building and housing. Most of the public sector portion of future investment is thus determined by projects whose construction has already started. As the commitments were made before the Fourth Plan was prepared, it can be considered more as a program of work than a new look at resource allocation.

76. As a list of projects, the Fourth Plan is however somewhat outdated. Final completion may be somewhat delayed and capital costs may be greater than expected. Physical achievements lagged behind in 1967 so that the carry-over from the Third Plan is much bigger than anticipated when the Plan was prepared. Roughly, the first year of the Fourth Plan will therefore be devoted to implementing investments that the Plan document assumed completed. On the other hand, more accurate information is available now than it was two years ago. Economic statistics and cost data are often different from what is shown in the Plan.

77. The investment program in the public sector is therefore based more on the ability to spend capital funds than on an appraisal of new investment possibilities. The Government has recently boosted its investment pace. From 19 billion rials in 1964, public investment rose to 53 billion rials in 1967. It is likely to reach 114 billion rials by 1972. The sectoral composition of future capital outlays of public authorities should not substantially differ from the Plan's estimates, although the projects may differ somewhat. As already seen, it is mainly in agriculture that the capacity to spend may appear more limited than expected by the Iranian Government. However, expectations of physical achievements, to the extent that they can be compared to Plan targets, are lower.

78. As the Third Plan experience indicates, projections of private investment are more tenuous. The project pipeline is much smaller than is the case for the public program and a four-year period is a short time for the completion of projects not yet considered. Fixed capital formation in the next five years might be some 20 percent smaller than projected by the Plan document. Shortfalls are likely in all sectors, except in housing where future physical construction should be higher than the current rate projected by the Plan. In addition to its 443 billion rials program, the Fourth Plan expects that the public sector will contribute 35 billion rials to private investment in the form of long-term credits mainly for industry, housing and agriculture. If the Government relies on the private sector for providing education, health and social welfare services, supplementary capital contributions from the public sector may be necessary.

79. Total fixed capital formation should amount to about 740 billion rials in the next five years, compared with the Plan target of 810 billion rials; the annual rate of increase in investment would be 10.2 percent instead of the Plan's rate of 13.7 percent. Despite some shortfalls expected in production, the ratio of investment to GDP would be around 20 percent in 1972, a more conservative figure than that of the Plan but one which still requires major efforts. The incremental capital output ratio, including one year lag would be 3.0, as against the 2.5 ratio implied in the Plan's projections.

Table 15

Projections of Fixed Investment, 1968-1972

(in billions of current rials)

	<u>Public Sector</u>		<u>Private Sector</u>		<u>Total</u>	
	<u>Plan</u>	<u>Bank</u>	<u>Plan</u>	<u>Bank</u>	<u>Plan</u>	<u>Bank</u>
Agriculture	76.0	67	41.1	29	117.1	96
Industry	86.7	91	120.3	96	207.0	187
Petroleum	42.3	51	52.0	36	94.3	87
Power	46.3	46	-	-	46.3	46
Transportation	112.5	117	25.0	15	137.5	132
Construction	21.1	25	67.9	75	89.0	100
Others	58.1	50	60.7	41	118.8	91
<u>Total</u>	<u>443.0</u>	<u>447</u>	<u>367.0</u>	<u>292</u>	<u>810.0</u>	<u>739</u>

80. The manpower aspects of future economic development are rightly stressed in the Fourth Plan. Nevertheless, the Plan is probably too optimistic with regard to the possibilities to satisfy the needs. Even if the program for expanding the existing educational facilities is implemented, it is likely that the insufficiency of skilled manpower and management will be felt in industry, administration and education. It is difficult to appreciate quantitatively future shortages and the Plan projections of supply and demand are of little guidance. The Government has gone to some lengths to attract the many trained Iranian technicians living abroad. Nevertheless, a certain deterioration in the quality and some slowdown in productivity growth will probably occur in the next five years. In the longer run, much depends on the Government's readiness to undertake drastic reforms in the education system.

81. There is an urgent need for better coordination of policies and control of program implementation. The existing institutions engaged in economic management also are too numerous and too diffuse. The Fourth Plan document takes stock of the need for improvement in most sectors. Assuming that such changes take place, it envisages a substantial expansion in development expenditure. The Plan does not provide, however, for sufficient steps to be taken to improve decision-making and implementation controls. Considerable progress in these matters is within reach in Iran. Should this not occur, investment costs will be higher and physical achievements lower. After a review of the various economic sectors, the Mission considers that the situation with respect to the Plan investment targets has already deteriorated along these lines. If this continues, difficulties in the executive capacity will only magnify the probable financial problem.

CHAPTER IV

FINANCIAL PROSPECTS

82. Finance was not the main constraint during the implementation of the Third Plan as a whole. With the increase in the absorptive capacity of the country in the last years of the Plan, it became, however, a greater matter of concern. The Fourth Plan targets, even after some downward revision, are ambitious. The financial requirements are such that Iran cannot meet them through its own savings effort. In this effort, the public sector has to contribute much; the magnitude of the required foreign contribution will depend, to a large extent, on future government policies.

A. National Savings

83. Whereas national savings exceeded investment in the first two years of the Plan, they financed only 85 percent in 1967. Some improvement, however, took place in the last year of the Third Plan, when 27 percent of the increment in output was saved. Further efforts along this line will be needed if Iran wants to implement its investment program.

84. Total exports of goods and services are likely to increase much more modestly than as projected by the Fourth Plan. It is probably true that petroleum exports will increase in 1968 at a rate similar, if not superior, to the 17.1 percent rate projected for the 1967-1972 period. It is nevertheless quite doubtful that such a growth will be maintained thereafter. For the Plan period as a whole, oil exports are more likely to grow at about a 10 percent rate. ^{1/} Non-oil exports should also go up more slowly than expected by the Iranian authorities. Mineral ore sales may double while exports of carpets would increase by 35 percent and leather products by one-fourth. A very slow growth should be expected for the other export items. The shipment of these traditional products altogether should increase at a rate of about 3.3 percent, as compared to the Plan projected rate of 4.5 percent. Considerable shortfalls are likely to occur in the Plan projections for future exports resulting from current investments in petrochemicals and aluminum. Some delays in the entry into production of the plants at the end of the period will probably cut projected exports of petrochemicals in 1972 by some 60 percent and aluminum products by 75 percent. Though it is possible that difficulties in the pipeline construction will affect gas exports, available information confirms the Plan projection in this matter. With an increase in the receipts for services, allowing for some development in tourism activities, total exports should rise by about 10 percent annually, as compared to the Plan projection of an annual rate of increase of 15.6 percent.

^{1/} Oil revenue accruing to the Government would increase by 11.5 percent annually as compared to the Plan target of 18.4 percent in the 1967-1972 period.

85. As regards imports, the Plan is more conservative. A 10.4 percent annual rate of increase seems more likely than the Plan rate of 13.2 percent in the 1967-1972 period. This is chiefly due to the slower growth in GDP which is expected to result in more moderate increases in consumer goods and raw material imports. Under imports of services, the Iranian balance of payments includes purchases for defense purposes. On the assumption that those imports would remain at their current level of about 7 billion rials, total imports of non-factor services will increase by about 7 percent between 1967 and 1972.

Table 16

Projections of the External Current Account

	<u>billions of rials</u>		<u>Annual rate of change</u> (percent)		
	<u>1967</u>	<u>1972</u>	<u>1967-1972</u>		<u>1962-1967</u>
	<u>Actual</u>	<u>Mission</u>	<u>Mission</u>	<u>Plan</u>	<u>Actual</u>
Exports of Merchandise	129.6	212	10.4	18.6	11.0
Petroleum	(116.0)	(186)	(9.9)	(17.1)	(11.4)
Traditional goods	(13.6)	(16)	(3.3)	(4.5)	(8.2)
New exports	-	(10)	-	-	-
Exports of Services	9.6	13	5.6	5.0	16.3
<u>Total Exports of Goods</u> <u>and Services</u>	<u>139.2</u>	<u>225</u>	<u>10.1</u>	<u>15.6</u>	<u>11.3</u>
Imports of Merchandise ^{a/}	90.5	153	11.0	12.5	16.6
Consumer goods	(20)	(29)	(7.8)	(8.7)	(5.5)
Raw materials	(42)	(74)	(12.0)	(14.0)	(22.0)
Capital goods	(28)	(50)	(12.0)	(13.0)	(21.0)
Imports of Services	21.9	32	7.1	15.0	24.0
<u>Total Imports of Goods</u> <u>and Services</u>	<u>112.4</u>	<u>184</u>	<u>10.4</u>	<u>13.2</u>	<u>17.3</u>
<u>Net Exports of Goods</u> <u>and Services</u>	<u>26.8</u>	<u>41</u>	<u>8.7</u>	<u>21.0</u>	<u>-2.9</u>
<u>Factor Income Payments</u>	<u>-43.5</u>	<u>-80</u>	<u>12.8</u>	<u>n.a.</u> ^{b/}	
<u>Total on Current Account</u>	<u>-16.7</u>	<u>-39</u>			

^{a/} Foreign trade data are given in Iran according to the Geneva classification. No economic breakdown by type of merchandise is satisfactory.

^{b/} The Fourth Plan does not include interest payments on foreign debt in the current account of the balance of payments.

86. Because of substantial profit remittances from the oil companies, the resource surplus will be accompanied by a financial gap on external account. Factor income payments amounted to 43.5 billion rials in 1968 bringing the deficit of the nation on current account to 16.7 billion rials. Besides profit remittances of the oil companies this included the payment of interest on external public debt for an amount of 1.8 billion rials. The Fourth Plan document does not include future interest payments in the current account of the balance of payments and thus projects a cumulative deficit of 66 billion rials for the Plan period. On the same grounds the deficit implied by the Mission's projections would be 138 billion rials. If one adds future interest payments on the existing debt and the debt to be contracted to finance this gap, the deficit on the balance of payments would more than double within the Plan period.

87. National savings would only amount to 17.0 percent of GNP in 1972, compared with 16.1 percent in 1967. The implied marginal savings ratio is 19.3 which is similar to that of the Third Plan period. The projected rapid increase in factor income payments explains in part the modest improvement in national savings in the course of the Fourth Plan. 1/ This would allow an annual increase in per capita consumption of 3.4 percent whereas the Plan projected a 4.1 percent rate. If private consumption is not to be further reduced, the Government will have to make great efforts to control its current expenditure.

1/ The ratio of domestic savings to GDP will increase from 22.1 percent in 1967 to 24.6 percent in 1972. This implies a marginal savings ratio of 30 percent, probably more realistic than the ratio of 46 percent projected in the Fourth Plan.

Table 17
Projection of National Expenditure

	billions of current rials		Annual Rate of Change 1967-1972 (percent)	
	1967	1972		
	<u>Actual</u>	<u>Mission</u>	<u>Mission</u>	<u>Plan</u>
GDP at factor costs	566.1	813	7.5	10.0
Indirect Taxes	39.7	61	9.0	9.0
<u>GDP at market prices</u>	<u>605.8</u>	<u>874</u>	<u>7.6</u>	<u>9.9</u>
Net factor income receipts	-43.5	80	12.8	n.a.
<u>GNP at market prices</u>	<u>562.3</u>	<u>794</u>	<u>7.1</u>	<u>(9.4)^{a/}</u>
Deficit on Current Account	16.7	39	18.3	n.a.
<u>National Expenditure</u>	<u>579.0</u>	<u>833</u>	<u>7.5</u>	<u>8.8</u>
<u>Gross Investment</u>	<u>107.1</u>	<u>174</u>	<u>10.2</u>	<u>13.7</u>
<u>Consumption</u>	<u>471.9</u>	<u>659</u>	<u>6.9</u>	<u>7.5</u>
Public	71.9	116	10.0	10.0
Private	400.0	543	6.4	6.7
<u>Savings</u>				
Domestic Savings	133.9	215	9.9	15.5
National Savings	90.4	135	8.0	n.a.
<u>Savings Ratios</u>			<u>Marginal Ratios</u>	
Domestic (percent of GDP)	22.1	24.6	30.1	45.6
National (percent of GNP)	16.1	17.0	19.3	n.a.

^{a/} The Fourth Plan lumps interest payments on foreign debt with principal debt repayment shown in the capital account of the balance of payments. The Plan's projections in national terms are therefore overestimated.

B. Public Savings

88. The contribution to national savings by the public sector may fall from 35 percent in 1967 to 22 percent in 1972 if present policies are continued. If one assumes a growth rate for oil revenues of 9.5 percent after 1968 (as opposed to the 17.5 percent envisaged by the Plan) public savings will be about half the Plan target. This forecast is based on two other assumptions as well. First, since the Plan target for the increase in GNP is unlikely to be achieved, a growth rate in non-oil revenues of 8 percent per annum is reasonable after allowing for some built-in elasticity in the tax system. Secondly, the budget for 1968 implies a growth rate of 18 percent in current expenditure compared with the average 10 percent projected by the Plan; an increase in defense expenditure of 25 percent is largely responsible for this. If no restrictive measures are taken by the Government, there is no reason to suppose that current expenditure will increase after 1968 by less than 12 percent annually, the rate attained during the Third Plan. On these assumptions about 60 percent of oil revenue would be allocated to current expenditure for the 1968-1972 period, compared with 48 percent under the Third Plan.

The Need for Policy Changes

89. Changes in policies are therefore required to raise public savings at least to 50 percent of the projected public investment. First, it is necessary to curb the growth in current expenditure starting in 1969. It should be within the power of the Government to limit future annual increases to 8 percent, thus achieving the 10 percent annual growth envisaged by the Plan for the 1967-1972 period. ^{1/} This expansion, after allowing for quadrupling in interest payments between 1968 and 1972, would permit a growth in social and economic expenditure of 8 percent if both general services and defense expenditure are kept within a rate of 4 percent.

^{1/} An attempt to improve the process of public expenditure is now being made through a regionalization of the budget whereby the peripheral units, starting at the village level, will report on their requirements to the next level and up to the ministry which, together with the Plan Organization, will decide on the allocations. Education has been chosen as a pilot sector and the region of Kermanshah as first territorial unit. Guidelines have been provided for the purpose of reporting whereby the needs are to be expressed in terms of teachers and number of classrooms. Lack of experienced personnel and the tendency by reporting units to overestimate their requirements are the main difficulties which this experiment is facing.

Table 18

Projections of Public Savings, 1968-1972 Period

(billions of rials)

	<u>Fourth Plan</u>	<u>Mission</u>	
		<u>A a/</u>	<u>B b/</u>
Current Revenue	849	759	805
of which: Oil Revenue	(487)	(415)	(415)
Current Expenditure	510 <u>c/</u>	574	530
<u>Savings</u>	<u>339 d/</u>	<u>185</u>	<u>275</u>
Amortization of Foreign Debt	58	58	58
Investment Expenditure	380	388	388
Transfers to the Private Sector	35	27	27
<u>Capital Expenditure</u>	<u>473</u>	<u>473</u>	<u>473</u>
<u>Savings as Percent of Capital Outlays</u>	<u>72</u>	<u>39</u>	<u>58</u>

a/ Assuming continuation of present policies.

b/ Assuming change in policies with respect to current expenditure and non-oil revenue.

c/ Adjusted for actual expenditure in 1967, the base year for the Plan's projections.

d/ The Plan does not provide for a breakdown of interest and amortization payments on account of the external public debt. The total allocated by the Plan for payments by the central government's budget is 87 billion rials, an amount similar to the Mission's projections. In order to arrive at a concept of public savings which is absent in the Fourth Plan document, the mission has assumed that the breakdown of debt service, as projected by the Plan, is similar to that of the Mission.

90. Second, this effort has to be accompanied by a revision of the tax structure. For illustrative purposes, it is assumed that this revision would consist of a 15 percent increase in tax proceeds for 1969, in addition to the 8 percent expansion due to the growth in GNP.

A 15 percent increase in direct taxes is not beyond reach if the Government accompanies a moderate increase in the effective rates with a strong action against tax evasion which is at present rather high among self-employed and business firms. ^{1/} But similar increases in customs duties and the few excise taxes on large consumption goods (tobacco, fuel, tea, etc.) will either aggravate the existing degree of protectionism or burden the lowest income groups. These changes in rates should be supplemented by the adoption of sales taxes on a large number of domestic products, with selected rates for luxury goods. Greater reliance on direct taxes and general sales taxes would also provide a more modern tax structure, better suited to the present development stage of the country.

91. The recommended increase in revenues, including oil receipts, would bring the overall tax burden to 23 percent of the projected GNP for 1972. This compares with a tax burden of 19 in 1967 which is rather low among developing countries with comparable per capita income and degree of openness. Future increases should be obtained without serious disincentive effect on the economy. Under these projections the allocation of oil revenue would also be more development oriented since only 35 percent of their amount will be necessary to finance current expenditure. This target, implying some improvement over the Third Plan performance, should be considered, however, as a minimum effort on the part of the Government.

Monetary Pressures

92. Domestic borrowing cannot be considered a feasible alternative to tax increases. In view of the various investment opportunities for private funds, it is unlikely that much can be expected from sales of long-term government bonds to the public. The possibilities for financing the government cash deficit through the banking system are also

^{1/} A law passed in March 1967 has transformed the income tax into a global progressive tax on all personal incomes while introducing several other innovations aiming at a more efficient administration of the tax as well as a more equitable distribution of the burden. There was no fall in revenue in 1967 despite the necessary adjustments in the administrative machinery. Nevertheless, the implementation of the new law is encountering some difficulties. For instance a number of self-employed taxpayers are required to keep record of their income and expenditure. As accounting is not a current practice in Iran, not even for industrial and commercial enterprises, and the new procedure will imply a higher tax burden, the individual taxpayer is evidently reluctant to accept it. (For a detailed discussion of the new law, see IBRD, Current Economic Position and Prospects, op. cit.)

limited. Total domestic credit is unlikely to increase by more than 10 percent per annum between 1967 and 1972, even assuming that time and savings deposits will expand at a rate of 15 percent, comparable with the trend in recent years. The public sector will therefore have to limit its recourse to the banking system if it does not want to squeeze the expansion of credit to the private sector.

93. Some pressures are already building up in the first year of the Plan. Tentative projections for 1968 by the Central Bank indicate credit to the private sector increasing at 14 percent (or 20 billion rials), as against 18 percent in 1967. If the envisaged level of public expenditure is to be carried out, net claims on the public sector will expand by 17 billion rials ¹/₂, which is higher than the amount of 10 billion rials projected by the Central Bank. It is likely that some measures will be taken to limit the expansion of credit to the private sector. Otherwise, it will be difficult to satisfy total credit requirements without further drawdown on foreign reserves or an expansion in money supply substantially above the growth of GNP.

94. The Fourth Plan was aware of these possible pressures and projected a total amount of government domestic borrowing for the 1968-1972 period of about 60 billion rials. This seems a maximum expansion since it would not allow credit to the private sector to increase by more than 6 percent per annum. The Government will therefore have to face the alternative of limiting its reliance on the banking system or of abandoning its price stability policy.

95. The above projections which are in line with the Fourth Plan assumptions imply an increase in net foreign exchange reserves of 47.5 billion rials throughout the period. If Iran wants to maintain reserves equivalent to about three months' imports of goods and services in 1972, gross reserves should increase by about 20 billion rials over the 1967 level.

C. Foreign Financing Requirements

96. It thus appears that the size of possible fixed capital formation and the savings prospects are such that Iran will have to rely on foreign capital on an unprecedented scale. Future profit remittances, chiefly from the oil companies, are likely to exceed by about 140 billion rials (\$1,850 million) net exports of goods and services in the Fourth Plan period. This is twice as much as projected by the Iranian authorities. The need to provide for an increase in net foreign exchange reserves and possible capital outflows is similarly estimated at about 47 billion rials (\$630 million). The extent to which the Government will have to borrow abroad will therefore depend on future private capital inflows and service on external public debt.

¹/₂ After allowing for an increase in the deposits of government agencies of about 3 billion rials.

Private Investment

94. The Government's attitude vis-à-vis foreign private capital is rather ambiguous. Its policies proceed on the one hand from the will to promote industrialization by all means, including tax incentives and protection of the domestic market. Foreign capital brings not only funds but also managerial and technical talents which are greatly needed in Iran. This implies that foreign investors are attracted by comparatively high profits, security of investment and the possibility to transfer incomes abroad. But in this respect, the Government is reluctant to allow foreigners to benefit from policies which are mainly aimed at stimulating domestic investment. The procedure for obtaining "commencement permits" often discourages potential foreign investors.

98. Foreign private investment apart from the petroleum sector was limited in the Third Plan; it accounted for 5.5 billion rials out of a total capital inflow of 88.5 billion rials (\$120 million). Investments mainly took place in light manufacturing industries. Expenditures of the oil companies for research, development and construction were estimated at 18.0 billion rials in the same period while their capital remittances amounted to 7.4 billion rials. In addition to this net inflow, Iran received a bonus of 14.3 billion rials in 1964 and 1965 for granting new oil concessions to non-Consortium companies.

99. There is little basis for evaluating prospects for private capital inflows. It can be assumed with the Fourth Plan that investment of the oil companies will increase by 25 percent annually over the average of the last three years. Another component of future investment is determined by the joint ventures in petrochemicals and aluminum which are to take place within the Plan period. Because of the rapid amortization allowed to the foreign partners, it should be expected that a major part of the capital entering the country for those projects at the beginning of the Plan period will be remitted abroad before 1972. Other foreign investments are assumed to be somewhat offset by capital outflows. ^{1/} Net private capital inflows are likely to be in line with the Fourth Plan projections.

^{1/} Plan projections provide for speculative capital outflow at a rate of 7 billion rials a year, similar to the amount of errors and omissions in 1966.

Future Debt Service

100. Debt servicing problems are not unknown in Iran. The heavy reliance on medium-term credits in the late fifties was accompanied by a rapid rise in service payments. The stabilization program undertaken in 1961 brought this increase to a halt. As export earnings continued to go up and official aid was obtained from the United States and IBRD, the balance of payments improved in the first years of the Third Plan. More recently, long-term loan capital has again become insufficient to carry out the expenditure program and Iran has started borrowing from foreign suppliers or private banks on a larger scale. Whereas 8 percent of foreign exchange earnings were devoted to debt service in 1967, in 1968 the ratio will be above 11 percent. 1/

101. The external public debt of Iran (including undisbursed) amounted to \$1,745 million as of March 22, 1968. About one-third is privately held debt. Official loans mainly from the United States, USSR and IBRD, amount to more than \$1,000 million. Estimated future service payments on the total external debt are to increase from \$138 million in 1968 to a peak \$224 million in 1971.

102. In addition to the service of loans already obtained, Iran will have to assure payments for the debt to be contracted in the next five years. On the basis of present policies, the time required to obtain official loans and recent cost increases of international capital, it is assumed that future capital will be obtained by Iran at an average interest rate of 7 percent with terms to maturity of 17 years including a two-year grace period. Debt service on this account will rise from about \$11 million in 1969 to \$143 million at the end of the Plan period.

103. Debt service payments would therefore amount to 27 billion rials (\$370 million) in 1972 in this hypothesis. 2/ Total exports of goods and services including only net receipts from petroleum are projected at 145 billion rials. On these grounds, the debt service ratio will increase from 8 percent in 1967 to 18.6 percent in 1972. The debt burden could therefore be a matter of concern; how much concern depends on the terms at which Iran will borrow.

1/ Based on estimates of public debt service as projected by IBRD. The corresponding ratio based on Iranian projections would be 12.3 in 1968.

2/ Despite a smaller external gap, the Fourth Plan projects higher service payments. The Plan possibly assumed greater reliance on medium-term financing than implied in the Mission's hypothesis of service terms on future borrowing.

Table 19

Service on External Public Debt

(billions of rials)

	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>
<u>Interest</u>	<u>2.4</u>	<u>4.4</u>	<u>5.9</u>	<u>7.9</u>	<u>10.1</u>
Existing Debt a/	2.4	3.6	4.0	3.8	3.3
Debt to be contracted b/	-	0.8	1.9	4.1	6.8
<u>Amortization</u>	<u>7.9</u>	<u>10.3</u>	<u>13.5</u>	<u>14.8</u>	<u>16.9</u>
Existing Debt a/	7.9	10.3	12.7	13.0	13.0
Debt to be contracted b/	-	-	0.8	1.8	3.9
<u>Total</u>	<u>10.3</u>	<u>14.7</u>	<u>19.4</u>	<u>22.7</u>	<u>27.0</u>

a/ IBRD estimates of future service payments on the debt outstanding as of March 22, 1968.

b/ Based on the Mission's estimates of the financing of the projected external gap.

Amount, Terms and Conditions of Future Borrowing

104. On the assumptions made by the Mission, Iran, in order to achieve its investment program, would have to obtain disbursements on foreign loans amounting to 225 billion rials in the next five years. This is 40 percent more than projected by the Fourth Plan. The loan pipeline was about 75 billion rials at the beginning of the Plan. On the most favorable assumption that all loans already contracted will be drawn down within the Plan period, Iran will still need 161 billion rials to be obtained on new borrowing terms. This means that Iran will have to contract debt of at least 300 billion rials (\$4,000 million) after allowing for reasonable delays in disbursement and making provision for a loan pipeline of about 90 billion rials at the end of the Fourth Plan. Drawdowns on external capital would then amount to 56 billion rials in 1972, as compared to 19 billion in 1967.

105. Most of existing assistance is on a project basis. The implied acceleration in foreign aid utilization will depend on continued improvement in executing capacity and more systematic project preparation, construction and supervision.

Table 20

Foreign Capital Requirements

(billions of rials)

	<u>1967</u>	<u>1972</u>	<u>Total 1968-1972</u>	
	<u>Actual</u>	<u>Mission</u>	<u>Mission</u>	<u>Plan</u>
Goods and Services, net	26.8	41	160	342.6
Profit Remittances, net	- 41.7	- 70	- 298	- 408.7
Private Capital, net	3.9	10	54	52.4
Other Operations <u>a/</u>	- 3.4	- 6	- 27) - 47.5
Change in Reserves <u>b/</u>	1.0	- 1	- 20	
Public Debt Service <u>c/</u>	- 5.8	- 27	- 94	- 103.0
Interest	(- 1.8)	(- 10)	(- 31)	n.a.
Amortization	(- 4.0)	(- 17)	(63)	n.a.
<u>External borrowing, gross</u>	19.2	56	(225)	(164.2)
Loans already contracted	(19.2)	(10)	(75)	n.a.
Loans to be contracted	-	(46)	(150)	n.a.

a/ Including transfer and errors and omissions.

b/ Assumes no change in foreign liabilities so that gross foreign exchange reserves will be equivalent to three months' imports in 1972.

c/ See Table 19.

106. Iran should weigh the advantages it sees in attaining the investment which may be physically possible during the Plan period against the effect on its future creditworthiness. The demand for future external assistance is in any case such as to suggest the need for a common understanding between Iran and its foreign partners of its development problems and policies to encourage a program of lending on terms appropriate to the circumstances of the country.

CHAPTER V

CONCLUSION

107. The objectives of the Fourth Plan are ambitious; perhaps even too ambitious. Economic growth will continue, though at a rate somewhat lower than in recent years, chiefly because exceptional conditions for agriculture and petroleum are unlikely to be repeated. The possible 7 percent annual growth rate is still remarkable and should lead to a per capita income of around \$350 by 1972. It will be much more difficult to attain a reduction in the unemployment rate and a more balanced income distribution, which are major aims of the Fourth Plan, as they were of the previous Plan also.

108. The investment program formulated by the Fourth Plan will have its major impact in the 1970's, when most of the large scale investments will come to fruition. Though there were uncertainties about their economic justification, commitments were made. These major projects were started before the inception of the Plan; they largely determined the size and composition of the program.

109. In the next five years, the volume of investment in the public sector will fall short of the Plan's targets despite recent increases in the absorptive capacity of the Iranian economy, but since cost increases will tend to offset delays in construction, the financial allocations are likely to be fully used. The major constraint on future investments will be of a financial nature. Even if the rate of saving is substantially improved, Iran will have to rely heavily on foreign capital in order to invest as expected.

110. Starting from a comfortable credit position in 1967, Iran's foreign commitments will sharply increase within the Plan period. This growth in indebtedness should be given due consideration since the debt burden in 1972 will absorb more than 18 percent of its export earnings if Iran borrows externally to the extent required to finance the projected external gap. The main impact of future borrowing, however, will be felt in the period after 1972. Iran's creditworthiness depends, at least in part, on the prospects of the economy in the 1970's. They are uncertain, particularly in respect to the growth of petroleum revenues on which Iran will continue to rely heavily for the financing of domestic expenditure and external payments, including debt service. On the other hand, the recently discovered copper mines may bring additional resources to the economy.

111. These prospects will be substantially enhanced if more attention is paid to the management of assets as well as their creation. Heavy borrowing abroad will be justified mainly to the extent that Iran succeeds in establishing an efficient productive system decreasingly dependent on government support. In any development policy there is a gamble. In Iran this gamble is magnified by the high targets of the Government. The will to build up an economy, however, should not be compromised by laying its foundation too hastily.

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1. External Public Debt Outstanding as of March 22, 1968
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^{1/}See additional tables in Volume II.

Table 1: IRAN - EXTERNAL PUBLIC DEBT OUTSTANDING AS OF MARCH 22, 1968 ¹

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

Source	Debt Outstanding March 22, 1968	
	Disbursed only	Including undisbursed
TOTAL EXTERNAL PUBLIC DEBT ²	<u>643,237</u>	<u>1,744,833</u>
Privately held debt	<u>176,410</u>	<u>587,340</u>
Suppliers	<u>86,842</u>	<u>346,073</u>
Austria	3,015	3,656
France	33,068	91,894
Germany	26,960	63,119
India	488	3,531
Italy	193	19,503
Japan	3,469	49,472
Switzerland ³	-	2,037
United Kingdom	7,670	87,526
United States	11,980	19,902
Yugoslavia	-	2,433
Financial institutions	<u>89,567</u>	<u>241,267</u>
Austria	56	5,781
France	6,259	45,564
Italy	-	26,558
United Kingdom	713	10,320
United States	82,539	153,045
Loans from international organizations - IBRD	<u>128,262</u>	<u>201,765</u>
Loans from governments	<u>338,565</u>	<u>955,728</u>
Bulgaria	-	8,000
Czechoslovakia	4,763	5,071
Denmark	-	2,800
Germany	39,124	48,000
Hungary	219	930
Israel	167	6,000
Poland	3,530	3,987
Rumania	13,016	45,301
United Kingdom	7,092	9,348
United States	243,366	424,399
U.S.S.R.	26,967	401,044
Yugoslavia	321	848

¹ Debt with an original or extended maturity of one year or more.

² Excludes unallocated portions of frame agreements where known:

Czechoslovakia	\$ 14,705,930
France	96,545,000
Hungary	8,837,550
Poland	10,784,000
Rumania	20,000,000
Total	\$150,872,480

³ Excludes approximately \$600,000 part of a Swiss suppliers' credit which has not been allocated to specific projects.

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Table 2: IRAN - ESTIMATED FUTURE SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT
OUTSTANDING INCLUDING UNDISBURSED AS OF MARCH 22, 1968

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

YEAR	DEBT OUTST (BEGIN OF PERIOD)		PAYMENTS DURING PERIOD		TOTAL
	INCLUDING UNDISBURSED	AMORTI- ZATION	INTEREST		
TOTAL EXTERNAL PUBLIC DEBT					
1968/69	1,676,416	185,589	32,314		137,822
1969/70	1,571,998	136,916	47,379		184,295
1970/71	1,433,992	169,783	53,519		223,231
1971/72	1,284,228	173,976	56,679		224,655
1972/73	1,121,252	173,533	43,996		217,495
1973/74	916,753	158,721	36,906		195,627
1974/75	758,832	153,516	36,067		183,513
1975/76	614,526	132,246	23,462		155,701
1976/77	472,286	106,644	17,779		124,423
1977/78	365,643	75,694	13,677		89,370
1978/79	289,249	61,673	10,813		72,487
1979/80	228,275	51,896	8,471		60,357
1980/81	176,391	44,827	6,689		50,717
1981/82	132,562	34,277	5,203		39,439
1982/83	93,885	24,383	4,011		28,393

Note: Includes service on all debt listed in Table 1 prepared November 15, 1968 with the exception of the following for which repayment terms are not available:

Total	\$68,417,000
Privately held debt - Suppliers	33,937,000
Loans from governments	34,480,000
Bulgaria	8,000,000
Poland	168,000
Rumania	45,000
United States (of which \$24,100,000 is surplus property and lend- lease credits in dispute)	26,267,000

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TABLE 3
POPULATION BY AGE GROUP AND SEX
NOVEMBER 1966
(thousand of persons)

	<u>Active</u> ^{1/}	<u>Inactive</u>	<u>Total</u>
<u>Male</u>	<u>6,585</u>	<u>6,397</u>	<u>12,982</u>
Under 10	-	4,436	4,436
10-14	571	1,023	1,594
15-64	5,773	664	6,437
65 and over	241	274	515
<u>Female</u>	<u>1,000</u>	<u>11,097</u>	<u>12,097</u>
Under 10	-	4,107	4,107
10-14	202	1,221	1,423
15-64	777	5,337	6,114
65 and over	21	432	453
<u>Sub-total Settled Population</u>	<u>7,585</u>	<u>17,494</u>	<u>25,079</u>
Unsettled Population	n.a.	n.a.	244
<u>Total Population</u>			<u>25,323</u>
of which Male			(13,110)
Female			(12,213)
Mean Average	22.2 year		
Median Age	16.9 year		

^{1/} Employed or seeking work.

Source: National Census of Population and Housing, March 1968.

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TABLE 4
EMPLOYMENT STATUS OF THE ACTIVE^{1/} POPULATION
NOVEMBER 1966

	<u>Thousand of Persons</u>	<u>Percent</u>
Agriculture, Forestry, Hunting and Fishing	3,168	41.8
Mining and Quarrying	26	0.3
Manufacturing	1,268	16.7
Construction	510	6.7
Electricity, Gas, Water and Sanitary Services	53	0.7
Commerce	552	7.3
Transport, Storage and Communications	224	3.0
Services	930	12.3
Others	128	1.7
<u>Sub-total Employed</u>	<u>6,859</u>	90.5
Unemployed ^{2/}	726	9.5
<u>Total Active Population</u>	<u>7,585</u>	<u>100.0</u>

^{1/} See Table 3 for definition of Active Population.

^{2/} Includes 442,000 persons temporarily unemployed.

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TABLE 5
PRODUCTION OF SELECTED AGRICULTURAL ITEMS^{1/}

	('000 tons)					
	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
<u>Wheat</u>						
Plan Organization	2,755	2,468	2,623	3,000	3,150	3,308
Bank Markazi	2,755	2,468	2,623	3,000	3,500	n.a.
Ministry of Agriculture	-	2,612	2,350	3,648	4,381	4,618
US Department of Agriculture	2,700	3,000	2,599	2,900	3,190	3,800
<u>Barley</u>						
Plan Organization	767	740	718	800	840	822
Ministry of Agriculture	765	740	718	935	1,080	1,035
<u>Rice (paddy)</u>						
Plan Organization	567	574	615	681	715	751
Ministry of Agriculture	561	574	615	681	788	912
US Department of Agriculture	700	860	860	846 ^{2/}	877 ^{2/}	923 ^{2/}
<u>Tobacco</u>						
Plan Organization	19	12	19	26	27	28
Ministry of Agriculture	19	12	10	13	15	16
<u>Cotton (ginned)</u>						
Plan Organization	94	125	121	147	154	162
International Cotton Advisory Committee	92	115	121	152	115	118
<u>Sugar Beets</u>						
Plan Organization	766	1,191	1,282	1,394	1,464	1,537
<u>Vegetables and Melons</u>						
Plan Organization	-	-	-	1,100	1,155	1,213
US Department of Agriculture	900	1,100	1,000	1,100	1,110	1,110 ^{3/}
<u>Fruits</u>						
Plan Organization	1,150	1,100	1,250	1,250	1,313	1,378
<u>Meat</u>						
Ministry of Agriculture	278	246	271	285	335	n.a.
US Department of Agriculture	400	376	380	212	213	250 ^{3/}
<u>Milk</u>						
Plan Organization	1,710	-	-	1,608	1,688	1,773
US Department of Agriculture	1,600	1,600	1,350	1,600	1,700	1,800 ^{3/}
<u>Eggs</u>						
Plan Organization	43	47	49	51	51	57
US Department of Agriculture	35	35	38	40	42	44

^{1/} Due to wide differences in production estimates which could not be explained by the Bank mission, statistics are quoted according to their source.

^{2/} Estimated on basis of 65% milling rate from following figures in '000 tons of milled rice:

1965 - 550
1966 - 570
1967 - 600

^{3/} Provisional.

TABLE 6

VOLUME OF SALES OF SELECTED INDUSTRIAL PRODUCTS^{1/}

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
Flour (thousand tons)	345	373	403	435	469	694	1,794
Carpets (thousand square meters) ^{2/}	829	965	1,049	1,058	2,315	2,839	3,276
Cotton Fabrics (million meters)	169	236	269	304	386	429	423
Cotton (thousand tons)	110	107	115	89	125	131	155
Cigarettes (million units)	7,437	8,361	9,058	8,432	8,579	9,000	9,669
Vegetable Oil (thousand tons)	33	49	50	64	71	95	122
Rice (thousand tons)	68	78	89	101	119	129	205
Sugar (thousand tons)	147	160	158	211	122	167	263
Coats and Trousers (thousand units)	2	7	24	1,233	2,082	2,930	3,780
Thread (thousand tons)	10	28	26	30	16	39	44
Footwear (million pairs)	4	4	4	10	11	13	19
Bricks (million pieces)	1,276	1,502	1,447	3,450	2,828	2,642	3,887
Cement (tons)	679	797	745	688	787	1,088	1,417

^{1/} The products are ranked according to their value in 1965 from flour (15.3 million rials) to cement (1.8 million rials).

^{2/} Derived by the Bank mission on the basis of statistics for 1964 and 1965 and export data for the period.

Source: Ministry of Economy.

TABLE 7

PETROLEUM STATISTICS

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
(millions of barrels)						
Net Crude Oil Production	481.3	538.0	618.6	694.5	771.3	947.6
of which: Consortium	(474.7)	(527.2)	(605.9)	(659.9)	(736.2)	(900.3)
Crude Oil Exports	340.8	393.6	470.1	535.0	619.9	785.4
Oil Products Exports	109.6	111.4	100.6	101.7	102.4	103.8
(millions of US dollars)						
Value of Exports ^{1/}	902.1	942.5	999.6	1,138.6	1,298.6	1,547.0
Government Revenues	342.2	388.0	479.9	514.1	599.1	741.7
Profit Remittances ^{1/}	348.7	400.5	351.3	404.1	470.9	563.8

^{1/} Accounting value based on posted prices as recorded in the balance of payments.

Source: Bank Markazi

TABLE 8

GROSS DOMESTIC PRODUCT AT FACTOR COST BY SECTOR^{1/}

(in billion of 1959 rials)

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
Agriculture ^{2/}	89.3	88.9	87.8	92.6	89.8	89.6	100.1	105.7	109.4
Manufacturing ^{3/} and Mining ^{4/}	27.0	29.4	31.8	36.5	39.3	43.4	47.9	53.3	60.1
Petroleum	47.7	53.0	59.7	65.5	73.8	75.6	87.6	98.7	121.5
Construction	11.4	12.5	13.5	13.4	14.8	16.0	19.6	20.7	24.7
Water and Power	1.1	1.9	2.1	2.2	4.2	5.0	5.6	7.7	9.3
Transport and Communication	24.1	24.7	25.3	27.2	27.9	28.2	28.8	29.2	32.4
Wholesale and Retail Trade	24.5	24.9	25.6	27.1	27.5	29.1	32.2	35.4	38.9
Private Services	18.6	20.7	21.9	22.6	24.2	27.3	29.8	32.8	35.2
Dwellings	15.9	17.1	18.2	19.2	20.1	22.2	23.4	25.5	27.3
Government Services ^{5/}	23.4	23.5	23.7	25.3	28.0	30.8	36.1	38.6	41.7
<u>Gross Domestic Product</u>	<u>283.0</u>	<u>296.6</u>	<u>309.6</u>	<u>331.6</u>	<u>349.6</u>	<u>367.2</u>	<u>411.1</u>	<u>448.4</u>	<u>500.5</u>

^{1/} Iran's official national accounts are prepared by the Bank Markazi. They substantially differ from Plan Organization's estimates as shown in the Fourth Plan. They also differ from the accounts prepared by the Ministry of Economy. Bank mission estimates of the national accounts are based on Bank Markazi's data after some adjustments which mainly result in the elimination of the statistical discrepancies shown in official data.

^{2/} Though the Bank mission felt that the value of agricultural production is underestimated, it has been unable, owing to the unreliability of data on commodity production, to quantify the necessary adjustments and therefore retained the Bank Markazi statistics.

^{3/} The Bank mission has evaluated the value added by the various branches of manufacturing. Estimates of total value added in 1963 and 1965 onward are similar to Bank Markazi's estimates. Estimate for 1962 is 10 percent higher than Bank Markazi's data.

^{4/} Independent estimates by the Bank mission led to a growth rate much inferior to Bank Markazi's estimates.

^{5/} Bank Markazi's estimates are based on the amount of wages and salaries currently paid by the Government. Bank Markazi deflated current data by the general salary index. The Bank mission has evaluated the services rendered by the Government on the basis of the increase in personnel after allowing for improvement in productivity. Annual deviations from the trend have been estimated by adjustment on the basis of Bank Markazi's data.

TABLE 9

GROSS NATIONAL PRODUCT AT CURRENT MARKET PRICES

(in billion of rials)

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
GDP at current factor cost ^{1/}	283.0	312.9	330.3	357.1	377.2	412.4	465.4	505.3	566.1
Indirect Taxes ^{2/}	18.1	20.2	19.7	20.3	22.7	23.6	28.3	35.7	39.7
<u>GDP at current market prices</u>	<u>301.1</u>	<u>333.1</u>	<u>350.0</u>	<u>377.4</u>	<u>399.9</u>	<u>436.0</u>	<u>493.7</u>	<u>541.0</u>	<u>605.8</u>
Factor Income Payments ^{3/}	-16.5	-22.2	-24.3	-27.6	-31.5	-28.1	-31.6	-36.2	-43.5
<u>GNP at current market prices</u>	<u>284.6</u>	<u>310.9</u>	<u>325.7</u>	<u>349.8</u>	<u>368.4</u>	<u>407.9</u>	<u>462.1</u>	<u>504.8</u>	<u>562.3</u>

^{1/} The gross domestic product has been estimated at constant factor cost (see Table 8). Current factor costs were calculated in applying the implicit price index of the official national accounts.

^{2/} No estimates of subsidies are available (Bank Markazi).

^{3/} Balance of payments' data. Includes petroleum profit remittances as shown in Government and NIOC accounts.

TABLE 10
EXPENDITURE ON GROSS DOMESTIC PRODUCT

(in billion of rials)

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
<u>Gross Domestic Product</u>	<u>377.4</u>	<u>399.9</u>	<u>436.0</u>	<u>493.7</u>	<u>541.0</u>	<u>605.8</u>
Net. Exports of Goods and Services	30.9	35.2	23.0	21.3	24.5	26.8
Exports ^{1/}	(81.4)	(84.5)	(91.3)	(106.0)	(117.3)	(139.2)
Imports	(50.5)	(49.3)	(68.3)	(84.7)	(92.8)	(112.4)
Gross Investment ^{2/}	44.6	46.9	59.7	77.4	86.5	107.1
Public Sector	(14.7)	(16.0)	(18.8)	(33.3)	(37.0)	(52.9)
Private Sector	(29.9)	(30.9)	(40.9)	(44.1)	(49.5)	(54.2)
Government Consumption ^{3/}	39.2	44.4	49.2	54.0	62.5	71.9
Private Consumption	262.7	273.4	304.1	341.0	367.5	400.0

^{1/} Includes petroleum exports as estimated in balance of payments.
Services include minor factor services other than investment income payments.

^{2/} Bank Markazi's estimates. No statistics on changes in stocks are available.

^{3/} Purchases of goods and services in government accounts differ from Bank Markazi's estimates.

TABLE 11

NATIONAL AND DOMESTIC SAVINGS, 1962-1967

(in billion of current rials)

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
Gross Domestic Product at Market Price	377.4	399.9	436.0	493.7	541.0	605.8
Total Consumption	301.9	317.8	353.3	395.0	430.0	471.9
<u>Gross Domestic Savings</u>	<u>75.5</u>	<u>82.1</u>	<u>92.8</u>	<u>98.7</u>	<u>111.0</u>	<u>133.9</u>
Factor Income Payments	-27.6	-31.5	-28.1	-31.6	-36.2	-43.5
<u>Gross National Savings</u>	<u>47.9</u>	<u>50.6</u>	<u>54.6</u>	<u>67.1</u>	<u>74.8</u>	<u>90.4</u>
Surplus of Balance of Payments on Current Account	-3.3	-3.7	5.1	10.3	11.7	16.7
Gross Investment	44.6	46.9	59.7	77.4	86.5	107.1

TABLE 12

INVESTMENT AND SAVINGS RATIOS

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
Investment as percent of GNP	12.7	12.7	14.6	16.7	17.1	19.0
National Savings as percent of GNP	13.7	13.7	13.4	14.5	14.8	16.1
National Marginal Savings Ratios	n.a.	14.5	10.1	4.6	18.0	27.1
National Savings as percent of Investment	107.4	107.9	91.5	86.7	86.5	84.4
Domestic Savings as percent of GDP	20.0	20.5	21.3	20.0	20.5	22.1
Domestic Marginal Savings Ratios	n.a.	29.3	29.6	10.2	26.0	35.3

TABLE 13

SUMMARY OF CENTRAL GOVERNMENT OPERATIONS^{1/}

(in billion of rials)

	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	Budget Estimate <u>1968</u>
<u>Current Revenue</u>	<u>60.8</u>	<u>68.2</u>	<u>79.5</u>	<u>98.2</u>	<u>107.6</u>	<u>126.6</u>
<u>Current Expenditure</u>	<u>49.5</u>	<u>54.9</u>	<u>59.0</u>	<u>67.5</u>	<u>76.5</u>	<u>90.5</u>
<u>Current Surplus</u>	<u>11.3</u>	<u>13.3</u>	<u>20.5</u>	<u>30.7</u>	<u>31.1</u>	<u>36.1</u>
<u>Capital Expenditure</u>	<u>17.6</u>	<u>25.9</u>	<u>42.5</u>	<u>42.7</u>	<u>61.2</u>	<u>91.6</u>
Investment	14.6	22.3	37.1	37.8	53.4	76.9
Debt Repayment	3.0	3.6	5.4	4.9	7.8	14.7
<u>Overall Deficit</u>	<u>6.3</u>	<u>12.6</u>	<u>22.0</u>	<u>12.0</u>	<u>30.1</u>	<u>55.5</u>
<u>Financing</u>						
Banking System	5.2	9.2	17.7 ^{2/}	1.9	12.6	20.5
Treasury Bills	1.1	2.0	2.0	5.4	7.4	8.2 ^{3/}
Foreign Loans	-	1.4	2.3	4.7	10.1	27.0

^{1/} Includes the operations of the Treasury and the Plan Organization. Current expenditure includes recurrent development expenditure financed by the Plan Organization and excludes debt repayment for defense, starting in 1965. For this item budget estimates have been used by the Bank mission.

^{2/} Includes 10.5 billion of oil bonus.

^{3/} Includes 3.5 billion rials in Treasury Bills and 4.5 billion rials in defense bonds.

Source: Bank Markazi, Plan Organization.

TABLE 14

CENTRAL GOVERNMENT CURRENT EXPENDITURE^{1/}

(in billion of rials)

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u> ^{2/}	Budget Estimate <u>1968</u>
<u>General Services</u>	<u>4.6</u>	<u>5.6</u>	<u>7.2</u>	<u>8.0</u>	<u>7.5</u>	<u>9.1</u>	<u>10.0</u>
Supreme Leadership	0.5	0.6	1.1	1.3	1.5	1.9	1.9
Internal Affairs	0.6	0.8	0.8	0.8	0.7	0.8	0.8
Foreign Affairs	0.4	0.6	0.6	0.6	0.7	1.0	1.1
Judiciary Affairs	1.1	1.3	1.5	1.6	2.0	2.2	2.6
Finance Administration	1.1	1.5	2.4	2.5	1.8	2.2	2.4
Others	0.9	0.8	0.8	1.2	0.8	1.0	1.2
<u>Defense and Security</u>	<u>15.9</u>	<u>17.0</u>	<u>19.1</u>	<u>23.1</u>	<u>25.8</u>	<u>31.7</u>	<u>38.7</u>
Defense	12.1	12.6	13.8	17.2	18.6	23.5	29.3
Security	3.8	4.4	5.3	5.9	7.2	8.2	9.4
<u>Social and Economic Services</u> ^{3/}	<u>19.2</u>	<u>21.6</u>	<u>24.3</u>	<u>24.6</u>	<u>28.3</u>	<u>32.0</u>	<u>34.6</u>
Education	10.0	11.0	12.0	13.0	13.8	15.1	16.4
Hygiene and Medical Care	2.0	3.0	4.6	4.3	4.5	4.9	5.1
Agriculture, Water and Power	3.0	3.3	3.9	2.8	3.0	3.1	3.6
Transportation and Communication	2.5	2.7	2.5	2.7	3.2	3.9	4.1
Others	1.7	1.6	1.3	1.5	3.8	5.0	5.4
<u>Interest Payments</u>	<u>1.1</u>	<u>1.9</u>	<u>2.7</u>	<u>2.8</u>	<u>2.4</u>	<u>2.3</u>	<u>3.3</u>
<u>Others</u>	<u>3.1</u>	<u>3.4</u>	<u>1.6</u>	<u>0.5</u>	<u>3.5</u>	<u>1.4</u>	<u>3.9</u>
<u>Total</u>	<u>43.9</u>	<u>49.5</u>	<u>54.9</u>	<u>59.0</u>	<u>67.5</u>	<u>76.5</u>	<u>90.5</u>

^{1/} Includes current and recurrent development expenditure of the Ordinary Budget and the Plan Organization.

^{2/} Breakdown is based on preliminary estimates.

^{3/} For the years 1962 to 1964 it includes recurrent development expenditure estimated by the Bank mission.

TABLE 15
CENTRAL GOVERNMENT CURRENT REVENUES

(in billion of rials)

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	Budget Estimate <u>1968</u>
<u>Direct Taxes</u>	<u>4.7</u>	<u>5.9</u>	<u>5.3</u>	<u>8.3</u>	<u>9.2</u>	<u>10.6</u>	<u>11.7</u>
Income Tax	4.1	5.4	4.8	7.2	7.9	9.1	n.a.
Property and Estate Tax	0.6	0.5	0.5	1.1	1.3	1.5	n.a.
<u>Indirect Taxes</u>	<u>12.7</u>	<u>15.5</u>	<u>18.1</u>	<u>20.8</u>	<u>26.8</u>	<u>29.6</u>	<u>35.6</u>
Fuel	2.3	3.5	4.4	4.5	6.5	6.0	6.5
Customs Duties	8.7	10.1	11.1	13.0	16.2	18.2	21.4
of which: Import Duties	n.a.	n.a.	n.a.	n.a.	(9.9)	(10.9)	(11.7)
Commercial Profit Tax	n.a.	n.a.	n.a.	n.a.	(3.9)	(4.7)	(5.8)
Registration fee on imports	0.7	0.7	1.0	1.2	1.3	2.2	3.5 ^{1/}
Others	1.0	1.2	1.6	2.1	2.8	3.2	4.1 ^{1/}
<u>Revenue from Monopolies and Other Government Agencies</u>	<u>7.2</u>	<u>7.3</u>	<u>5.9</u>	<u>6.4</u>	<u>8.7</u>	<u>9.3</u>	<u>9.3</u>
Tobacco Monopoly	4.6	4.6	4.9	3.0	3.1	3.6	4.6
Communication, Radio and TV	0.7	0.7	0.8	0.9	1.1	1.3	1.5
Profits of profit-making and commercial enterprises	1.9	1.9	0.1	2.2	4.4	4.3	3.1
Others	-	-	0.1	0.3	0.1	0.1	0.1
<u>Receipts of Government Services 2/</u>	<u>0.6</u>	<u>0.8</u>	<u>1.1</u>	<u>2.4</u>	<u>2.4</u>	<u>2.6</u>	<u>2.9</u>
<u>Others</u>	<u>4.0</u>	<u>3.6</u>	<u>1.4</u>	<u>2.1</u>	<u>3.7</u>	<u>1.5</u>	<u>1.1</u>
<u>Sub-total</u>	<u>29.2</u>	<u>33.1</u>	<u>31.8</u>	<u>40.0</u>	<u>50.8</u>	<u>53.6</u>	<u>60.5</u>
<u>Oil Revenue</u>	<u>23.7</u>	<u>27.7</u>	<u>36.4</u>	<u>39.5</u>	<u>47.4</u>	<u>54.0</u>	<u>66.1</u>
<u>Total</u>	<u>52.9</u>	<u>60.8</u>	<u>68.2</u>	<u>79.5</u>	<u>98.2</u>	<u>107.6</u>	<u>126.6</u>

1/ This includes 1.0 billion rials of stamp duties which the 1968-1969 budget classifies under direct taxes.

2/ Includes, among others, the proceeds of the Deeds and Property Registration Department, collection of fines and charges for court proceedings paid to the Ministry of Justice and revenues of the Ports and Navigation Organization.

TABLE 16

DISTRIBUTION OF OIL REVENUES BETWEEN
PLAN ORGANIZATION AND ORDINARY BUDGET^{1/}

(in billion of rials)

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	Budget Estimate <u>1968</u>
Plan Organization	7.6	12.3	17.9	22.1	25.3	31.9	40.2
Ordinary Budget	16.1	15.4	18.5	17.4	22.1	22.1	25.9
Direct Allocation	(13.8)	(11.4)	(14.1)	(12.0)	(12.9)	(13.0)	(15.8)
Contribution from Plan Organization to finance recurrent development expenditure ^{2/}	(2.3)	(4.0)	(4.4)	(5.4)	(9.2)	(9.1)	(10.1)
<u>Total</u>	<u>23.7</u>	<u>27.7</u>	<u>36.4</u>	<u>39.5</u>	<u>47.4</u>	<u>54.0</u>	<u>66.1</u>
Percentage Distribution							
Plan Organization	32.0	44.0	49.0	56.0	53.0	60.0	61.0
Ordinary Budget	68.0	56.0	51.0	44.0	47.0	40.0	39.0

^{1/} This distribution is purely institutional and does not reflect the allocation of oil revenue between current and capital expenditure (shown in Table 8 of the main report), because the distribution of Plan Organization and Ordinary Budget does not coincide with an economic classification of public expenditure. The above table shows that the direct allocation to the Ordinary Budget was reduced to 24 percent of total oil revenue in 1967 in accordance with the 1962 Plan Law.

^{2/} Until 1964 there was in fact no transfer to the Ordinary Budget since the amounts were paid directly by the Plan Organization without this being considered as revenue and expenditure of the Ordinary Budget.

TABLE 17
PUBLIC SECTOR DEVELOPMENT EXPENDITURE^{1/}
(in billion of rials)

<u>Investment Expenditure</u>	1962 (second half)	1963	1964	1965	1966	1967	Total 1962-1967
Agriculture and Irrigation	1.8	5.1	7.3	7.8	6.6	8.9	37.5
Industries and Mines	0.1	0.6	1.8	3.4	4.6	6.6	17.1
Electricity and Fuel	0.3	0.8	1.9	6.0	7.1	15.6	31.7
Transportation and Communication	2.0	5.5	6.9	10.9	11.9	14.4	51.6
Education	0.1	0.4	0.6	1.5	1.6	1.4	5.6
Health	0.1	0.3	0.4	1.7	0.8	1.2	4.5
Manpower	0.1	0.2	0.3	0.4	0.3	0.5	1.8
Urban Development	0.5	0.7	0.8	1.8	1.9	1.4	7.1
Statistics	-	0.1	0.1	0.1	0.5	0.3	1.1
Construction	-	0.9	2.2	3.5	2.5	3.1	12.2
<u>Sub-total</u>	<u>5.0</u>	<u>14.6</u>	<u>22.3</u>	<u>37.1</u>	<u>37.8</u>	<u>53.4</u>	<u>170.2</u>
<u>Recurrent Development Expenditure</u> ^{2/}	<u>2.3</u>	<u>4.0</u>	<u>4.4</u>	<u>5.4</u>	<u>9.2</u>	<u>9.1</u>	<u>34.4</u>
<u>Total</u>	<u>7.3</u>	<u>18.6</u>	<u>26.7</u>	<u>42.5</u>	<u>47.0</u>	<u>62.5</u>	<u>204.6</u>

^{1/} Similar breakdown of Third Plan allocation is only available for the September 1966 version of the Plan.

^{2/} For the years 1962 to 1964 the breakdown between recurrent development expenditure and investment has been estimated by the Bank mission.

Source: Plan Organization.

TABLE 18
MONETARY SURVEY

(billion of rials - at end of the year)

	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
Foreign Assets ^{1/}	16.7	18.5	20.8	28.3	24.4	23.0	29.5
Claims on Government	28.2	25.9	31.5	37.2	42.1	50.2	69.6
Claims on Private Sector	38.6	48.9	58.3	69.0	78.9	92.7	109.4
Claims on Specialized Banks	2.4	2.2	2.8	4.3	2.0	3.1	2.1
<u>Assets = Liabilities</u>	<u>85.9</u>	<u>95.5</u>	<u>113.4</u>	<u>138.8</u>	<u>147.4</u>	<u>169.0</u>	<u>210.6</u>
Foreign Liabilities	1.0	0.8	0.6	0.8	1.4	1.6	9.1
Currency in Circulation	17.1	19.8	22.6	24.1	25.5	27.4	30.8
Demand Deposits	23.0	24.5	26.6	28.8	33.9	37.4	44.6
Time Deposits	15.8	24.2	31.7	37.3	43.7	52.1	64.2
Public Sector Deposits ^{2/}	12.8	12.2	16.1	30.9 ^{3/}	21.4	26.8	34.0
Importer's Deposits	-	-	-	2.6	4.8	7.1	9.5
Capital Accounts	12.0	12.3	12.3	11.6	12.2	12.9	14.1
Other Items, net	4.2	1.7	3.3	2.7	4.5	3.7	4.3

^{1/} Includes holdings of gold and foreign exchange, net credits of payments agreements, IMF net position and Iran's share in international organizations.

^{2/} Includes counterpart funds.

^{3/} Reflects the receipt of an oil bonus amounting to 13.9 billion rials.

Source: Bank Markazi

TABLE 19
CREDIT EXPANSION AND ITS COUNTERPARTS

	Change in billion of rials					Change in percent				
	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
Credit to Private Sector	9.4	10.7	9.9	13.8	16.7	19.2	18.4	14.3	17.5	18.0
Claims on Government, net	1.7	-9.1	14.4	2.7	12.2	12.4	-59.1	228.6	13.0	52.1
Money Supply	4.9	3.7	6.5	5.4	10.6	11.1	7.5	12.3	9.1	16.4
Quasi-Money	7.5	5.6	6.4	8.4	12.1	12.4	9.3	12.9	13.8	22.7
Foreign Assets, net ^{1/}	-2.4	-7.4	4.5	1.6	1.0	-13.6	-36.8	16.4	7.0	4.7
Others, net	1.0	-0.2	6.9	1.1	5.2					

^{1/} Negative sign means increase in net assets.

Source: Table 18.

TABLE 20

NET BANK CLAIMS ON THE PUBLIC SECTOR
(billion of rials - at end of the year)

	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
<u>Treasury, net</u>	<u>13.6</u>	<u>17.7</u>	<u>17.6</u>	<u>16.2</u>	<u>19.3</u>
Bank claims	17.1	19.5	20.7	20.1	24.0
Deposits	3.5	1.8	3.1	3.9	4.7
<u>Plan Organization, net</u>	<u>7.5</u>	<u>11.8</u>	<u>16.5</u>	<u>22.9</u>	<u>34.3</u>
Bank claims	8.5	12.5	17.3	25.4	38.4
Deposits	1.0	.7	.8	2.5	4.1
<u>Other Government Agencies, net</u>	<u>-5.7</u>	<u>-23.2</u>	<u>-13.4^{1/}</u>	<u>-15.7</u>	<u>-18.0</u>
Bank claims	5.9	5.2	4.1	4.7	7.2
Deposits	11.6	28.4 ^{2/}	17.5	20.4	25.2
<u>Total</u>	<u>15.4</u>	<u>6.3</u>	<u>20.7</u>	<u>23.4</u>	<u>35.6</u>

^{1/} After adjustment for the use of the oil bonus, the improvement in the cash position amounts to 2.5 billion rials in 1965.

^{2/} Reflects the receipt of an oil bonus amounting to 13.9 billion rials.

Source: Bank Markazi

TABLE 21
PRICE INDEXES
(1959 = 100)
ANNUAL AVERAGE

<u>Wholesale Price</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
General Index	103.6	104.0	109.6	110.6	110.0	110.2
Home-Produced and Consumed Goods	104.3	103.3	112.1	113.7	111.7	111.6
Imported Goods	106.9	110.0	110.5	111.0	112.0	113.4
Exported Goods	98.1	99.6	101.6	101.3	102.5	102.7
Foods	106.8	106.9	115.6	116.6	115.6	115.9
Building Materials	86.7	84.3	91.4	91.8	92.2	94.5
Fuels excluding Petroleum	113.1	117.5	124.6	127.9	129.1	135.5
<u>Cost of Living</u>						
General Index	110.6	111.7	116.7	117.0	117.9	118.9
Foods	114.2	116.5	124.0	124.9	125.8	126.4
Rent	108.7	106.8	105.6	104.9	105.4	106.5
Clothing	108.0	108.2	111.1	111.1	111.7	111.3
Fuel, Electricity, Water and Ice	108.5	114.7	118.7	113.3	112.1	114.0
Transportation	104.7	103.0	106.0	106.4	107.6	109.4
Medical Care	110.6	111.0	115.1	116.1	117.3	120.8

Source: Bank Markazi

TABLE 22

VALUE OF NON-OIL EXPORTS 1962-1967

(in million of rials)

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
Live Animals ^{1/}	111	173	422	582	419	176
Vegetables	171	129	75	210	145	168
Fruits	1,777	1,425	1,408	1,669	1,461	1,557
Seeds	135	131	132	156	340	227
Gum Tragacanth	208	280	353	286	320	292
Oil Cakes	234	160	199	208	225	126
Caviar	215	195	255	276	286	310
Cotton	2,010	2,824	2,615	3,759	2,162	2,846
Carpets	1,662	1,980	2,733	3,406	3,188	3,716
Leather and Leather Products	462	728	971	760	1,081	893
Mineral Ores	268	359	652	862	695	526
Others	1,950	1,233	1,670	1,364	1,493	2,796
<u>Total Exports</u>	<u>9,203</u>	<u>9,617</u>	<u>11,485</u>	<u>13,538</u>	<u>11,815</u>	<u>13,633</u>

^{1/} Except fish, crustaceans and mollusks.

Source: Foreign Trade Statistics, Ministry of Finance.

TABLE 23
VALUE OF IMPORTS 1962-1967
(in million of rials)

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
Milk and Dairy Products	269	306	504	518	598	523
Tea	748	762	755	1,290	852	671
Spices	131	142	175	149	157	97
Wheat, Grain	215	387	2,933	982	1,151	329
Wheat, Flour	983	499	194	100	67	22
Rice	227	9	148	487	127	131
Sugar	1,140	2,289	4,518	2,014	1,242	959
Vegetable Oils	551	598	1,070	1,682	1,812	1,683
Cotton	354	250	179	189	120	99
Drugs	1,971	2,072	2,468	2,924	3,187	3,285
Electric Appliances	538	606	828	1,127	1,081	1,391
Passenger Cars	377	968	1,698	1,386	1,739	1,540
Ceramic Products	325	310	375	476	475	374
Pesticides	116	176	243	330	339	575
Fertilizers	263	287	289	372	494	710
Other Chemicals	1,487	1,038	1,781	1,761	2,292	2,605
Tanning and Coloring Products	793	906	1,165	1,280	1,238	1,442
Rubber and Rubber Products	1,627	1,608	1,547	1,857	2,115	1,644
Cardboard and Paper	1,059	1,114	1,424	1,584	1,738	1,958
Silk	2,746	2,418	2,932	3,413	3,864	4,225
Wool	1,536	1,541	1,930	3,513	2,360	2,758
Glass and Glassware	345	334	484	401	455	607
Bars	1,443	1,582	1,949	2,724	3,067	3,647
Sheets	1,127	946	1,379	2,021	2,113	3,925
Piping	1,536	1,129	2,139	2,930	2,233	5,263
Other Iron and Steel Products	1,855	1,740	1,821	2,365	4,403	4,197
Aluminum	255	240	345	309	604	801
Copper	453	344	371	409	508	369
Agricultural Equipment	1,373	1,566	2,831	2,250	2,374	2,414
Industrial and Mining Equipment	3,521	3,328	4,402	8,860	11,279	14,328
Electrical Machinery	2,467	1,739	2,219	2,982	3,969	5,499
Other Machinery and Equipment	2,657	1,211	1,851	3,001	3,045	4,988
Optical and Precision Instrument	404	341	501	665	923	1,103
Others	7,014	6,554	9,341	11,167	11,624	16,266
<u>Total Imports</u>	<u>41,906</u>	<u>39,340</u>	<u>56,789</u>	<u>56,518</u>	<u>73,644</u>	<u>90,451</u>

Source: Foreign Trade Statistics, Ministry of Finance.

TABLE 24
DIRECTION OF TRADE
(in million of rials)

	<u>Imports</u>			<u>Exports</u> ^{1/}			
	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	
West Germany	13,811	15,766	20,914	USSR	1,306	1,379	2,247
United States	11,833	14,517	16,145	West Germany	1,932	1,679	2,056
United Kingdom	8,774	9,309	10,596	United States	1,489	1,672	1,542
Japan	5,468	5,581	6,965	United Kingdom	1,098	759	726
France	3,179	2,953	4,941	Kuwait	1,019	882	716
Italy	3,165	3,694	4,570	Iraq	224	266	674
Netherlands	2,082	2,336	3,659	Switzerland	475	488	582
USSR	1,268	2,190	2,525	Czechoslovakia	638	414	548
Others	16,938	17,298	20,136	Others	5,378	4,276	4,539
<u>Total</u>	<u>66,518</u>	<u>73,644</u>	<u>90,451</u>		<u>13,559</u>	<u>11,815</u>	<u>13,632</u>

^{1/} Does not include oil and hydrocarbon solvents extracted from.

Source: Foreign Trade Statistics, Ministry of Finance.

TABLE 25

DISBURSEMENTS ON FOREIGN LOANS

	(\$ million)					
	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
IBRD	33.3	5.3	1.5	7.0	7.7	5.9
Germany	4.5	3.8	6.0	4.2	8.5	35.3
United States	25.6	10.0	15.0	58.5	90.9	102.3
France	-	-	11.7	11.9	4.9	27.4
United Kingdom	-	-	-	0.5	8.3	15.5
USSR	-	-	-	0.9	9.6	51.8
Others	-	-	-	-	-	18.3
<u>Total</u>	<u>63.4</u>	<u>19.1</u>	<u>34.2</u>	<u>83.0</u>	<u>129.9</u>	<u>256.5</u>
(Equivalent in million of rials)	(4,755)	(1,433)	(2,565)	(6,226)	(9,743)	(19,238)

Source: Bank Markazi

TABLE 26
BALANCE OF PAYMENTS
(in billion of rials)

	1962			1963			1964			1965			1966			1967		
	Receipts	Payments	Balance	Receipts	Payments	Balance	Receipts	Payments	Balance	Receipts	Payments	Balance	Receipts	Payments	Balance	Receipts	Payments	Balance
Merchandise ^{1/}	76.9	41.2	35.0	80.3	39.3	41.0	86.5	56.8	29.7	99.0	66.5	32.5	109.2	73.0	35.6	129.0	80.5	32.1
Oil ^{2/}	67.7	-	-	70.7	-	-	75.0	-	-	85.4	-	-	97.4	-	-	116.0	-	-
Others	9.2	41.9	-	9.6	39.3	-	11.5	56.6	-	13.6	66.5	-	11.8	73.0	-	13.0	80.5	-
Services	4.5	8.6	-4.1	4.2	10.0	-5.8	4.8	11.5	-6.7	7.0	18.2	-11.2	6.1	19.2	-11.1	7.0	21.7	-12.3
Transportation Charges	.5	.6	-.1	.5	.6	-.1	.6	1.0	-.4	.7	.9	-.2	.7	1.1	-.4	.9	1.0	-.1
Travel	.5	2.5	-2.0	.6	3.1	-2.5	1.0	3.7	-2.7	1.5	4.0	-2.5	2.2	4.2	-2.0	2.4	4.2	-1.8
Government ^{3/}	2.0	2.6	-.6	1.6	3.1	-1.5	1.3	3.5	-2.2	2.0	6.1	-4.1	1.7	7.7	-6.0	2.4	11.0	-8.6
Others	1.5	2.9	-1.4	1.5	3.2	-1.7	1.9	3.3	-1.4	2.8	7.2	-4.4	3.5	6.2	-2.7	3.9	4.9	-1.0
Total on Goods and Services	81.4	50.5	30.9	84.5	49.3	35.2	91.3	68.3	23.0	106.0	84.7	21.3	117.3	92.8	24.5	139.2	112.4	26.8
Investment Income	.2	27.8	-27.6	.2	31.7	-31.5	.2	28.3	-28.1	.6	32.2	-31.6	.5	36.7	-36.2	.0	44.1	-43.5
Oil Companies ^{4/}	-	26.7	-26.7	-	30.6	-30.6	-	26.9	-26.9	-	30.9	-30.9	-	35.6	-35.6	.6	42.3	-42.3
Investment Abroad	.2	-	.2	.2	-	.2	.2	-	.2	.6	-	.6	.5	-	.5	.6	-	.0
Interest on Public Debt	-	1.1	-1.1	-	1.1	-1.1	-	1.4	-1.4	-	1.3	-1.3	-	1.1	-1.1	-	1.8	-1.8
TOTAL ON CURRENT ACCOUNT	81.6	78.3	3.3	84.7	81.0	3.7	91.5	86.6	-5.1	106.6	116.9	-10.3	117.8	129.5	-11.7	139.8	156.5	-16.7
Transfers	1.6	.1	1.5	1.9	.1	1.8	.9	.1	.8	1.1	.1	1.0	.6	.1	.5	.6	.1	.5
Private	.9	-	.9	1.0	-	1.0	.2	-	.2	.3	-	.3	.1	-	.1	.1	-	.1
Government	.7	-	.7	.9	-	.9	.7	-	.6	.8	-	.7	.5	-	.4	.5	-	.4
Private Investment	1.2	2.9	-1.7	.3	3.0	-2.7	16.7	.1	16.6	5.5	1.6	3.9	9.7	.4	9.3	4.4	.5	3.9
Oil Consortium ^{5/}	-	2.9	-2.9	-	2.8	-2.8	2.2	-	2.2	4.0	-	4.0	6.1	-	6.1	1.4	-	1.4
Other Oil Companies	.7	-	.7	-	.2	-.2	.3	-	.3	-	1.2	-1.2	1.9	.1	1.8	1.4	.2	1.2
Petroleum Joints	-	-	-	-	-	-	13.9	-	13.9	.4	-	.4	-	-	-	-	-	-
Others	.5	-	.5	.3	-	.3	.3	.1	.2	1.1	.4	.7	1.7	.3	1.4	1.0	.3	1.3
Government	4.8	4.2	.6	1.4	5.0	-3.6	2.6	5.7	-3.1	6.2	4.7	1.5	9.7	3.5	6.2	19.2	4.1	15.1
Loans and Credits	4.8	3.6	1.2	1.4	4.5	-3.1	2.5	5.1	-2.7	6.0	4.1	1.9	9.7	3.1	6.6	19.2	4.0	15.2
Others ^{6/}	-	.6	-.6	-	0.5	-0.5	.2	.6	-.4	.2	.6	-.4	-	0.4	-0.4	-	.1	-.1
TOTAL ON CAPITAL ACCOUNT	7.6	7.2	.4	3.6	8.1	-4.5	20.2	5.9	14.3	12.8	6.4	6.4	20.0	4.0	16.0	24.2	4.7	17.5
TOTAL ON MONETARY ACCOUNT			-2.0			-2.4			-7.4			4.5			1.6			1.0
ERRORS AND OMISSIONS, NET			-1.7			3.2			-3.8			-0.6			-1.9			-3.8

1/ Imports are on c.i.f. basis.
2/ Accounting value of oil shipments based on posted prices.
3/ Purchases for defense purposes probably included in debit.
4/ Estimated on the basis of revenues accruing to Iran.
5/ Estimated from Operating Companies' balance sheets.
6/ Compensation to former Anglo-Iranian Oil Company included in debit.

PUBLIC ENTERPRISES

1. There are at least 70 public enterprises in Iran. They have a monopoly of power, railways, tobacco and other agricultural processing industries. They also play an important role in banking, petroleum petrochemical and metallurgy. Since 1965, the financial accounts of the public enterprises sector are presented with the central government budget. Their annual budget is balanced through profit remittances to the central government, current subsidies and substantial capital transfers from the government. Such presentation could be very valuable if actual results were available. However, the only information on public enterprises operations is the total amount of enterprise profits transferred to the central government budget. It is also known that government agencies have improved their cash position with the banking system at an average rate of 2.5 billion rials per year between 1962 and 1967, after adjustment for the use of the oil bonus (see Table 20 in Annex I). Because actual government contributions to the enterprises are not known, this does not really allow to draw any conclusion on the performance of the various enterprises.

2. Public enterprises transfer most of their profits to the central government while at the same time they receive an almost negligible amount (less than one billion rials on the average) of current transfers to cover the deficit from the current operations of some units (see Table 1). The transfers to the central government are made by 9 enterprises, mostly government monopolies, which include the tobacco, sugar and tea organizations and the National Iranian Oil Company (NIOC). The latter accounts for the largest share of the transfers, more than 70 percent in 1968. According to budget estimates also the Iranian State Railways are supposed to make almost nominal transfers (0.2 billion rials in 1968) but it seems that actual performance has called for subsidies from the central government.

3. At the same time as being a source of revenue for the central government, public enterprises receive a very substantial amount of capital transfers to finance their investment activity. According to the 1968 budget these funds more than doubled the amount of profits appropriated by the central government. In this regard the enterprises are a very important vehicle for public investment programs since, in 1968, more than 50 percent of investment allocation of the Plan Organization is transferred to them. While the transfers to the central government are made by NIOC and government monopolies, the contribution by the government for expanding investment activities are mostly to the enterprises in the power, steel, gas and petrochemical sectors (see Table 3). The level of public investment in these key areas, where private initiative is lacking, is increasing at such a rate, that the enterprises could not possibly finance

it mostly out of their own funds. And in some cases, as with the steel mill and the newly created Industrial Development and Renovation Organization which is supposed to start the heavy mechanical industry, the contributions of the government are for the construction of the original plants.

4. The creation and expansion of public enterprise in key sectors for the growth of the Iranian economy pose the problem of the adequacy of the present managerial and organizational setup. For many of these enterprises it is perhaps too early to judge their current performance after the major investment decisions have been made. But the question of the efficiency of the productive system certainly applies to the public enterprises as well as to the private sector. For a number of enterprises engaged in the production of final consumer goods, which have often been taken over by the government as a result of salvage operations, it is a question of struggling against obsolete machinery, weak market position, etc. A clear picture of the actual performance of the various enterprises is a precondition and not for foreign observers only, for any thorough appraisal of their operations.

Table 1
PUBLIC ENTERPRISES^{1/}

(rials billion)

	<u>Budget Estimates:</u>			
	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
Cash Available	2.5	2.4	2.0	0.9
Operating Surplus	(19.1)	(23.3)	(23.7)	(26.9)
<u>Less</u> Dividends	(- 1.8)	(- 4.4)	(- 3.1)	(- 6.3)
<u>Less</u> Transfers to Government, net	(-14.8)	(-16.5)	(-18.6)	(-19.7)
Use of Reserves	7.7	6.0	7.3	13.0
Capital Transfers from Plan Organization	17.5	16.9	27.2	43.8
Domestic and Foreign Loans	1.5	1.9	5.7	4.3
<u>Uses = Resources</u>	<u>29.2</u>	<u>27.2</u>	<u>42.2</u>	<u>62.0</u>
Investment and Capital Increases	25.3	23.8	38.1	56.7
Repayment of Domestic and Foreign Loans	3.9	3.4	4.1	5.3

^{1/} Profit-making enterprises and commercial agencies

Source: Government Budgets.

Table 2
PROFITS OF PUBLIC ENTERPRISES^{1/}

(rials billion)

	<u>Budget Estimates</u>			
	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
<u>Operating Revenues</u>	<u>62.5</u>	<u>77.0</u>	<u>83.6</u>	<u>89.8</u>
of which: Sugar	6.9	7.8	7.5	5.8
Tobacco	5.6	5.7	6.2	7.2
Tea	1.8	1.8	2.3	2.2
NIOC	21.2	25.7	29.1	31.2
Banks	6.1	5.6	6.5	6.5
Water and Power Organizations	3.1	2.1	2.8	3.6
Regional Power Companies			2.7	4.9
<u>Operating Expenditures</u>	<u>43.4</u>	<u>53.7</u>	<u>59.9</u>	<u>62.9</u>
of which: Sugar	5.2	5.8	5.3	4.7
Tobacco	2.6	2.5	2.4	2.4
Tea	1.4	1.4	1.9	1.7
NIOC	10.4	11.1	15.2	14.2
Banks	4.3	5.0	5.1	4.8
Water and Power Organizations	2.9	1.9	2.7	3.5
Regional Power Companies			2.3	4.0
<u>Operating Surplus</u>	<u>19.1</u>	<u>23.3</u>	<u>23.7</u>	<u>26.9</u>
of which: Sugar	1.7	2.0	2.2	1.1
Tobacco	3.0	3.2	3.8	4.8
Tea	0.4	0.4	0.4	0.5
NIOC	10.8	14.6	13.9	17.0
Banks	1.8	0.6	1.4	1.7
Water and Power Organizations	0.2	0.2	0.1	0.1
Regional Power Companies			0.4	0.9

^{1/} Profit-making enterprises and commercial agencies.

Table 3CONTRIBUTIONS OF PLAN ORGANIZATION
TO FINANCE PUBLIC ENTERPRISES INVESTMENT1968 Budget Estimates

(rials billion)

<u>Enterprises</u>	<u>Capital Expenditure</u> ^{1/}	<u>Contribution of Plan Organization</u>
Iranian State Railways	2.8	1.8
Water and Power Organizations	7.0	5.7
Regional Power Companies	4.2	2.9
National Iranian Oil Company	4.3	-
National Iranian Gas Company	14.6	14.6
National Petrochemical Company	11.4	9.3
Industries Development and Renovation Organization	2.1	2.1
National Iranian Steel Mill	4.0	4.0
Central Organization for Rural Cooperatives	0.5	0.5
Central Organization of Companies	0.6	0.6
State Grains Organization	0.3	0.3
All Others	4.9	2.0
<u>Total</u>	<u>56.7</u>	<u>43.8</u>

^{1/} It includes both investment and increases in equity capital.