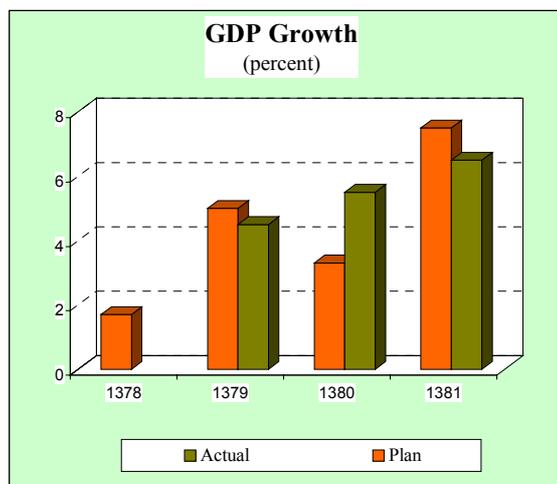


# CHAPTER TWO

## NATIONAL PRODUCT, EXPENDITURE AND INCOME

In 1381 (2002/03), the third year of the 3<sup>rd</sup> Development Plan, the economic policies were designed, within the framework of the policies approved in the 3<sup>rd</sup> Plan Law, focusing on major economic issues. Financing the production and investment growth, paving the ground for employment creation, reducing unemployment rate, and curbing inflation were among the major priorities of government in 1381. In the review year, the upward trend of international oil prices in tandem with the implementation of monetary and creditary policies aiming at production growth and inflation containment helped Iranian economy enjoy a positive and balanced growth. Thus, GDP grew markedly by 7.5 percent in 1381 in real term as compared with 3.3 percent growth in 1380.

The positive performance of sectors such as services, manufacturing and mining, agriculture and oil appears to be the main driving force in GDP growth. Due to appropriate rainfall and improvement in the yield per hectare of the farming crops, the value-added of agriculture sector climbed markedly by 11.4 percent. In manufacturing and mining sector, support of private sector and extending new facilities to productive units in pursuance of the 3<sup>rd</sup> Plan targets raised investment, particularly private sector investment in this sector and improved manufacturing and mining activities. Thus, the value-added of this sector in GDP grew by 12.3 percent in real term. Value-added of oil sector also grew by 3.6 percent in real term. In services sector, almost all sub-sectors grew significantly. The value-added of this sector in GDP registered a 5.5 percent growth in real term.



### GDP GROWTH BY ECONOMIC SECTORS

	(at constant 1376 prices)			(percent)
	1378	1379	1380	1381
Agriculture	-7.3	3.5	-2.3	11.4
Oil	-5.3	8.3	-11.1	3.6
Manufacturing and mining	9.2	9.5	10.2	12.3
Services	3.6	2.9	5.7	5.5
<b>GDP (at basic price)</b>	<b>1.6</b>	<b>5.0</b>	<b>3.3</b>	<b>7.5</b>

## GDP

In 1381, GDP grew by 7.5 percent to reach Rls. 355,350 billion, above the target set in the 3<sup>rd</sup> Plan (6 percent). Services, manufacturing and mining, agriculture, and oil sectors had the highest share in nominal GDP growth by 48.5, 18.7, 11.7 and 22.9 percent, respectively.

## Agriculture

The value-added of agriculture sector grew by 11.4 percent in real term to reach Rls. 49,825 billion, while in nominal term, it fell from 12.8 percent in 1380 to 11.7 percent in 1381. This reduction was primarily due to the implementation of exchange rate unification policy and increase in the share of oil and gas sector in the review year. Farming and animal husbandry and hunting activities picked up in this year, raising the value-added of agriculture sector. Increase in the precipitation level and recovery in the yield per hectare were among the factors behind growth in production of farming crops in this year. Data reveal that the production of major crops such as wheat, rice and barley enjoyed an upward trend. In the review year, the value-added of animal husbandry and hunting grew by 2.6 percent in real term. According to the Ministry of Agriculture Jihad, production of poultry, milk and honey increased, while the production of red meat and egg decreased in 1381. The value-added of other sub-sectors of agriculture sector also went up.

### VALUE-ADDED IN THE AGRICULTURE SECTOR

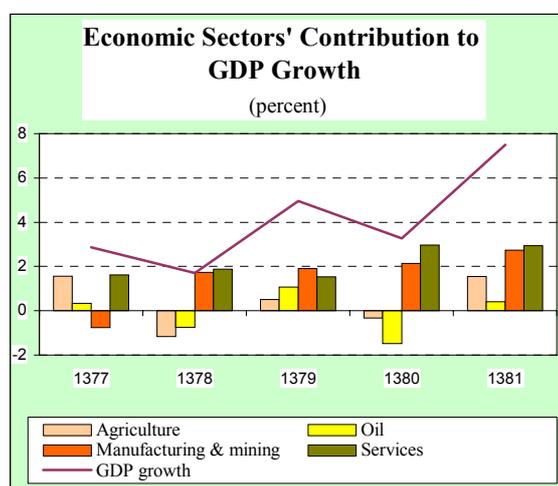
(at constant 1376 prices)

(billion rials)

			Percentage change		Share (percent)		Share in the growth of value-added (percent)	
	1380	1381	1380	1381	1380	1381	1380	1381
Farming	26,360	30,883	-5.3	17.2	58.9	62.0	141.0	88.9
Animal husbandry and hunting	14,938	15,333	0.8	2.6	33.4	30.8	-10.9	7.8
Fishing	1,160	1,169	-6.1	0.8	2.6	2.3	7.4	0.2
Forestry	730	644	27.8	-11.8	1.6	1.3	-15.3	-1.7
Agricultural services	1,550	1,796	17.4	15.8	3.5	3.6	-22.2	4.8
<b>Agriculture sector</b>	<b>44,738</b>	<b>49,825</b>	<b>-2.3</b>	<b>11.4</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

## Oil and Gas

OPEC member countries' adherence to production quota and the reduction in the inventory of energy reserves of OECD countries led to the international oil price rise. Despite the reduction of crude oil export, export of natural gas to Turkey and operation of second and third phase of South Pars field raised the real value-added of oil sector by 3.6 percent in 1381, as compared with the previous year. Besides, its share in nominal GDP reached 22.9 percent in 1381, against 15.1 percent in 1380.



## Manufacturing and Mining

In 1381, value-added of manufacturing and mining sector enjoyed a growth of 12.3 percent in real term. Rise in public and private sectors investment in manufacturing and construction activities, appears to be the main driving force behind the boom in activities in this sector. The value-added of mining, manufacturing and construction sectors grew by 12, 11 and

17.4 percent, respectively. Moreover, the value-added of electricity, gas and water sector, following the previous years' upward trend, grew by 8.3 percent. Factors responsible for the improvement of manufacturing and mining activities are support of the private sector through the OSF utilization, extension of debts, provisions of new facilities to productive units and relatively stable prices. The economic indices in construction and housing sector witnessed a marked growth in this year, in that the private sector investment in new buildings in urban areas grew by 41.1 percent in nominal term. According to the Ministry of Energy, the electricity generated by power plants reached 142,115 million kw/h, showing a 9.3 percent growth. According to the data released by the Ministry of Petroleum, production of natural gas amounted to 76,767 million cubic meters, registering 14 percent growth, as compared with the year before.

#### VALUE-ADDED IN THE MANUFACTURING AND MINING SECTOR

(at constant 1376 prices)

(billion rials)

			Percentage change		Share (percent)		Share in the growth of value-added (percent)	
	1380	1381	1380	1381	1380	1381	1380	1381
Manufacturing	52,459	58,230	11.9	11.0	70.8	70.0	81.4	63.5
Mining	2,166	2,425	18.4	12.0	2.9	2.9	4.9	2.9
Electricity, gas and water	3,591	3,888	5.8	8.3	4.9	4.7	2.9	3.3
Construction	15,863	18,619	4.9	17.4	21.4	22.4	10.8	30.3
<b>Manufacturing and mining sector</b>	<b>74,079</b>	<b>83,162</b>	<b>10.2</b>	<b>12.3</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

(1) Minor discrepancies in total are due to rounding.

#### Services

Data suggests that the value-added of services sector, with a share of 48.5 percent in GDP, grew by 5.5 percent at constant 1376 prices. The share of trade, restaurant, and hotel was 12 percent, and that of transportation, warehousing and communication 7.2 percent, financial and monetary institutions' services 2.1 percent, real estate and professional and specialized services 13.3 percent, public services 11.2 percent, social, personal and household services 2.6 percent in GDP in nominal term. In the review year, the mentioned sectors faced changes of 9.5, 0.7, 10.1, 7.9, -1.6 and 11.2 percent, respectively.

#### VALUE-ADDED IN THE SERVICES SECTOR

(at constant 1376 prices)

(billion rials)

			Percentage change		Share (percent)		Share in the growth of value-added (percent)	
	1380	1381	1380	1381	1380	1381	1380	1381
Trade, restaurant and hotel	50,947	55,769	8.6	9.5	28.7	29.8	42.5	49.6
Transportation, warehousing and communication	31,291	31,505	5.5	0.7	17.7	16.8	17.2	2.2
Monetary and financial institutions services	4,781	5,262	17.2	10.1	2.7	2.8	7.3	4.9
Real estate, professional and specialized services	46,942	50,654	6.0	7.9	26.5	27.1	28.0	38.2
Public services	34,096	33,565	-0.8	-1.6	19.2	18.0	-2.8	-5.5
Social, personal and household services	9,210	10,237	8.7	11.2	5.2	5.5	7.8	10.6
<b>Services sector</b>	<b>177,267</b>	<b>186,992</b>	<b>5.7</b>	<b>5.5</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

## Gross Domestic Expenditure

In 1381, gross domestic expenditure grew by 7.5 percent at constant 1376 prices. Private consumption expenditures, with 45 percent share in gross domestic expenditures, grew by 11.7 percent to reach Rls. 193,565 billion in real term. Public consumption expenditures, including ministries and affiliated institutions, municipalities, and Social Security Organization, with a share of 12.8 percent in gross domestic expenditure, experienced a growth of 2 percent and reached Rls. 43,560 billion. Gross fixed capital formation, as the major component of gross domestic expenditure, with 28.2 percent share in GDP in real term grew by 11.8 percent in the review year, to reach Rls. 121,631 billion. Gross fixed capital formation for machinery and construction with growth rates of 8.9 and 16.1 percent indicates a benign outlook for investment.

Despite the rise in revenue received from crude export, which tracked the movement of oil price in international market, the net export of goods and services in real term was limited to Rls. -4,392 billion. This was due to 23.3 percent growth in import of goods and services.

### GROSS DOMESTIC EXPENDITURE (1)

	(at constant 1376 prices)		Percentage change		(billion rials)	
	1380	1381	Share (percent)		1380	1381
			1380	1381		
Private consumption expenditures	173,287	193,565	4.4	11.7	51.9	53.9
Public consumption expenditures	42,688	43,560	2.6	2.0	12.8	12.1
Gross fixed capital formation	108,762	121,631	14.2	11.8	32.5	33.9
Changes in stock (1)	14,051	9,232	-11.2	-34.3	4.2	2.6
Net export of goods and services	3,387	-4,392	-72.8		1.0	-1.2
Statistical errors	-8,070	-4,584			-2.4	-1.3
<b>Gross domestic expenditure = Gross domestic product (at market price)</b>	<b>334,104</b>	<b>359,011</b>	<b>3.7</b>	<b>7.5</b>	<b>100.0</b>	<b>100.0</b>

(1) Minor discrepancies in total are due to rounding.

With the inclusion of terms of trade effect, net factor income from abroad, and deduction of depreciation of fixed capital and net indirect taxes, the national income grew by 11.8 percent in real term to Rls. 315,623 billion. In 1381, per capita income recorded growth of 33.9 and 10.1 percent, in nominal and real term to Rls. 12,010 thousand and Rls. 4,816 thousand, respectively as compared to the previous year.