

Rise in the active population as well as participation rate, in tandem with the limited growth of job opportunities, led to 1.5 percentage points increase in the rate of unemployment in 1388. Continued recession in the global economy, low absorption of foreign investment, implementation of contractionary policies aimed at curbing inflation, and limited growth of investment were among factors that impeded the creation of new job opportunities.

Population and Human Resource

According to SCI, in 1388, Iran's total population grew by 1.5 percent to 73.7 million. Gender ratio (the number of male per 100 female) was 103.1. Therefore, 50.8 percent of the population were male and 49.2 percent were female.

The rate of urbanization increased from 70.2 percent in 1387 to 71.0 percent in the review year. Increase in urban population was due to natural growth of city population, positive net migration to cities due to slower development of rural areas compared with cities, existence of diverse cultural attractions and better welfare and economic indicators in cities, change in city boundaries, and transformation of rural areas into urban.

A review of migration trends reveals that during 1375-1385, over 12 million people

migrated, of whom 55.6 percent were male and the remaining female. Meanwhile, most of the migrants were in the age groups of 20-24 and 25-29 years old, pointing to the fact that they are ready to start college education and land a job. The age pattern of migrants indicates that the share of migrants in each age group correlated with the share of population in the same age group. In fact, whenever the share of population in an age group is high, the share of migrants is high as well. Distribution of migrant population based on incentives for migration indicates that 18.9 percent of migrating population moved for employment reasons. A major economic implication of migration is the wage differential among migrants and urban workers which creates a kind of dualism in the labor market.

Based on data released by the National Organization for Civil Registration, total number of births recorded in the review year was 1.3 million, representing 3.7 percent growth compared with the year before. Growth in the number of births is mainly due to demographic factors such as change in the number of those who are ready to marry, which is in turn attributed to the baby boom of 1360s and the fact that young population is growing and reaching fertility age. Of total number of births, 51.3 percent were boys and the remaining girls. Meanwhile, 69.5 percent of total births were related to urban and 30.5 percent to rural areas.

Vital Statistics

(thousand persons)

	1386	1387	1388	Percentage change	
				1387	1388
Births	1,286.7	1,300.2	1,348.5	1.0	3.7
Deaths	412.7	417.8	393.5	1.2	-5.8

Source: National Organization for Civil Registration

Labor Market

Labor market, as a major economic marketplace, has an important impact on the attainment of general equilibrium in the economy. Meanwhile, due to being highly correlated with the human aspects of development, labor market merits a special attention in the process of economic planning. As a matter of fact, setting necessary regulations and adopting appropriate policies for the labor market lead to the balance in supply of and demand for labor force, reduction of unemployment, development of the economy, and enhancement of social welfare.

High rate of youth unemployment, large difference between the unemployment rate of women with that of men, and imbalance of the unemployment rate between provinces are among major challenges of the labor market in Iran. These challenges are rooted in the imbalanced regional and demographic development. Therefore, lowering unemployment rate calls for adoption of efficient policies and implementation of structural reforms. In order to balance supply of and demand for labor force, certain initiatives such as increase in investment and production, stabilization of macroeconomic policies, revision of some rules and regulations governing the labor market, increase in the skills of the labor force commensurate with the demands of the labor market, and creation of new employment opportunities for women need to be adopted.

Labor Supply

Labor supply is the availability of human resources in a particular labor market with a determined wage rate, the amount of which is affected by population as well as economic and social variables. The population of 10 years and over indicates the potential labor force, and active population points to the active labor force.

Labor supply is generally affected by the population of 10 years and over and the participation rate of the labor force. In 1388, the population of 10 years and over was estimated at 61.3 million, indicating 1.7 percent increase compared with the previous year. Moreover, the active population increased by 948.2 thousand to 23,841 thousand in 1388. Rate of participation was 38.9 percent in 1388, 0.9 percentage point higher than the year before. Therefore, on the supply side, the labor market was faced with a rise in potential and active supply of labor force in 1388.

A large number of 1359-1365 baby boomers should have entered the labor market by now; however, due to lack of appropriate job opportunities, many of them decided to continue their studies at higher education levels before applying for a suitable job. This is the factor behind the fall in the active population as well as rate of participation. It is expected that the rate of participation will increase after the mentioned group graduate from university.

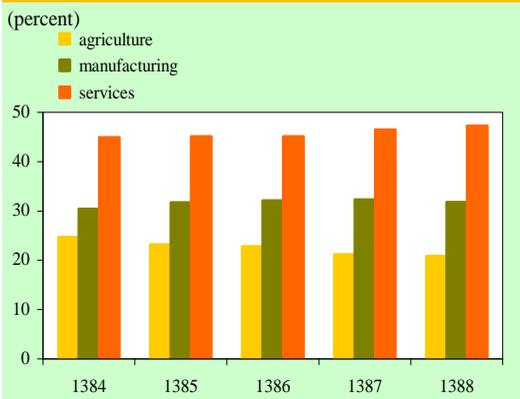
Labor Demand

Labor demand is the willingness of employers and entrepreneurs to attract and employ labor force and workers at a certain level of nominal wage. In fact, labor demand is a function of production level and relative prices of factors of production.

A review of employment by economic sectors reveals that 21.0 million persons were active in manufacturing, agriculture, and services sectors in 1388, showing 2.4 percent increase compared with the previous year, albeit not as high as the figure for 1386. This shows that the number of created job opportunities does not meet the demands of the labor market, signifying the fact that labor demand has not grown fast enough to keep up with labor supply over the recent years. This has led to the remarkable growth of unemployment among the youth and educated people.

In 1388, of total employed population, 20.9 percent were active in agriculture sector, 31.8 percent in manufacturing sector, and 47.3 percent in services sector. Considering shares of agriculture, manufacturing, and services sectors at 21.2, 32.2, and 46.5 percent, respectively in 1387, shares of the agriculture and manufacturing sectors in employment decreased while share of the services sector increased.

Figure 8.1. Share of employment in various economic sectors



Increase in the share of services sector in employment is attributable to the expansion of services, especially in the banking industry as well as financial intermediation. What is of prime importance is the decline in the share

of manufacturing sector in 1388 which is due to a host of factors, inter alia, reduction in production and investment, technological advancements, replacement of labor force with the capital over the recent years, imbalance between real wages and labor force productivity, fall in government development expenditures and facilities extended by the banking system, and concentration on the current budget against the backdrop of a decrease in oil revenues.

Unemployment

According to the SCI, unemployment rate increased by 1.5 percentage points to 11.9 percent in 1388, mainly attributable to the rise in participation rate. Several factors such as better economic conditions compared with 1387, graduation of university students and their entrance into the labor market, as well as women's further tendency to participate in the labor market have contributed to the increase in active population as well as rate of participation.

Population and Labor Market Developments (thousand persons-percent)

	1386	1387	1388	Percentage change ¹	
				1387	1388
Population (10 years & over, estimated)	59,254	60,300	61,346	1.8	1.7
Active population	23,579	22,892	23,841	-2.9	4.1
Employed population	21,092	20,500	21,001	-2.8	2.4
Unemployed population	2,486	2,392	2,840	-3.8	18.7
Participation rate	39.8	38.0	38.9	-1.8	0.9
Unemployment rate	10.5	10.4	11.9	-0.1	1.5
Urban areas	12.5	12.0	13.5	-0.5	1.5
Rural areas	6.6	7.2	8.3	0.6	1.1
Male	9.3	9.1	10.8	-0.2	1.7
Female	15.8	16.7	16.8	0.9	0.1
Youth (15-24 years)	22.3	23.0	24.7	0.7	1.7
Urban	27.6	27.4	29.4	-0.2	2.0
Rural	13.3	15.3	16.4	2.0	1.1
Youth (15-29 years)	20.0	20.4	22.1	0.4	1.7
Urban	23.8	23.4	25.1	-0.4	1.7
Rural	12.5	14.1	15.4	1.6	1.3

Source: Statistical Center of Iran (SCI)

¹Figures related to participation rate and unemployment rate are in percentage points.

In this year, unemployment rate was 10.8 percent for male and 16.8 percent for female, up by 1.7 and 0.1 percentage points for male and female, respectively, compared with the corresponding figures of the previous year.

Review of unemployment rate in urban and rural areas indicates that the unemployment rate in urban areas was 13.5 percent and in rural areas, 8.3 percent, indicating 1.5 and 1.1 percentage points increase in urban and rural areas, respectively, compared with the preceding year.

Based on labor force census in 1388, Lorestan, Hamedan, Chahar Mahall va Bakhtiari, and Gilan provinces had the highest rates of unemployment by 19.0, 18.0, 16.4, and 15.3 percent, respectively, whereas North Khorasan, Hormozgan, South Khorasan, and Golestan provinces, with 6.4, 6.9, 7.0, and 7.1 percent, respectively, enjoyed the lowest rates of unemployment. These data are indicative of a large standard deviation in the unemployment rate of provinces which is due to regional imbalance in the labor market.

Allocation of Facilities for Employment Creation

In 1388, financial resources for employment creation out of the Budget Law for 1384 and SMEs projects registered minimal growth. Restriction of banking resources, rise in banks' indebtedness to the Central Bank, high volume of banks' non-performing loans, and misapplication of loan proceeds

led to the low performance of facilities extended for employment creation.

Facilities Extended by Banks to SMEs

Based on the executive by-law for supporting the expansion of SMEs, by end of 1388, Rls. 631,733.4 billion projects were referred to banks, of which Rls. 297,269.2 billion were approved. Of total Rls. 251,240.1 billion concluded contracts, 42.0 percent were related to enterprises with less than 10 employees and 58.0 percent to enterprises with 10 to 49 employees. Total projected job opportunities based on concluded contracts were 1,743.9 thousand persons. Moreover, outstanding facilities extended by banks amounted to Rls. 228,573.6 billion by end-1388, with each employment opportunity enjoying Rls. 144.1 million. Therefore, over 90 percent of concluded contracts have been financed. Among various economic sectors, manufacturing and mining, with 52.0 percent, had the highest share in receiving these facilities.

A review of the performance of facilities extended to SMEs reveals that the value of concluded contracts indicated lower growth in Esfand 1388 compared with the respective month of the previous year. Insufficiency of banking system resources, banks' large indebtedness to the Central Bank, and the postponement of the extension of part of facilities have led to a slowdown in conclusion of contracts and reduction in the paid facilities. Moreover, by end-1388, Rls. 8,993.6 billion facilities were overdue debts and Rls. 10,041.3 billion non-performing loans.

Performance of Facilities Extended to SMEs by end-1388 (billion rials)

	Share allocated by the CBI	Projects referred to banks	Approved projects	Concluded contracts	Projected job opportunities based on concluded contracts (person)	Outstanding facilities	Financing of concluded contracts (percent)
Commercial banks	387,146.0	545,827.3	252,901.3	211,758.3	1,358,329.0	190,847.1	90.1
Specialized banks	80,534.0	85,906.1	44,367.9	39,481.8	385,555.0	37,726.5	95.6
Total	467,680.0	631,733.4	297,269.2	251,240.1	1,743,884.0	228,573.6	91.0

Facilities Extended to SMEs

(billion rials)

	Year-end balance			Change in balance		Percentage change	
	1386	1387	1388	1387	1388	1387	1388
Share allocated by the CBI	397,680.0	467,680.0	467,680.0	70,000.0	0.0	17.6	0.0
Projects referred to banks	573,913.8	602,825.9	631,733.4	28,912.1	28,907.5	5.0	4.8
Approved projects	263,149.0	281,673.3	297,269.2	18,524.3	15,595.9	7.0	5.5
Concluded contracts	197,961.5	235,259.5	251,240.1	37,298.0	15,980.6	18.8	6.8
Projected job opportunities based on concluded contracts (person)	1,458,769.0	1,627,178.2	1,743,884.0	168,409.2	116,705.8	11.5	7.2
Extended facilities	168,819.9	207,528.3	228,573.6	38,708.4	21,045.3	22.9	10.1
Overdue debts	1,911.3	6,678.6	8,993.6	4,767.4	2,315.0	249.4	34.7
Non-performing loans	264.5	5,328.6	10,041.3	5,064.2	4,712.7	⊠	88.4

Utilization of Oil Stabilization Fund (OSF)

A review of facilities extended from the OSF in Aban 1388 reveals that outstanding total value of facilities approved to be financed from the OSF was \$22,591.0 million, and that of concluded contracts was \$15,315.0 million, showing respectively \$418.0 million and \$1,028.0 million increase.

Outstanding foreign exchange facilities extended out of the OSF amounted to \$9,722.0 million in Aban 1388, pointing to 12.7 percent rise compared with Esfand 1387. Outstanding non-current foreign exchange claims reached \$5,003.2 million in Aban 1388, up by 43.3 percent compared with Esfand 1387.

Performance of Unemployment Insurance Fund

The number of pensioners benefiting from Unemployment Insurance Fund was 166,802 persons in 1388, indicating 8.8 percent growth compared with the previous year. In this year, 159,807 persons were added to the pensioners of this Fund. Considering the number of ceased benefits, the number of pensioners benefiting from this Fund reached 313,157.

The performance of unemployment insurance fund indicates that 17 percent of fund beneficiaries were female and 83 percent were male. Meanwhile, 86 percent of unemployment insurance recipients were married at the time of insurance receipt.

OSF Performance

(million dollars)

	End of Azar			Change in balance ¹		Percentage change ¹	
	1386	1387	1388 ²	1387	1388	1387	1388
Approved projects	18,146.1	20,576.2	22,591.0	1,993.0	418.0	10.7	1.9
Concluded contracts	11,617.3	14,186.1	15,315.0	846.9	1,028.0	6.5	7.2
Outstanding of paid facilities	..	9,042.4	9,722.0	-783.5	1,092.0	-8.0	12.7
Outstanding of non-current foreign exchange claims	..	3,324.3	5,003.2	1,025.2	1,512.7	44.6	43.3

¹ Change in balance and percentage change were calculated compared with Esfand.

² Figures for 1388 cover up to the end of Aban.

According to Labor Law, payment of unemployment benefit ranges from a minimum of 6 months to a maximum of 50 months after the first day of unemployment. Based on relevant statistics, the amount of pension based on person-months grew by 8.8 percent to Rls. 1.97 million in 1388. Qom, North Khorasan, Hamedan, Kermanshah, Lorestan, Ardebil, Esfahan, Mazandaran, Golestan, and Khuzestan provinces had the highest increase in the number of pensioners in 1388, compared with the year before.

Ceased Benefits and Reasons

		Total ceased benefits	Reaching maximum period	Reemploy- ment	Other
1387	Person	115,640	69,384	38,161	8,095
	Share (percent)	100.0	60.0	33.0	7.0
1388	Person	129,929	94,848	26,693	8,388
	Share (percent)	100.0	73.0	20.5	6.5

Source: Social Security Organization (SSO)

Performance of Unemployment Insurance Fund

	1387	1388	Percentage change
Beneficiaries	153,350	166,802	8.8
New pensioners	127,919	159,807	24.9
Ceased benefits	115,640	129,929	12.4

Source: Social Security Organization (SSO)

Wages and Salary

A minimum nominal wage policy is usually adopted by governments to protect low-skilled labor force and promote social justice programs in the economy. Accordingly, the Iranian government sets the minimum wage for the workers and the salary coefficient for the civil servants annually. Based

on Article 41 of the Labor Law approved in 1369, the High Council of Employment is the body in charge of setting the minimum wage for workers. In 1388, the minimum nominal monthly wage was determined at Rls. 2,635.2 thousand, up by 20.0 percent compared with the previous year. Considering the 10.8 percent inflation rate for 1388, the minimum real monthly wage rose by 8.4 percent. To improve financial strength of working households at low income cohorts, social security and compensatory policy schemes should be accompanied by the policy of raising the minimum wage. Given the impact of the rise in minimum wages of workers on various sectors of the economy, the minimum wage setting should be carried out with due consideration of certain important factors namely, labor productivity, household subsistence expenditure, general wage level, employment, unemployment rate, and the capacity of productive sectors.

Based on the Cabinet approval, the salary coefficient of civil servants increased from 490 in 1387 to 600 in the review year which, considering 3 to 5 percent annual increase, indicates 25.4 to 27.4 percent rise in total salary of civil servants.

Education

The total number of school age students ¹ has been declining in recent years, due to the downward trend of population growth. The number of students reached 13.4 million in 1388/89 academic year, indicating 4.3 percent fall compared with the preceding year. Accordingly, the number of students in elementary schools declined by 1.1 percent, in junior high schools 5.3 percent, and in high schools 10.5 percent.

¹Includes students of preschool centers, elementary schools, junior high schools, high schools, pre-university centers, and adult students. Of this figure, 361 thousand students are adults, down by 12.4 percent compared with the previous year.

In 1388/89 academic year, total number of students in pre-university centers (public and private) reached 409.9 thousand, down by 8.3 percent compared with the previous year. Students' gender composition indicates the higher share of female students at pre-university centers by 62.3 percent. As students at pre-university level potentially comprise the anticipated educated labor supply, it is important that preparation be made to attract this population into the labor market.

In 1388/89 academic year, share of students in private schools increased, compared with the previous year.

In 1388, literacy rate among the age group of 6+ years rose by 0.4 percentage point to 87.3 percent. Among the age group of 6-29 years, this rate was 95.6 percent, remaining relatively unchanged compared with the previous year. Enrollment rate in the age group of 6-14 years increased compared with the previous year to 93.6 percent.

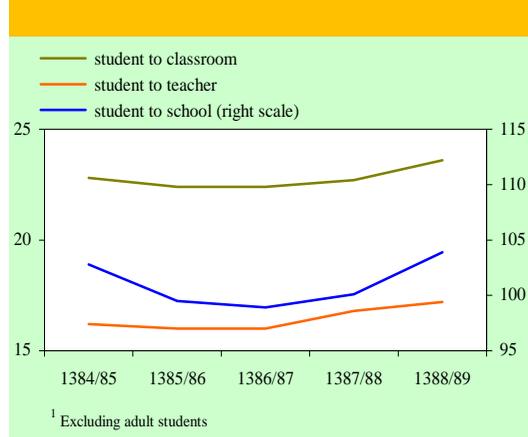
Literacy Rate in the Population of 6+ Years

	(percent)		
	Total	Urban areas	Rural areas
1387	86.9	90.6	78.7
1388	87.3	90.9	79.4

Source: President Deputy for Strategic Planning and Control

In the academic year of 1388/89, educational indices of "student to school", "student to classroom", and "student to teacher" increased, despite the reduction in the number of students which was in turn due to the fall in the teaching staff and the number of schools and classrooms. It should be noted that the number of schools, classrooms, and teaching staff declined by 7.6, 7.6, and 6.5 percent, respectively.

Figure 8.2. Education quality indices in Iran ¹



In the academic year of 1388/89, the number of the illiterate and low-literate population under the coverage of the Literacy Movement Organization (LMO) amounted to 1,144 thousand persons, down by 8.5 percent compared with the previous year. Of total students under the literacy movement program, 48.4 percent were primary level students and 51.6 percent were educated at supplementary, final, and 5th grade of elementary school levels.

Enrollment and Literacy Rates

	(percent)	
	1387	1388
Enrollment rate (6-14 years)		
Urban areas	95.1	96.8
Rural areas	88.9	87.7
Total	92.9	93.6
Literacy rate (6-29 years)		
Urban areas	96.5	96.5
Rural areas	93.9	93.9
Total	95.6	95.6

Source: President Deputy for Strategic Planning and Control

Higher Education

The total number of university students at public universities and Islamic Azad University

increased by 13.2 percent from 3,349.7 thousand to 3,790.9 thousand persons. Excluding Islamic Azad University, number of students increased by 19.0 percent to 2,330.8 thousand. Number of students at Islamic Azad University reached 1,460.0 thousand, registering 4.9 percent growth. Given the fact that this group will enter the labor market in coming years, appropriate planning in the labor market is deemed absolutely necessary. In this year, of total 3.8 million university students, 64.2 percent were undergraduate and 6.3 percent graduate students.

4th Five-Year Development Plan

Considering the objectives of the 4th FYDP, annual average growth of population was estimated at 1.4 percent. Meanwhile, it was anticipated that the total population would amount to 72.4 million in the final year of the Plan. Based on the data from Statistical Center of Iran (SCI), the rate of population growth was constantly higher than the figures projected in the 4th Plan for each year. Besides, in 1388, population reached 73.7 million which was above the target set in the Plan. This was due to the fact that 1359-1365 baby boomers grew up and reached the fertility age. Given the fact that nowadays the median age for marriage has increased, it is expected that the effect of the mentioned baby boom will further affect the growing trend of population in the coming years.

In the 4th FYDP, annual average growth of the population of 10 years and over was set at 1.5 percent. The actual performance of this variable was 1.9 percent. It is of special note that the population of 10 years and over is a variable which was an outcome of policies of previous plans and as such, labor supply could not be planned during the 4th Plan. Given the fact that population growth of 1374-1378 was more than 1.5 percent, projecting a 1.5 percent growth for the population of 10 years and over was not realistic at first place.

Labor supply or active population is defined as the population of 10 years and over who are either employed or searching for a job. Based on the objectives of the 4th Plan, annual average growth of labor supply was set at 3.4 percent; however, the actual performance of this variable was 2 percent. High growth in the number of students in public universities due to the tendency of young population to have higher academic education led to a fall in labor supply during the course of the 4th Plan. A further shock to the labor market is expected in the coming years when the mentioned group of students graduate from university. Although a rise in the number of university students paves the way for the fulfillment of one of the objectives of the 20-Year Vision Plan, which is the increase in capacity of producing technology and science, a lack of harmony between fields of study and labor market

Number of University Students (person)

	Academic year		Percentage change		Share (percent)	
	1387/88	1388/89	1387/88	1388/89	1387/88	1388/89
Public universities¹	1,957,867	2,330,831	-6.3	19.0	58.4	61.5
Male	821,843	1,035,442	-31.6	26.0	24.5	27.3
Female	1,136,024	1,295,389	27.9	14.0	33.9	34.2
Islamic Azad University	1,391,874	1,460,028	6.9	4.9	41.6	38.5
Male	819,345	880,451	11.5	7.5	24.5	23.2
Female	572,529	579,577	0.8	1.2	17.1	15.3
Total	3,349,741	3,790,859	-1.2	13.2	100.0	100.0

Source: Ministry of Science, Research and Technology, and Islamic Azad University

¹ Including students at Payame Noor University and independent higher education institutes

Targets and Performance of 4th FYDP in Terms of Population and Labor Market

(percent)

	1384		1385		1386		1387		1388		Annual Average	
	Perfor- mance	Target										
Population growth	1.5	1.4	1.6	1.4	1.5	1.4	1.5	1.4	1.5	1.4	1.5	1.4
Population growth (10 years and over)	1.6	1.5	2.4	1.5	1.9	1.5	1.8	1.5	1.7	1.5	1.9	1.5
Growth in labor supply ¹	8.0	3.4	0.8	3.4	0.4	3.4	-2.9	3.4	4.1	3.4	2.0	3.4
Growth in participation rate	6.5	2.0	-1.7	2.0	-1.5	2.0	-4.5	2.0	2.4	2.0	0.2	2.0
Growth in labor demand	..	4.3	1.1	4.3	1.2	4.3	-2.8	4.3	2.4	4.3	0.5	4.3
Growth in unemployed population	..	-4.2	-1.2	-4.2	-5.9	-4.2	-3.8	-4.2	18.7	-4.2	1.5	-4.2
Unemployment rate ²	11.5	11.4	11.3	10.6	10.5	9.8	10.4	9.1	11.9	8.4	11.1	9.8
Growth in labor productivity ³	3.2	3.5	2.7	3.5	2.6	3.5	-3.6	3.5	-2.2	3.5	0.7	3.5

¹ Figures for 1383 and 1388 are estimated based on the rate of participation in these years.

² Calculated based on the annual average

³ Figures for 1383-1386 are calculated by National Iranian Productivity Organization, and for 1387-1388, based on estimations by Economic Accounts Department of the CBI.

demands will raise the rate of unemployment, especially among the educated community. This will lead to lower use of human capital and the resources that have been invested in them.

Another labor market variable that influences labor supply is the rate of participation. A comparison of targets and performance of this index points to the under-realization of the objectives of the Plan in this regard. According to the 4th Plan, the rate of participation should have increased to 43 percent by end-1388, whereas, in practice, it reached 38.9 percent. This was attributable to continuation of university studies by part of the population on the one hand and disappointment of some newly graduates in finding a suitable job on the other. In case of creation of sufficient job opportunities, the rate of participation will go up and by employing the potential labor force, achieving the

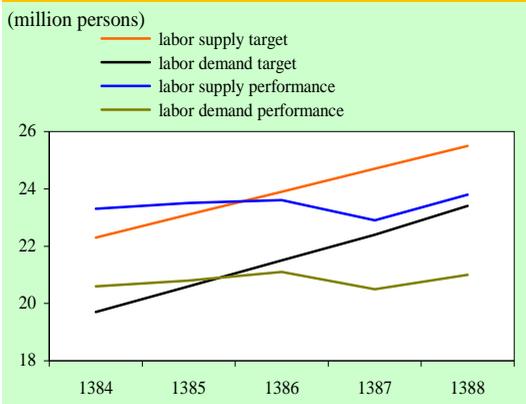
development targets will be made possible over a shorter period of time.

In the 4th Plan, it was stipulated that labor demand should reach 23.4 million persons by end-1388. A review of employment data based on economic sectors reveals that by 1388 year-end, about 21 million people were employed. Global economic recession, drought and frostbite in 1387, limitation on extension of banking facilities due to implementation of contractionary policies aimed at curbing inflation, and limited growth of investment caused a fall in employment in 1388 compared with 1386.

Unemployment rate, a leading indicator of labor market, was targeted at 8.4 percent for the final year of the Plan. Based on relevant data, this rate was 11.9 percent in 1388. This is against the backdrop of under-realization of Plan objectives regarding labor

supply, compared with the actual performance. In case labor supply targets had been realized and labor demand remained at the current level, rate of unemployment would have further increased.

Figure 8.3. Labor supply and demand in 4th FYDP, targets and performance



Based on Article 5, 4th FYDP Law, 31.3 percent of economic growth is to be achieved out of total factor productivity. Therefore, annual average growth of labor productivity was set at 3.5 percent. Relevant data, however, are indicative of a meager rise of 0.7 percent. Negative growth of labor productivity in 1387 led to under-realization of labor productivity target through the course of the Plan. Meanwhile, negligible growth of labor demand as well as a fall in economic growth in recent years was the factor behind under-realization of the mentioned target.

Given the low performance of labor market and human resource objectives, achieving the 20-Year Vision Plan targets necessitates further attempts in future development plans.