

The year 1391 was the eighth year in the 20-Year Vision Plan Document and the second year in the course of the 5th FYDP. The Budget Law for this year was formulated in light of the 20-Year Vision Plan, the General Policies of the Islamic Republic of Iran, and the major policies of the 5th FYDP Law, for the fulfillment of the following:

- Productivity enhancement of factors of production including labor, capital, and energy;
- Improvement of business environment, promotion of competition, and support of private sector;
- Fiscal and financial discipline, balanced budget (non-oil government revenues and current expenditures), and gradual elimination of reliance on oil and gas revenues by the end of the 5th FYDP;
- Strengthening the rule of law, social discipline, work values, self-realization, social networks, innovation, honesty, frugality, avoidance of extravagance, as well as quality enhancement of production;
- Reviewing the national and provincial authorities' mission aiming at delegation of central government's functions to provincial and local authorities, appropriate infrastructures for the fulfillment of government major functions on issues like policy formulations, regulation, governance, and supervision;
- Removing the shortcomings of the administrative system with the aim of enhancing efficiency, downsizing the government, decentralizing administrative and executive bodies, encouraging accountability, respect and better services for the public, improving living standards of civil servants, employing trustworthy managers, avoiding parallel leadership, and combating corruption in organizations;
- Formulating the Budget Law in light of the 5th FYDP Law and preparing administrative packages (subject of Article 217 of the 5th FYDP Law);
- Advancement of cultural environment, development of awareness and moral virtues, and strengthening of national unity and identity based on Islam, strengthening the cultural and social virtues, and supporting the non-public sector;
- Elimination of government control from the activities outside the framework of Article 44 of the Constitution in all forms of ownership, partnership, investment, and management;
- Qualitative and quantitative improvement of financial markets (capital, money, and insurance markets) towards higher efficiency, transparency, and soundness;

- Expansion of a comprehensive, far-reaching, and efficient system of Welfare and Social Security (contributory and non-contributory coverage, emergency and rescue operations).

Budgetary Performance

The price of crude oil was set at \$85 per barrel in the Budget Law of 1391, compared with \$81.5 in 1390 and \$65 in 1389. The preparation of the Budget Law for 1391 was based on the exchange rate for US dollar at Rls. 12,260. The Budget Law for 1390 had been formulated on the basis of the exchange rate for US dollar at Rls. 10,500. Moreover, based on Paragraph 3, Single Article of the Budget Law for 1391, the Ministry of Petroleum and its affiliated state-owned companies were required to directly deposit the receipts from the exports of crude oil and natural gas condensate in both current and previous years, with Treasury General accounts at the Central Bank on a provisional payment basis, subject of this Paragraph and the corresponding Paragraph in 1390 and after deduction of repayments under the buy-back contracts. The Central Bank was obligated to deposit the share of the company affiliated to the Ministry of Petroleum to its accounts approved by the Treasury General in Iran or abroad, for the payments under the contracts with the manufacturers and suppliers of materials or submit as collateral for foreign facilities contracts.

Upon the approval of the Minister of Economic Affairs and Finance, the Treasury General would settle accounts with the Ministry of Petroleum through the affiliated public companies. Furthermore, upon the approval of the Treasury General, the Central Bank is obligated to deposit 14.5 percent share of the Ministry of Petroleum in the funds received from selling foreign exchange to its account, through the affiliated relevant companies (including repayments under the

buy-back contracts) and 23 percent share of the National Development Fund of Iran and the government to their accounts, on a monthly basis, subject of Budgetary Items 210101, and 210109. The excess foreign exchange deposited to the Treasury General, upon financing the mentioned uses, will be allocated by the government as of the end of Shahrivar until year-end as follows: 25 percent subject of this Paragraph equal to \$3 billion for strengthening the defense mechanism; \$500 million to defense industries; and \$250 million as financial aid to the Air Force of the Army to buy aircraft, helicopters, and other required equipment. Upon allocation of \$1 billion for the financing of bitumen provision to development projects; \$500 million to gas companies to supply gas to urban and rural areas, meet production costs, finance the transfer, refinery, and distribution network, and make repayments on participation papers and facilities; and \$500 million to the Ministry of Science, Research, and Technology's Innovation Fund, the remaining will be deposited into the OSF based on Article 85 of the 5th FYDP Law.

Based on the tables of the 1391 Budget Law, revenues, disposal of non-financial assets, and disposal of financial assets (approved) totaled Rls. 1,442,699.1 billion. Total expenses, acquisition of non-financial assets, and acquisition of financial assets were also set at Rls. 1,442,699.1 billion¹.

According to the Budget Law for 1391, approved revenues, including taxes and other revenues (excluding special revenues), totaled Rls. 653,297.5 billion and approved expenses (excluding special expenditures) totaled Rls. 1,010,713.0 billion. Therefore,

¹ As the Budget Law for 1391 was not approved and declared in due time, general sources and uses of the government during months Farvardin and Ordibehesht 1391 were managed based on "Law on Authorization of Government Receipts and Payments" and in the framework of the Budget Law for 1390.

the projected deficit of the operating balance would be Rls. 357,415.6 billion. Moreover, approved receipts and payments out of disposal and acquisition of non-financial assets (excluding special revenues and expenditures) were Rls. 698,764.5 billion and Rls. 397,455.0 billion, respectively. Thus, approved operating and non-financial balance (sum of approved operating balance and net disposal of non-financial assets) posted Rls. 56,106.1 billion deficit, which was to be mostly financed out of net disposal of financial assets, arising from privatization revenues.

The composition of sources of the approved government budget in 1391 (excluding special revenues) constituted 45.3 percent receipts from revenues, 48.4 percent from disposal of non-financial assets, and 6.3 percent from disposal of financial assets. Uses of the approved government budget (excluding special expenditures) comprised expenses by 70.1 percent, acquisition of non-financial assets by 27.5 percent, and acquisition of financial assets by 2.4 percent.

Review of the figures related to the Budget performance in 1391 reveals that general budget sources (excluding special revenues) were financed out of revenues by 53.4 percent, from disposal of non-financial assets by 40.2 percent, and from disposal of financial assets by 6.4 percent. Budget uses (excluding special expenditures) indicate allocation of 83.6 percent for current expenses, 14.3 percent for acquisition of non-financial assets, and 2.1 percent for acquisition of financial assets.

Government revenues, including taxes and other revenues (excluding special revenues), amounted to Rls. 568,203.2 billion, representing 4.4 percent increase compared with 1390 and 87.0 percent realization compared with the approved figure. Out of total revenues, Rls. 395,166.7 billion was received from

taxes and Rls. 173,036.5 billion from other revenues.

Government expenses (current expenditures, excluding special expenditures) grew by 1.4 percent compared with the year before, to Rls. 889,993.2 billion, representing 88.1 percent realization compared with the figure approved in the budget. Thus, based on the performance of government revenues and expenses in 1391, operating balance ran a deficit of Rls. 321,790.0 billion.

Figure 10.1. Composition of government budget

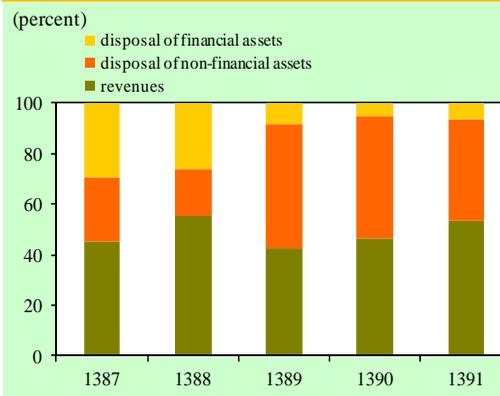
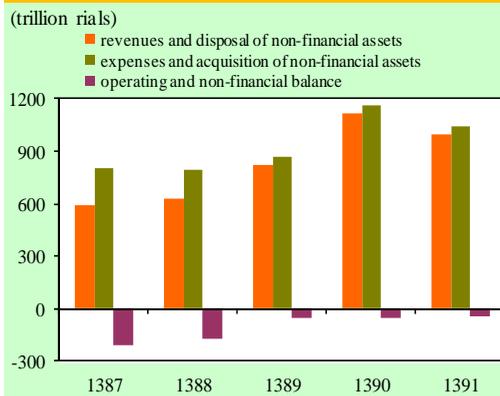


Figure 10.2. Government fiscal position



Receipts from disposal of non-financial assets, including sale of crude oil and oil products as well as movable and immovable assets, amounted to Rls. 428,521.4 billion in 1391. This indicated 24.8 percent decrease compared with the year before and 61.3 percent realization compared with the figure approved in the Budget Law. Disbursements on the acquisition of non-financial assets (development expenditures) fell by 47.3 percent to Rls. 152,277.4 billion, signifying 38.3 percent realization compared with the approved figure. Therefore, net disposal of non-financial assets posted a surplus of Rls. 276,244.0 billion in 1391.

Considering revenues and expenses as well as disposal and acquisition of non-financial assets, the operating and non-financial balance (sum of operating balance and net disposal of non-financial assets) ran a deficit of Rls. 45,546.0 billion in 1391, showing a decrease of 13.0 percent compared with the year before and a realization of 81.2 percent compared with the approved figure. In this year, disposal of financial assets amounted to Rls. 67,696.1 billion and acquisition of financial assets totaled Rls. 22,150.1 billion. Therefore, net disposal of financial assets posted a surplus of Rls. 45,546.0 billion, out of which the deficit in the operating and non-financial balance was financed.

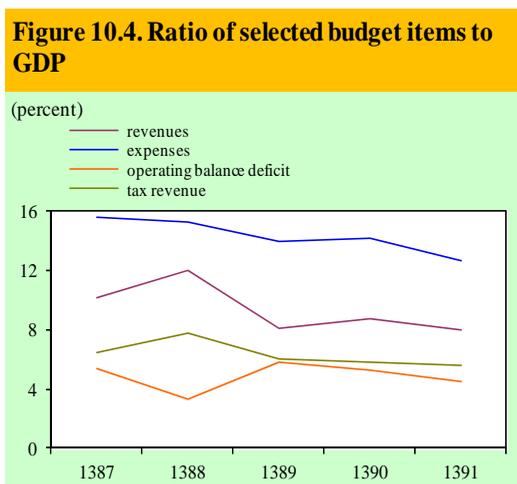
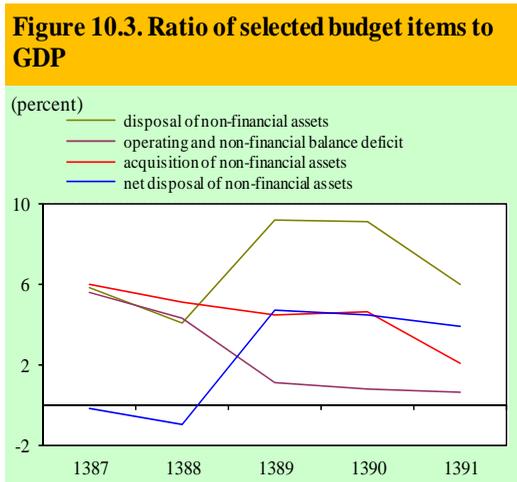


Table 10.1. Sources and Uses of Government General Budget¹ (billion rials-percent)

	Approved ²		Percentage change	Share in total		Performance		Percentage change	Share in total	
	1390	1391		1390	1391	1390	1391		1390	1391
Sources	1,545,870.1	1,442,699.1	-6.7	100.0	100.0	1,175,285.5	1,064,420.7	-9.4	100.0	100.0
Revenues	609,989.6	653,297.5	7.1	39.5	45.3	544,470.4	568,203.2	4.4	46.3	53.4
Disposal of non-financial assets	590,711.3	698,764.5	18.3	38.2	48.4	569,908.7	428,521.4	-24.8	48.5	40.2
Disposal of financial assets	345,169.2	90,637.1	-73.7	22.3	6.3	60,906.4	67,696.1	11.1	5.2	6.4
Uses	1,545,870.1	1,442,699.1	-6.7	100.0	100.0	1,175,285.5	1,064,420.7	-9.4	100.0	100.0
Expenses	897,920.7	1,010,713.0	12.6	58.1	70.1	877,701.9	889,993.2	1.4	74.7	83.6
Acquisition of non-financial assets	349,749.4	397,455.0	13.6	22.6	27.5	289,001.0	152,277.4	-47.3	24.6	14.3
Acquisition of financial assets	298,200.0	34,531.0	-88.4	19.3	2.4	8,582.6	22,150.1	158.1	0.7	2.1

¹ Excluding special revenues and expenditures

² Approved figures are revised based on budget amendments.

Table 10.2. Government Fiscal Position¹

(billion rials)

	1389	1390	1391	Percentage change	
				1390	1391
Revenues	384,288.0	544,470.4	568,203.2	41.7	4.4
Tax revenue	284,527.9	359,451.5	395,166.7	26.3	9.9
Other government revenues	99,760.1	185,018.9	173,036.5	85.5	-6.5
Expenses (current)	659,341.5	877,701.9	889,993.2	33.1	1.4
Operating balance	-275,053.5	-333,231.5	-321,790.0	21.2	-3.4
Disposal of non-financial assets	435,780.2	569,908.7	428,521.4	30.8	-24.8
Acquisition of non-financial assets (development expenditures)	212,845.0	289,001.0	152,277.4	35.8	-47.3
Net disposal of non-financial assets	222,935.2	280,907.6	276,244.0	26.0	-1.7
Operating and non-financial balance	-52,118.3	-52,323.8	-45,546.0	0.4	-13.0
Ratio to GDP (current prices)					
	Percent			Change (percentage points)	
	1389	1390	1391	1390	1391
Revenues	8.1	8.7	8.0	0.6	-0.7
Tax revenue	6.0	5.8	5.6	-0.2	-0.2
Other government revenues	2.1	3.0	2.4	0.9	-0.5
Expenses (current)	13.9	14.1	12.6	0.1	-1.5
Operating balance	-5.8	-5.3	-4.5	0.5	0.8
Disposal of non-financial assets	9.2	9.1	6.0	-0.1	-3.1
Acquisition of non-financial assets (development expenditures)	4.5	4.6	2.1	0.1	-2.5
Net disposal of non-financial assets	4.7	4.5	3.9	-0.2	-0.6
Operating and non-financial balance	-1.1	-0.8	-0.6	0.3	0.2

¹Excludes special revenues and expenditures.