

Part One

**Economic Developments
of Iran in 1385**

*In the Name of God,
The Compassionate, The Merciful*

Gross Domestic Product

According to preliminary estimates, GDP at basic price grew by 6.2 percent at constant prices⁽¹⁾ and amounted to Rs. 446,880 billion in 1385. The value-added of manufacturing and mining, services, oil, and agriculture sectors grew by 8.5, 6.5, 3.0, and 4.7 percent, respectively. Moreover, the shares of these sectors in GDP were 17.1, 48.8, 26.5, and 10.4 percent, respectively, at current prices.

In the review year, non-oil GDP at basic price grew by 6.6 percent, 0.4 percentage point more than GDP growth. This was mainly due to the lower growth of oil and gas sector compared with other economic sectors.

Based on preliminary estimates, the value-added of agriculture sector grew by 4.7 percent, at constant prices, and amounted to Rs. 62,386 billion, indicating a noticeable decline when compared with 9.3 percent growth of 1384. The share of the value-added of this sector in GDP remained relatively unchanged at 10.4 percent, at current prices. Moreover, production of farming crops, horticultural produce, and livestock products enjoyed a favorable growth in the review year, as compared to the respective period in the previous year.

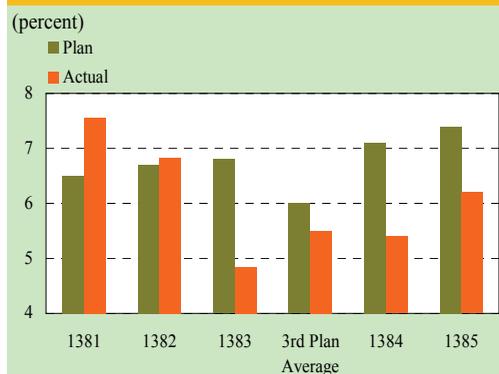
(1) Constant prices refer to constant 1376 prices.

The value-added of oil and gas sector grew by 3 percent in 1385 to Rs. 47,546 billion, indicating 2.4 percentage points rise when compared with the 0.6 percent growth of the previous year.

In 1385, manufacturing and mining sector enjoyed 8.5 percent growth, indicating 1.8 percentage points rise compared with the year before. Based on preliminary estimates, manufacturing sector grew by 9.5 percent⁽²⁾.

The value-added of mining by 13.4 percent and electricity, gas, and water sub-sector by 8.4 percent, at constant prices, indicated growth.

Figure 1.1. GDP growth⁽¹⁾

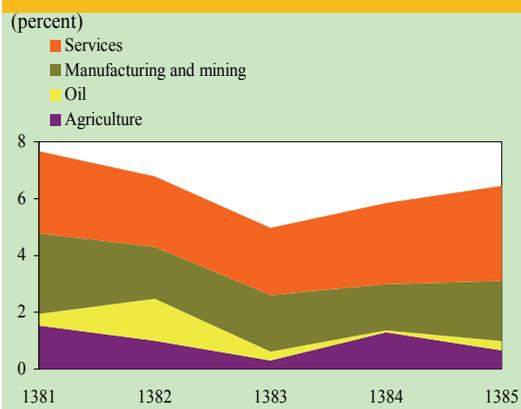


(2) The value-added for the 4 quarters of 1385 in manufacturing and mining sector was estimated based on the production index of large manufacturing establishments.

According to preliminary figures, the value-added of construction sector rose by 3.7 percent to Rls. 19,420 billion, at constant prices. Private sector investment in urban areas indicated 9.6 percent growth at current prices. However, the recent spike in prices of construction materials and services by 19.9 and 18.6 percent reduced the real growth rate of private sector investment in urban areas by 6.5 percent.

Public sector investment grew by 16.4 percent in 1385, which was reflected in the rise in value-added of government buildings. This growth was mostly due to the government development payments for construction.

Figure 1.2. Economic sectors' contribution to GDP growth



Based on preliminary estimates, the value-added of services sector, with a share of 48.8 percent in GDP, grew by 6.5 percent, at constant prices, in 1385. In this year, shares of trade, restaurant and hotel in GDP and transport, storage and communications were 11.1 and 7.3 percent, respectively, at current prices. The share of financial and monetary institutions' services in GDP was 4.6, real estate, specialized and professional services 12.6, public services 10.4, and social,

personal and household services 2.7 percent, at current prices.

Gross Domestic Expenditure

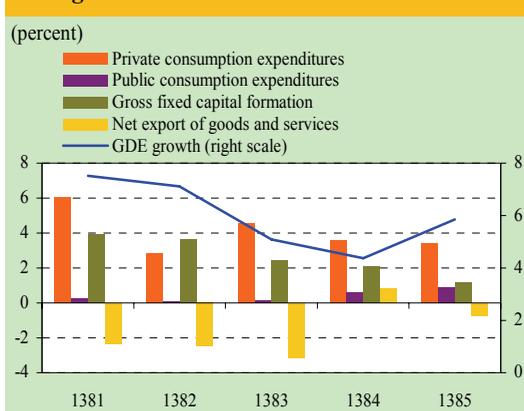
According to preliminary estimates, gross domestic expenditure grew by 5.8 percent at constant prices. Constituents of gross domestic expenditure indicate that private consumption expenditure had the highest share in GDE by 45.2 percent at current prices. Moreover, it grew by 6.2 percent to Rls. 250,324 billion, at constant prices.

Public consumption expenditures in ministries and affiliated institutions, municipalities, and Social Security Organization (SSO) had a share of 14.2 percent in GDE at current prices. Moreover, it grew by 7.4 percent (at constant prices) to Rls. 53,337 billion in this year.

Gross fixed capital formation, with a share of 26.4 percent in GDE, increased by 3.3 percent, at constant prices, and amounted to Rls. 156,730 billion. Gross fixed capital formation for machinery and construction grew by 3.0 and 3.9 percent, respectively, to Rls. 99,682 and 57,048 billion, at constant prices.

Imports of goods and services recorded a growth of 7.1 percent in the review year, a faster growth pace when compared with 2.1 percent growth of the previous year. Exports also grew by 5.1 percent at constant prices. Therefore, net export of goods and services ran a deficit of Rls. 25,709 billion at constant prices. Gross domestic expenditure (GDP at market price) rose by 5.8 percent to Rls. 447,961 billion. With the inclusion of terms of trade effect and net factor income from abroad, gross domestic expenditure (product) grew by 6.1 percent to Rls. 495,150 billion, at constant prices.

Figure 1.3. Economic sectors' contribution to GDE growth



Incremental Capital-Output Ratio (ICOR)

Incremental Capital-Output Ratio (ICOR) is a measure of the efficiency of capital and is calculated from the ratio of investment in a certain period of time to change in the output of the next period ⁽¹⁾. The higher the ICOR, the lower the productivity of capital.

INCREMENTAL CAPITAL-OUTPUT RATIO

| | 1380 | 1381 | 1382 | 1383 | 1384 | 3 rd Plan Average | 1385 |
|------|------|------|------|------|------|------------------------------|------|
| ICOR | 9.1 | 4.4 | 5.0 | 7.3 | 6.7 | 6.4 | 5.9 |

Comparison of Real Sector Performance in 1385 with the 4th FYDP Targets ⁽²⁾

GDP at constant prices grew by 6.2 percent, indicating a fall of 1.2 percentage points when compared with the 7.4 percent growth projected in the 4th FYDP. The 3.3

(1) Given a one-year lag for investment and change in output, ICOR to total output is calculated from: $ICOR = I_{t-1} / (GDP_t - GDP_{t-1})$. I stands for gross fixed capital formation and GDP for gross domestic product.

(2) Data on real sector performance and 4th FYDP projections are calculated on the basis of 1376 and 1381 constant prices, respectively.

percent growth rate of gross fixed capital formation during the review year as compared with the 11.0 percent increase projected in the 4th FYDP indicates a difference of 7.7 percentage points. On the other hand, the 6.4 percent rise in total consumption (sum of public and private consumption expenditures) in 1385 indicates an upward trend as compared with the 4th FYDP projections (5.5 percent).

The growth targets for agriculture, oil, manufacturing and mining, and services sectors in the 4th FYDP were set at 5.9, 2.7, 10.8, and 8.4 percent, respectively for 1385. Comparison of the performance figures of all these sectors with the mentioned targets indicates that the Plan target was realized merely in the oil sector.

COMPARISON OF REAL SECTOR PERFORMANCE IN 1385 WITH THE 4th FYDP PROJECTIONS

(growth-percent)

| | Actual | Projection |
|--|--------|------------|
| GDP | 6.2 | 7.4 |
| Total consumption expenditures | 6.4 | 5.5 |
| Gross domestic fixed capital formation | 3.3 | 11.0 |

4th FYDP Projections on Real Sector Performance

The respective tables show 4th FYDP Law projections on major aggregates of the real sector. According to the 4th FYDP Law, GDP is projected to grow by 7.1, 7.4, 7.8,

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8.4, and 9.3 percent, respectively, during the course of 1384-88, with an average growth of 8.0 percent. Total consumption expenditures are projected to rise by 4.8, 5.5, 5.9, 6.4, and 7.4 percent, respectively, with an

average growth of 6.0 percent for the mentioned period. Fixed capital formation is projected to grow by 11.3, 11.0, 11.7, 12.9, and 14.1 percent, respectively, with an average growth of 12.2 percent.

4th FYDP PROJECTIONS ON REAL SECTOR PERFORMANCE (at constant 1381 prices)

| | 1384 | 1385 | 1386 | 1387 | 1388 | (percent) 4 th Plan Average |
|--|------|------|------|------|------|--|
| GDP | 7.1 | 7.4 | 7.8 | 8.4 | 9.3 | 8.0 |
| Total consumption expenditures | 4.8 | 5.5 | 5.9 | 6.4 | 7.4 | 6.0 |
| Gross domestic savings | 10.1 | 9.8 | 10.2 | 10.7 | 11.4 | 10.4 |
| Gross domestic fixed capital formation | 11.3 | 11.0 | 11.7 | 12.9 | 14.1 | 12.2 |

Source: 4th FYDP, Management and Planning Organization

4th FYDP PROJECTIONS ON THE GROWTH OF ECONOMIC SECTORS (percent)

| | 1384 | 1385 | 1386 | 1387 | 1388 | Average Growth (1384-1388) |
|--------------------------|------|------|------|------|------|-------------------------------|
| Agriculture | 6.0 | 5.9 | 6.2 | 6.8 | 7.6 | 6.5 |
| Oil | 2.6 | 2.7 | 2.9 | 3.2 | 3.6 | 3.0 |
| Manufacturing and mining | 10.5 | 10.8 | 11.0 | 11.5 | 12.4 | 11.2 |
| Services | 8.0 | 8.4 | 8.8 | 9.4 | 10.4 | 9.0 |
| GDP | 7.1 | 7.4 | 7.8 | 8.4 | 9.3 | 8.0 |
| Non-oil GDP | 8.3 | 8.6 | 9.0 | 9.6 | 10.6 | 9.2 |

Source: 4th FYDP, Management and Planning Organization