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Financial Position of Iran, 1949 to 1953
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Mary Maroney

Summary

Financial chaos, in one form or another, might reasonably have been expected in Iran after the virtual cessation of oil exports in May 1951. Within less than a year, Iran lost not only a source of exchange that previously had financed its foreign deficit but also a source of revenue sufficient to cover most of the deficit on government account. In fact, nothing resembling chaos occurred. A number of factors operated to prevent major financial disturbances in Iran during the last two and a half years, some of them outside the control of the Iranian authorities. In the first year after nationalization, withdrawals from official reserves replaced oil receipts in the financing of the foreign deficit, and, throughout the period, a cautious internal financial policy and good crops helped to contain the rise in domestic prices. Moderate inflationary pressures on prices did make themselves felt, however, in the two and a half years after the nationalization. These pressures were due primarily to a change from a traditionally large import surplus to an export surplus, rather than to the increase in central bank credit to the Government.

The main causes of the improvement in the balance of trade would appear to have been a depreciation of the currency and the tightening of import restrictions. Increases in the domestic output of a number of agricultural commodities made it possible, however, to lower imports of similar commodities without adverse internal effects. Better crops also helped to maintain export proceeds.

The change from an import to an export surplus did not come until the second year after nationalization. For much of the first post-nationalization year, imports were permitted to continue at the pre-nationalization rate. Thus, most of the $80 million loss of foreign exchange, which reduced official reserves to about two-thirds of their value at the time of nationalization, occurred early in the period. Subsequently, thanks to an improved balance of trade and foreign assistance, reserves decreased more slowly. At the end of August 1953, total available gold and foreign exchange reserves were still sufficient, at $152 million, to finance thirty months of imports at the 1952/53 rate. Total United States aid of $67 million was equivalent to nearly two-thirds of Iran's annual oil revenues before nationalization and sufficient to cover two and a half years of foreign exchange losses at the rate to which they had fallen in the second post-nationalization year.

Iran's external position at the end of more than two oilless years was, then, anything but desperate and domestic inflation had not assumed unmanageable proportions. Even with an appreciation of foreign currencies in terms of rials of more than 115 per cent, the rise in the cost of living was limited to 15 - 20 per cent. Exceptionally

good crops helped to prevent internal prices from rising more rapidly, but a reasonably cautious financial policy also helped to contain domestic inflation. The Government did not, as might have been expected, increase domestic outlays to the point where its total expenditures would be equal to the sum of oil company and government expenditures before nationalization. Net expenditures of the Anglo-Iranian Oil Company and the Government combined declined from an annual average of nearly 6.5 billion rials in the last two pre-nationalization years to about 5 billion rials in the year ending August 1953. However, the current balance of payments improved from an average annual deficit of about 6 billion rials in the last two pre-nationalization years to a surplus estimated at nearly 1.9 billion rials in the year ending August 1953. Net internal expansion, therefore, to the extent that it was derived from government and oil operations, rose from an average of half a billion in the two years immediately preceding nationalization to nearly 7 billion rials in the year ending in August 1953.

The expansionary effect on incomes of the order of 6 - 7 billion rials, compared with a national income estimated at 45 - 55 billion rials, was partly offset by a decline in the income generated by investment in sectors other than agriculture. While this decline helped to contain inflation in the past, continued failure of the rate of investment to grow would necessarily lower Iran's standard of living in the future. A rise in investment, however, and probably even the maintenance of existing capital equipment, would require an increase in imports. Exports other than oil cannot be counted upon to provide the necessary foreign exchange, and, unless foreign aid continues at the present rate, the resumption of oil exports is a necessary condition for further growth, if not for maintenance of the existing capital equipment, of the Iranian economy.

Introduction

Recent indications that the Government of Iran may be contemplating renewal of negotiations with Britain have markedly improved the prospects for restoring to Iran its foremost potential source of foreign exchange. Iran's gold reserves are still at a high level relative to requirements and domestic inflation is under control. Without the pressures of external or internal financial distress, the country should be able, therefore, to find an early solution to its current foreign exchange problem. This might be a convenient point of time, then, to summarize the effects on the Iranian economy of the almost complete stoppage of oil exports since May 1951. This paper deals primarily with the income and monetary effects of financial changes in these three sectors: Government, oil, and the foreign balance.

External Position

The main changes in Iran's external financial position over the period beginning two years before oil nationalization and ending in the fall of 1953 were these. Oil receipts which, in the last two pre-nationalization years, had financed more than three-quarters of Iran's known net requirements of foreign exchange, declined from an annual average of $100 million during the four-year period before nationalization to about $30 million in the first year after nationalization and to virtually zero since then. Over a period of five years before nationalization, Iran's official gold and foreign exchange reserves had risen by $23 million. In the two years since nationalization, official reserves fell by $80 million. By the end of August 1953, readily available gold and foreign exchange reserves of $152 million amounted to about thirty months of imports (1952/53 rate) and would have been sufficient to finance more than nine years of the country's over-all foreign deficit in terms of the official exchange losses of $17 million in 1952/53. Additional aid of $45 million granted by the United States in September was equivalent to about two and a half years of that deficit. Finally, the effective rate of the rial was permitted to depreciate from an average of about 45 rials per U.S. dollar, to 96 rials per U.S. dollar at the present time.

a. Financing the foreign deficit - Over the five-year period 1946/47 through 1950/51, total known net requirements of foreign exchange are estimated at $492 million. Over the same period, total foreign exchange receipts from oil operations were $470 million. During the same period, however, official reserves increased by about $23 million. Estimates of gross foreign exchange requirements are probably more reliable than estimates of gross receipts. The excess of known gross requirements plus the increase in reserves ($515 million) over receipts from oil operations ($470 million), or about $45 million, may be regarded as a reasonably accurate measure of financing from undeclared resources.

In the first year after oil nationalization, royalties and local currency purchases by the AIOC still financed about a third of known net foreign exchange requirements. However, total known financing, which consisted of what remained of oil revenues and a loss of foreign reserves (after an $8.75 million drawing from the IMF and aid from the U.S.), exceeded total known requirements by about $26 million. In the second post-nationalization year known requirements fell short of known means of financing by $9 million. Actually, the shift from under-financing to over-financing of known requirements had started in the last year before oil nationalization. The figures suggest that some flight of capital had set in before nationalization, that it rose to a peak during the first year and declined considerably in the second year after nationalization. At the time of writing, complete balance of payments estimates have not become available for the second year after oil nationalization. It is known, however, that the annual loss of official reserves has fallen to about one-fifth of the loss in the first post-nationalization year.

Table 1, below, shows the role played by foreign exchange receipts from oil operations in the financing of Iran's foreign exchange requirements in recent years. It reveals three major developments on foreign account: (1) the decrease and final disappearance of the major source of foreign financing; (2) replacement, during the first post-nationalization year, of about two-thirds of former annual foreign exchange proceeds from oil by drawings on official reserves, and (3) a substantial decrease over the period in the annual deficit and the drawings on official reserves.

Table 1

Iran
Balance of Payments
1949/50 through 1952/53 a/
(In millions of dollars)

	1949/50	1950/51	1951/52	1952/53
Known net foreign exchange requirements (-) b/	- 150	- 103	- 80	- 8
Oil royalties and local currency purchases	109	114	30	—
Change in official holdings (increase -) c/	34	- 5	76	17
Errors and omissions (over-financing -) d/	7	- 6	- 26	- 9

Sources: The figures for 1949/50 through 1951/52 were derived from IMF, Balance of Payments Year Book, vol. 4, pages 160-162, the net requirements figure for 1952/53 from Bank Melli Iran Bulletin, June-July 1953, page 171. The change in reserves was taken from IMF, B. o. P. Year Book, vol. 4, page 160, for 1949/50 through 1951/52; IMF, International Financial Statistics for 1952/53.

For footnotes, see Appendix, page 27.

b. Gold and foreign exchange reserves - Official gold and foreign exchange holdings, which in five pre-nationalization years had increased by $25 million to nearly $250 million (April 1951), fell in the two and a half years after nationalization by $80 million to about $170 million (August 1953), or by nearly one-third. After a decrease in the known foreign deficit from an annual average of about $125 million in the last two pre-nationalization years to below $10 million in the second year after nationalization, Iran was still losing reserves at an annual rate of about $10 million at the beginning of the first quarter of the third post-nationalization year. For August 1953, a gain of $5 million was reported to the IMF and some further improvement was expected in the late fall of the year. When additional United States aid of $45 million was announced in September 1953, the country's gold and foreign exchange reserves were equal to about thirty months of imports (rate of 1952/53) or sufficient to cover nine and a half years of the decline in foreign reserves at the rate of loss ($17 million) shown in 1952/53. 1/ Table G in the Appendix shows the changes in the gold and foreign exchange reserves (including claims on the USSR) from 1946 to 1953.

During the first half year of the oil dispute, when there seemed reason to expect a settlement in the near future, the authorities sold official reserves in an effort to minimize the implications for the economy of the decrease in foreign exchange receipts following upon the virtual cessation of oil exports. About $47 million of the $62 million loss in 1951/52 were sold in the first six to seven months. Different views prevailed after the middle of the first post-nationalization year. The rial was permitted to depreciate beginning December 1951 and quantitative import restrictions were tightened in 1952/53. In the second year of the impasse the drain on reserves was reduced to $17 million. A further improvement is expected to begin in the late fall of calendar 1953. Not sufficient time has elapsed, however, since August, the first month of a gain in reserves, to conclude that the trend of the previous two years has now been reversed for reasons other than United States aid.

c. Depreciation of the rial - The effective rate of the rial, which had been permitted to appreciate by May 1951 to an average effective rate of 44 rials per U.S. dollar from its earlier postwar low of 75 rials per U.S. dollar (October 1947), was once more allowed to fall after oil nationalization. The value of the rial appears to have reached its lowest level sometime in May 1953, when the effective rate was reported to have fallen to 130 rials per U.S. dollar. Subsequently, the rate recovered and, at the time of writing, a single effective rate of 96 rials per U.S. dollar was in force for all commercial transactions.

In addition to what might be called commercial rates, Iran has used an official rate of 32.25 rials per U.S. dollar, established in 1945. This rate has been used throughout the period for government transactions, the most important of which were local currency sales by the Government to the AIOC. Since the authorities normally resold the sterling received in exchange for local currency at a rate higher than the official rate, the Government was able to increase its rial receipts from sources other than taxes by amounts equal to the difference between the value of sterling purchased at the official rate and the value of such sterling when resold at the higher effective rate.

Iran has used a system of fluctuating multiple rates ever since 1945. However, the rial was not devalued in September 1949, and it was not until the fall of 1950 that pressure from exporters induced the authorities to reverse a previous policy of appreciation and to permit a partial

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1/ The amount of reserves on which these comparisons are based excludes about $12.5 million of the gold reserve reported at $137 million, and $8 million of the foreign exchange holdings of $35 million (both figures at end of August 1953) which represent Iranian claims against the USSR for settlement of war-time expenditures and which cannot, therefore, be regarded as available resources.

depreciation of the currency. During the first six months after oil nationalization in May 1951, the authorities continued to provide sufficient exchange for the average value of the rial to remain at about 44 rials 1/, i.e., the level to which it had fallen in late 1950. However, by the end of the first post-nationalization year, the authorities in an effort to conserve foreign exchange reserves, had permitted the average effective rate to depreciate by more than 45 per cent. After a brief period of appreciation, the two effective rates in force at the time were permitted to move freely without intervention by the authorities, except for a system of import and export licensing, under which low-priority imports could be financed only be receipts from otherwise non-competitive exports. Under this regime, the rial depreciated by another 22 per cent over the second post-nationalization year. The single rate of 96 rials in force at the present time, while slightly more favorable for the rial than at the end of the second post-nationalization year, may well turn out to be lower than is required to avoid further reductions in Iran's foreign exchange reserves.

The Trade Balance

The striking changes in Iran's balance of trade, first to a smaller import surplus and then from an import to an export surplus, was the major reason for preventing a dangerous decrease in official reserves. These changes also influenced the internal financial position of the country more profoundly than any other development after the nationalization of oil. It is of interest, therefore, to examine to what extent the change from an import to an export surplus may be regarded as the result of deliberate policy and to what extent this development may be attributed to factors essentially outside the control of the Iranian authorities.

The estimated improvement of about $100 million in the balance of trade, from the last pre-nationalization to the second post-nationalization year, appears to have been due more to the effects of import restrictions and depreciation than to increased agricultural output and shifts in demand. External price changes probably offset each other to a large extent, with possibly some deterioration in the terms of trade. In rough quantitative terms: of a total estimated decline of $112 million in the external value of imports, better crops were responsible for perhaps $30 million, depreciation and tightened restrictions for around $80 million, and a shift in demand for perhaps $10 million; on the export side, the higher foreign price for wool and depreciation would appear to have been more important in maintaining foreign exchange proceeds than increases in domestic output.

Another aspect of the change in Iran's balance of trade is its relationship to the internal financial situation. Two points are relevant in this connection. The first is that the direction of effect was from the balance of trade to the internal financial situation rather than

1/ This average rate of 44 rials per U.S. dollar is derived from two effective rates, one of 40 - 41.5 for essential goods, another of 47.25 for non-essential imports and most exports. Each of the effective rates is equal to the sum of the official rate plus the rate applicable to import rights issued to exporters and resold to importers.

the other way round. The second is that, with the depreciation of the rial, the balance of trade in rials—the internal balance—showed a greater improvement than the external balance.

a. Domestic crops and the balance of trade - In Iran, domestic availabilities should affect the volume of imports of cereals, sugar, and tea. These commodities accounted for about one-fourth of the total value of imports in the last pre-nationalization year. On the export side, changes in domestic output should have an influence on foreign sales of cotton, dried fruit, and rice. Presumably, changes in prices rather than in availabilities would affect the other important agricultural export products, such as wool, furs, and gums. The first group accounted for about 40 per cent of the total value of exports in the last pre-nationalization year.

A reasonably good year to year correlation (positive for exports, negative for imports) exists between agricultural exports and imports in the April to March years of the Iranian customs statistics and the figures for domestic output of the same or similar commodities in the previous calendar year. For the three-year interval from the last pre-nationalization year (1950/51) to the second year after nationalization (1952/53), the correlation is equally good, however, for trade and domestic output during the same year. There is some justification, then, for attributing to better domestic crops that part of the decrease in the value of imports which was due to lower imports of agricultural products; i.e., to factors outside the control of the Iranian authorities. From 1950/51 to 1952/53, imports of wheat decreased by 100,000 tons to virtually zero, while domestic production of bread grains (1952) was higher by an equal amount; sugar imports decreased by 36,000 tons, domestic production rising by 20,000 tons, and the imports of tea fell by 3,000 tons with domestic production up by 1,000 tons in roughly the same period.

On the export side, increased output appears to have maintained foreign exchange proceeds in the face of declining external prices for some commodities, such as dried fruit. More important, however, were relatively high foreign prices for wool and rice which, coupled with depreciation, stimulated exports of these commodities. In view of the over-all increase in domestic food output of about 4 per cent from 1950/51 to 1952/53, the greater increase in exports than in the domestic output of rice did not imply a reduction in total food supplies available for domestic consumption.

The total effect on the dollar value of imports of the reduction in food exports seems to have been only about $30 million compared with the total estimated decline of $112 million. On the export side, the net effect of increased domestic output on total foreign exchange proceeds probably did not exceed a few million dollars.

b. Economic policies and the balance of trade - From 1950/51 to 1952/53 Iran's imports of capital equipment 1/ decreased from about

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1/ See Appendix, page 20, Table C, note 2.

$42 million to $12 million. The part of this decrease that may be attributed to policy varies from the total of $30 million to a minimum of perhaps $10 million, i.e., the estimated decrease in government imports of capital goods. For want of an adequate basis on which to estimate the extent of the decline in demand relative to the decline as a result of depreciation and restrictions, it may be assumed that half of the estimated decrease in private imports of capital goods was due to measures of foreign economic policy. This would leave only $10 million to be attributed to the fall in demand as a result of general uncertainty.

Most of the estimated $50 million decrease in the imports of manufactured consumer goods and raw materials from $85 million in 1950/51 to $35 million in 1952/53 probably can be attributed to economic policy in the form of depreciation and tightened import restrictions. We shall see below (pages 12 to 15) that internal financial policy tended to have a depressing influence on total income but that this effect was more than offset by the expansionary influence of the change in the trade balance. The cautious monetary policy of the Government can hardly be regarded, therefore, as a reason for the decline in the imports of consumer goods and raw materials.

c. The trade balance, external and internal - While the changes in imports and exports in terms of foreign exchange were relevant to the discussion of the external position (pages 2 to 6 above), it is the rial changes in the trade balance that effect the internal position (see pages 9 to 15 below). Table 2, below, shows the changes in the foreign balance, both in foreign exchange and in rials. The difference, 1/ on the export side, between Bank Melli and customs figures was considerably less in 1952/53 than in previous years. This would seem to indicate a decrease in capital flight which was due probably to the low value of the rial in 1952/53 and the expectation of an improvement in the rate.

Depreciation of the rial, in the first post-nationalization year, reduced the internal expansionary effect of the improvement in the trade balance, since Iran continued to have a deficit; a reduction in the deficit (customs figures) of 45 per cent in terms of foreign exchange was associated with an internal reduction of 33 per cent. However, when the balance of trade changed to a surplus from 1951/52 to 1952/53, an external improvement of 150 per cent was reflected in an internal change of 180 per cent. The change in the balance of trade from the last pre-nationalization to the second post-nationalization year would have involved an internal expansionary effect of about 5 billion rials if the value of the rial had remained constant. Actually, the internal expansion attributable to the change in the trade balance probably reached an amount in the neighborhood of 6 billion rials.

1/ In addition to the familiar causes of the discrepancy (time lags, capital flight), the customs figures include trade under barter agreements, such as with the USSR, which do not involve exchange transactions.

Table 2

Iran
Estimated Balance of Trade 1950/51 to 1952/53 in Foreign Exchange and in Rials

	1950/51	1951/52	1952/53 b/	1952/53 c/
1. Foreign exchange (in millions of dollars), derived from:				
(i) Bank Melli purchases and sales	- 83	- 92	14	n. a.
(ii) Customs a/	- 93	- 51	9	26
2. Rials (billions), according to 1 (ii)	- 4.0	- 2.7	.8	2.2

a/ The following average rates of exchange have been used for the conversion of the customs data:

1950/51		1951/52	1952/53	
Imports	Exports		April - March	Sep - August
36.3	43	53	81.5	84.0

b/ Year ending March.
c/ Estimates year ending August (see also Appendix, page 22, Table E, note a.

Internal Position

In this paper, the factors which affected the flow of spending directly will receive particular attention. The indirect effects of nationalization and the factors that were clearly independent of nationalization are brought in to qualify the results reached in the analysis of the direct effects. A brief description of the symptoms and results of financial developments in the form of price changes and probable variations in income and employment will precede the financial analysis proper.

Prices

The relationships among published price indices and between the latter and rough national income estimates show a number of inconsistencies. Hence, only general price trends rather than reliable quantitative changes can be established. Wholesale prices probably rose more in the second than in the first year after nationalization; 15 - 20 per cent and 7 - 10 per cent, respectively. The cost of living index appears to have risen around 10 per cent in the first year and considerably less in the second year. Both indices showed a rising trend in the first quarter of the third post-nationalization year.

a. Wholesale prices - The official general index of wholesale prices, (home goods, imported goods, and export goods, combined) rose by close to 5 per cent in the first year after oil nationalization (May 1951 to May 1953). In the second year, it is reported to have increased a further 20 per cent. Neither of these annual changes of the general index is consistent with the reported changes in its components if these components are weighted according to rough estimates of the share of exports and home goods in, and the relationship of imports to, national income. Assuming that the component indices are themselves reliable, the reported rise in the general index would appear to be too small in the first year, and too large in the second year. Instead of 5 per cent and 20 per cent, the changes, on the basis of components weighted by rough national income relationships, should have been closer to 7 and 10 per cent.

The smaller rise in the computed than in the official general index of wholesale prices is due primarily to the stability of the separate index for home goods. It is possible that the official index for home goods understates the price rise for home goods, at least in the second year. Such an hypothesis would be consistent with the relatively greater depreciation of the rial in the first than in the second year. With this development in the rate of exchange, one would have expected the general index also to have risen relatively more in the second than in the first year. But if there was some rise in the price of home goods instead of the reported stability, the general index may well have risen by more than the 10 per cent computed from the published index for home goods.

b. Cost of living - In 1950/51, the last year before oil nationalization, the cost of living rose by nearly 5 per cent; large government and AIOC net expenditures exceeded the import surplus. In the first year after oil nationalization, the cost of living index is reported to have risen by nearly 10 per cent; outpayments of the Government and the AIOC were substantially lower than the year before but the import surplus decreased by an even greater absolute amount. While domestic crops were only moderately good, increased inventory accumulation and the sharp fall in the foreign value of the rial in the second half of the year probably contributed to the rise.

In the second year after oil nationalization, (1952/53), the cost of living index is reported to have remained stable. Even though crops were exceptionally good and government net outpayments considerably smaller than the year before, one would have expected some rise in the cost of living in view of the change from a still sizeable current deficit in 1951/52 to an export surplus in 1952/53. That there should actually have been a further rise in the cost of living in that year would be consistent with the hypothesis, discussed above in connection with the change in the general index of wholesale prices, that the official figures understate the rise in home goods prices during the second post-nationalization year. Beginning May 1953, however, the official figures do report a small rise; by July 1953 the cost of living had increased another 3 per cent, against the normal seasonal trend.

Employment and income

There is no published material on Iranian national accounts. The effects on output and employment of the nationalization of oil had to be analyzed, therefore, almost entirely in terms of changes rather than in terms of a comparison of aggregates. These marginal changes, in most cases, had to be derived from financial statistics, rather than from census type reports, and from balance of payments accounts.

Of a total working population estimated at 11.4 million (two-thirds of all inhabitants) 9.1 million, or 80% are believed to be occupied in agriculture. Of the remaining 2.3 million, some .5 million are estimated to be employed in industry and handicrafts. Of these, in turn, around 70,000, or from 12 - 14 per cent were engaged in the output of oil products before nationalization. The bulk of the regular employees was retained by the new nationalized organization. After the virtual cessation of oil production in the summer of 1951, total employment, however, probably decreased directly, at least to the extent that maintenance work had formerly been carried out by labor not constantly on the payroll of the AIOC. It is virtually certain, also, that the indirect effect of the cessation of oil production in depressing total employment was not offset by any favorable effect on employment of the increase in output which occurred in other sectors of the economy in 1952/53. Domestic production rose primarily in agriculture, presumably without an increase in agricultural employment. That total employment declined after nationalization would appear to be corroborated by recent reports. One of the favorable effects of increased United States aid to Iran is expected to be an increase in employment.

Qualitative reports by observers on the spot tend to suggest that general activity showed a noticeable decline in the first year after nationalization. The Government replaced only part of domestic outpayments formerly made by the AIOC and total private investment probably declined. As we shall see below (pages 12 to 15) the decrease in total net outlays by the Government and the oil company combined was offset by an equal decline in the foreign deficit. This would suggest that any rise in incomes that may have been generated by private expenditures for government account--financing of unpaid government bills from existing private resources--was smaller than the decline in the private sector other than agriculture.

Money income during the second year after nationalization probably rose. Net domestic outlays by the Government and oil sectors combined are estimated to have fallen in the year ending August 1953 by about .8 billion rials below their level in the year ending March 1952.

The balance of trade, however, improved by an estimated 5.0 billion rials, with half of the improvement caused by an increase in the rial proceeds from exports. There are reports also that urban investment activity began to show some revival in the fall of 1952.

Internal finance

The nationalization of oil had repercussions upon money incomes in Iran not merely because of the decrease in domestic incomes earned through AIOC, but also through changes in government net expenditures and in Iranian transactions with other countries. These changes (see Table 3, below) served in part to offset each other, at least during the period before 1952-53, but in that year all of them taken together operated to increase Iranian money incomes. In 1949-50, the combined effect of oil operations plus government and international transactions was to reduce money incomes slightly (by 1.0 billion rials); during the following two years they resulted in some increase in money incomes (2.2 billion); but in 1952-53 they had a more strongly expansionary effect, amounting to 6.8 billion rials out of an estimated total national income of 45-55 billion rials.

A first examination of the effects upon the Iranian financial situation of oil operations, government expenditures, and international transactions would suggest that increased government borrowing from the Bank Melli was mainly responsible for the increased expansionary effects noted above. However, in the period prior to nationalization the operations of the oil company (both in its own expenditures and in the royalties it paid the Government) had just as inflationary an effect upon the economy as borrowing from the Bank Melli. The effect of nationalization was deflationary because the earlier expansion which developed because of the oil company's operations was now cut off. The increase in government net expenditures was smaller than the decrease in AIOC expenditures and, on balance (line 3, Table 3), the combined expansionary effect of the government and oil company operations was reduced from 6.5 billion rials in 1949-50 to less than 5.0 billion in 1952-53. If it had not been for the change in the foreign deficit over the period, Iran would have shown tendencies toward contraction rather than expansion.

In the first two years after nationalization, net expenditures by the Government and the oil company combined were still partly offset by a continued import surplus. In the second post-nationalization year, however, the expansionary effect of government expenditures was no longer counteracted by an excess of imports over exports. Instead, it was aggravated by an export surplus.

The quantitative results derived from expenditure changes as shown in Table 3 require a number of qualifications. Some of these are connected directly with the material used in the table. Thus, in addition to the government deficit as shown in line 1, c of Table 3, the authorities, in a sense, borrowed from the private sector in the form of delayed payments to contractors. Part of this debt was reportedly repaid in the second year. Assuming that much of this

Table 3

Iran
Selected factors determining
internal financial situation
1949/50 through 1952/53
(In billions of rials)

	1949/50 a/	1950/51 a/	1951/52 a/	1952/53 b/
1. Government				
a) Changes in Government net position with Bank Melli (liabilities minus assets) c/	1.3	1.3	2.2	4.5
b) Government revenues on capital account				
(i) Royalties d/	1.3	1.9	.3	--
(ii) Internal loans e/	--	--	.5	--
(iii) IMF drawing f/, counterpart of U.S. aid g/	--	--	.7	.3
(iv) Exchange profits h/	1.1	1.2	1.3	--
(v) Other i/	.1	.1	.1	.1 j/
c) Total; Government net expenditures k/	3.8	4.5	5.0	4.9
2. AIOC local currency expenditures				
a) Purchases of rials l/	2.2	1.8	.7	--
b) Receipts from sales of imports for employees	.5	.1	--	--
c) Total	2.7	1.9	.7	
3. Total (1 + 2)	6.5	6.4	5.7	4.9
4. Less				
a) Foreign deficit on current account m/	7.5	4.2	3.0	- 1.9
b) Internal loan n/	--	--	.5	--
5. Net expansionary or contracting factors, resulting from government, oil, and current foreign transactions	- 1.0	2.2	2.2	6.8

For footnotes and a more detailed justification than is given in the text of the choice of the various items in Table 3, see Appendix, pages 28 - 29.

involuntary credit to the Government was financed from existing resources—other banks' deposits with the Bank Melli decreased during the period—the increase in such credit from 1950/51 to 1951/52 should be added to the total expansionary forces in the first post-nationalization year. In Table 4, below, an upward adjustment of 1 billion rials has been applied to the net expansionary forces in 1951/52. An adjustment might also be made for the financial effects of imports of capital goods.

Such imports were included in the foreign deficit on current account. These imports, however, should be regarded as anti-inflationary only, if in their absence, other domestic expenditures would have increased by more than the costs of installing the foreign capital goods. An increase of this magnitude in other domestic expenditures would seem to be far less likely in an underdeveloped than in an industrialized country. The anti-inflationary effect, therefore, of the import surplus as shown in Table 3, is probably overstated. Appropriate adjustments are suggested in Table 4.

Table 4

Iran
Ranges of income effects of government net expenditures a/
oil operations, and foreign balance, 1949/50 through 1952/53

Year	Net expansion as shown in Table 4, line 5 (i)	Column (i) adjusted for Government unpaid bills assumed to have been financed by the banking system (ii)	Column (ii) adjusted for imports of private capital goods b/ (iii)	Mid point of range between (i) and (ii) c/ (iv)
1949/50	- 1.0	- 1.0	.8	- .1
1950/51	2.2	2.2	3.5	2.8
1951/52	2.2	3.2	4.7	4.0
1952/53	6.8	6.8	7.6	7.2

a/ Year ending in August; 1949/50 through 1951/52 years ending in March.
b/ Since government expenditures on capital goods are already included in line 1 (c) of Table 4 as an expansionary influence, they are not added here to line 5 as reproduced in column (i); government imports of capital goods are estimated to be equal to half the expenditures budgeted for development in 1949/50 and 1950/51, to half the royalties received in 1951/52, and to 200 million rials in 1952/53. For imports of capital goods, see Table C, Appendix.
c/ Mid points, rather than any other values, have been chosen for column (iv) purely for want of more reliable estimates.

The indirect effects of the cessation of oil operations on those private expenditures that can be regarded as independent of the budget and the balance of payments have not been included in the preceding analysis. The appropriate further adjustments cannot be determined statistically. But on the basis of qualitative reports on the changes in general business activity, it would appear that the indirect effects in 1951/52 and 1952/53 brought the over-all financial results of nationalization closer into line with the unadjusted figures in Table 3 than with the adjusted figures in Table 4.

Money supply

Changes in money supply in Iran over the period 1949/50 to 1952/53 were consistent with what is known of the general development of the economy including the balance of payments. In 1949/50, the year when the import surplus was not offset by the change in the Government's net position with the central bank and by AIOC local currency expenditures, the money supply decreased. In 1952/53, the year of the smallest over-all foreign deficit and the largest increase in government net indebtedness to the central bank, the money supply showed the largest increase.

Until some time during the second post-nationalization year there existed a peculiarity of the Iranian monetary system which deserves brief mention at this juncture. While the central bank was relatively free to extend credit to the Government and to the private sector, the note issue not only required a 100 per cent gold and foreign exchange cover but its absolute amount was fixed. The first requirement was relaxed during the first year after oil nationalization.

As the import surplus fell and ultimately changed into an export surplus, pressure to increase the note circulation rose. Finally, in August 1952, the fixed limit to the note issue was abandoned, a course of action which had long been advocated by the central bank. If the foreign balance on current account had deteriorated after nationalization, this pressure on the note ceiling would not have existed, for total net expenditures of the Government and the oil company combined fell rather than increased during the period.

The import surplus during the first year and a half after nationalization was so great that losses in foreign exchange reserves prevented the money supply from rising more rapidly than in the year before nationalization. Such increases as took place reflected mainly decreases in other banks' deposits with the Bank Melli and decreased cash holdings by these banks.

In the absence of data for other banks after August 1952, it was not possible to compute the exact change in money supply during the year ending in August 1953. Under the assumption that other banks restored their cash position to the level of March 1952, after which date they sustained a heavy loss of cash, and that the change in their other assets was confined to the reported increase in their deposits with the Bank Melli, total money supply rose by about 3.8 billion rials or 26 per cent in the year ending August 1953, compared with an annual rate of increase of about 6.1 per cent in the period March - August 1952 and 2.3 per cent in the first post-nationalization year.

Recent reports indicate that the arrangements made under the Mossadegh regime to permit the note issue to rise beyond the fixed limit of 7.8 billion rials to 10.9 billion rials were insufficient to assure the elasticity required under conditions of a continuing improvement in the balance of payments. Since provision for such elasticity continues to be fraught with political controversy rather than being determined solely by considerations of central banking practice, reform of the regulations governing the issuing authority of the central bank will do much to permit the Iranian monetary system to operate more smoothly than in the past.

Postcript

It is not easy to arrive at a general conclusion regarding the viability of the Iranian economy without foreign exchange receipts from the exports of oil. The experience of the last two years has shown, however, that, with some foreign assistance, a reasonably cautious internal financial policy, timely depreciation of its currency and, finally, good crops, the country was able to avoid a reduction in the value of its non-oil exports and to maintain a tolerable current standard of living with a much reduced volume of imports. But the reduction in imports presumably led to a running down of the country's capital equipment and certainly reduced to very small proportions those types of development which depend on imported capital goods. The familiar difficulties in the way of increasing investment from domestic resources make it doubtful whether even that kind of development which does not require foreign equipment could be carried out without a higher level of imports of consumer goods. But success in tackling the obstacles to raising the standard of living which Iran has in common with other underdeveloped countries would seem to depend on solving first the difficulties which, since they are self-imposed, can be regarded as manageable: resumption of oil production and exports, and further reform of its monetary system.

Statistical Appendix

Table A

Iran
Government's Position with Bank Melli Iran
1949 - 1953
(In millions of rials)

	March 21 1949	March 20 1950	March 21 1951	March 20 1952	August 22 1952	August 22 1953
1. Liabilities						
A. Issue Department:	1,400	1,400	1,400	2,664	2,664	5,784
1) Government Liability (Act of August 13, 1951) covering withdrawal of £ 14 million sterling from note issue reserve	--	--	--	1,264	1,264	1,264
2) Government Liability secured by excess value of crown jewels	1,400	1,400	1,400	1,400	1,400	4,520
B. Banking Department:	4,026	5,091	6,317	6,797	7,053	9,070
1) Advances to Government	3,646	4,252	4,553	4,569	4,575	4,041
2) Advances to State enterprises, banks, and municipalities, guaranteed by Ministry of Finance	380	397	1,322	1,786	2,036	4,587
3) Treasury bonds	--	442	442	442	442	442
2. Total Government Liabilities (A + B)	5,426	6,491	7,717	9,461	9,717	14,854
3. Assets						
A. Banking Department:	2,697	2,430	2,319	1,859	1,672	2,296
1) Fixed deposits - Government	363	394	554	469	605	657
2) Current accounts and demand deposits - Government	2,334	2,036	1,765	1,390	1,067	1,639
4. Government net position with Bank Melli (2 - 3 A)	2,729	4,061	5,398	7,602	8,045	12,558
Change		+ 1,332	+ 1,337	+ 2,204	+ 443	+ 4,513

Source: Bank Melli Iran - Annual Reports 1949-1952, and monthly balance sheets for August 22, 1952 and August 22, 1953.

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Appendix 19

Table B

Iran
Commercial Exchange Rates a/
(rials per U.S. $1)

<table>
<tr><th rowspan="2">MONTH b/</th><th colspan="2">1949</th><th colspan="2">1950</th><th colspan="2">1951</th><th colspan="2">1952</th><th colspan="2">1953</th></tr>
<tr><th>Essential</th><th>Non-Essential</th><th>Essential</th><th>Non-Essential</th><th>Essential</th><th>Non-Essential</th><th>Category I</th><th>Category II</th><th>Category I</th><th>Category II</th></tr>
<tr><td>January</td><td colspan="2">53.88</td><td colspan="2">40.00</td><td>40.00</td><td>48.75</td><td colspan="2">67.75</td><td>82.00</td><td>82.50</td></tr>
<tr><td>February</td><td colspan="2">51.74</td><td colspan="2">40.00</td><td>40.00</td><td>48.75</td><td colspan="2">69.95</td><td>87.00</td><td>87.25</td></tr>
<tr><td>March</td><td colspan="2">50.10</td><td colspan="2">40.00</td><td>40.00</td><td>48.75</td><td colspan="2">73.50</td><td>88.50</td><td>89.00</td></tr>
<tr><td>April</td><td colspan="2">48.04</td><td colspan="2">40.00</td><td>40.00</td><td>48.75</td><td colspan="2">82.50</td><td>103.00</td><td>105.00</td></tr>
<tr><td>May</td><td colspan="2">47.00</td><td colspan="2">40.00</td><td>40.00</td><td>48.75</td><td>71.50</td><td>72.50</td><td>105.00</td><td>106.00</td></tr>
<tr><td>June</td><td colspan="2">46.11</td><td colspan="2">40.00</td><td>41.50</td><td>47.25</td><td>75.00</td><td>77.25</td><td colspan="2">100.50</td></tr>
<tr><td>July</td><td colspan="2">44.04</td><td colspan="2">40.00</td><td>41.50</td><td>47.25</td><td>74.75</td><td>77.00</td><td colspan="2">100.50</td></tr>
<tr><td>August</td><td colspan="2">41.83</td><td>40.00</td><td>52.85</td><td>41.50</td><td>47.25</td><td>76.00</td><td>78.00</td><td colspan="2">98.50</td></tr>
<tr><td>September</td><td colspan="2">40.83</td><td>40.00</td><td>50.55</td><td>41.50</td><td>47.25</td><td>80.50</td><td>81.00</td><td></td><td></td></tr>
<tr><td>October</td><td colspan="2">40.00</td><td>40.00</td><td>47.75</td><td>41.50</td><td>47.25</td><td>86.00</td><td>86.75</td><td></td><td></td></tr>
<tr><td>November</td><td colspan="2">40.00</td><td>40.00</td><td>48.75</td><td>41.50</td><td>47.25</td><td>82.75</td><td>83.25</td><td></td><td></td></tr>
<tr><td>December</td><td colspan="2">40.00</td><td>40.00</td><td>48.75</td><td colspan="2">64.75</td><td>86.75</td><td>87.25</td><td></td><td></td></tr>
</table>

a/ Effective rates i.e., official rate of 32.50 rials per U.S. $1, plus certificate rates.
b/ Through July 1950, average or prevailing rate; thereafter end of month.

Source: International Financial Statistics

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Table C

Iran
Principal Imports; Volume and Value
1950/51 through 1952/53 (year ending March)
(Volume: thousands of tons; Value: millions of rials)

Commodity Category	1950/51 a/		1951/52		1952/53	
	Volume	Value	Volume	Value	Volume	Value
Food Products						
Sugar	153.8	733.4	114.3	736.6	117.4	937.6
Cereals	107.7	420.8	1.1	4.7	0.1	0.6
Tea	8.3	408.6	10.9	625.8	2.6	146.4
Prepared foods	3.5	56.6	2.2	36.8	2.5	48.7
Other Consumer Goods and Manufactures						
Cotten textiles	9.0	774.3	10.1	1,231.5	8.2	845.5
Drugs and chemicals	6.7	227.7	8.0	313.0	6.9	265.6
Paper and paper products	9.3	77.9	12.8	170.7	9.7	126.6
Capital Goods b/						
Iron and steel products	67.6	397.5	82.5	465.7	21.8	242.7
Machinery	16.2	544.0	14.7	620.6	6.2	293.0
Automobiles, busses and trucks	10.5	360.8	6.5	264.9	1.5	53.8
Automobile parts	1.2	77.3	0.8	63.7	0.5	39.0
Tires and tubes	4.7	205.7	3.5	176.7	6.6	368.5
Other Imports	105.0	1,961.9	100.5	2,299.9	48.3	1,663.5
Total		6,246.4		7,010.7		5,031.5

Source: Iranian Customs Administration

a/ Prior to November 1950, imports were valued at the official rate of 32.25 rials per U.S. dollar; subsequently effective rates were used.

b/ Lack of relevant information prevented exclusion of passenger automobiles and accessories which probably should be regarded as consumer goods.

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Table D

Iran
Principal Exports; Volume and Value a/
1950/51 through 1952/53 (year ending March)
(Volume: thousands of tons; Value: millions of rials)

Commodity	1950/51		1951/52		1952/53	
	Volume	Value	Volume	Value	Volume	Value
Cotton	n.a.	870.4	9.3	475.5	21.5	975.2
Carpets	4.6	635.8	4.1	656.4	4.9	942.2
Dried fruits	53.6	451.0	70.7	730.3	76.1	887.1
Rice	13.8	77.3	21.1	142.1	62.2	650.5
Wool and hair	7.5	164.8	8.0	490.6	7.9	496.3
Skins and furs	8.7	306.8	7.9	382.9	7.5	393.4
Oil seeds	13.8	90.9	18.1	123.1	27.6	207.6
Gums	6.2	228.8	4.6	235.5	5.8	165.7
Medicinal and industrial plants	6.5	84.8	5.5	87.9	10.2	153.9
Animal casings	0.5	111.7	0.5	163.6	0.4	134.2
Silk cocoons and raw silk	0.4	11.8	0.1	7.0	0.6	36.4
Other exports	n.a.	460.5	127.5	794.4	139.1	758.1
Total		3,494.7		4,289.4		5,800.5

Source: Iranian Customs Administration.

a/ Valued at local Iranian prices.

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Table E

Iran
Estimated Current Balance of Payments
1949/50 through 1952/53 (years ending
March, except for 1952/53 which ends in August)
(In millions of rials)

	1949/50	1950/51	1951/52	1952/53
Goods				
Exports, f.o.b. a/	1,712	3,495	4,289	6,736
Imports, c.i.f. b/	8,822	7,445	7,011	4,551
Trade balance	- 7,110	- 3,950	- 2,722	2,185
Services, net c/	- 405	- 266	- 303	- 303
Total	- 7,515	- 4,216	- 3,025	1,882

a/ Figures reported by Iranian Customs Administration and valued at local Iranian prices. Data for the last five months of the year ending August 22, 1953, are unavailable and have been estimated at the same ratio to the annual figure as in the preceding year.

b/ Figures reported by Iranian Customs Administration. Prior to November 1950, imports were valued at the official rather than the current market rate of exchange. Figures for the fiscal year 1949/50 and the months March 22, to November 21, 1950, have, therefore, been increased by 2,036 million rials and 1,203 million rials, respectively, i.e., by the difference between the reported value and the value calculated at the effective rate or rates. Data for the last five months of the fiscal year ending August 22, 1953 have been estimated as in a/ above.

c/ Figures for "other services" (net) as reported in IMF B.o.P. Year Book 1950/51. The following items are included: non-monetary gold movement (net), foreign travel, investment income, government, not included elsewhere, other services. The total for the year 1951/52, the latest reported has been carried forward to 1952/53.

Table F

Iran
Financial Factors Determining Money Supply -
March 1949 - August 1953 1/
(In millions of rials)

	1949/50 a/	1950/51 a/	1951/52 a/	Mar 20, 1952 Aug 21, 1953 (annual rate) b/	1952/53 c/
Factors increasing Money Supply					
1. Bank Melli					
a. Credit to Government and government agencies d/	1,065	1,226	1,744	614	5,137
b. Government deposits (decrease +)	267	111	460	449	- 624
c. Credit to private sector e/	105	550	73	- 187	127
d. Other factors f/	201	- 961	13	1,109	- 117
e. Total	1,638	926	2,290	1,985	4,523
2. Other banks					
a. Deposits with Bank Melli	323	- 106	3	- 497	404
b. Other net assets g/	- 404	244	431	- 233	147 h/
3. Total	1,557	1,064	2,724	1,255	5,074
Factors decreasing Money Supply					
4. Gold and foreign exchange - Bank Melli (decrease +) i/	1,423	168	2,013	466	108
5. Non-bank time and savings deposits, Bank Melli j/	38	339	173	194	522
6. Notes in Bank Melli	399	- 992	191	91	543
7. Cash in other banks k/	- 141	- 1	26	- 353	147 h/
8. Total	1,719	- 486	2,403	398	1,320
Balance					
Demand deposits (non-government, non-bank), Bank Melli l/	177	419	104	1,320	773
Demand deposits - other banks m/	- 81	138	434	- 725	551 h/
Notes outside banking system n/	- 258	993	- 217	262	2,430 h/
Total Money Supply	- 162	1,550	321	857	3,754

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Notes to Table F

All items in quotes refer to items in annual or monthly statements of Bank Melli Iran, unless otherwise indicated.

a/ Fiscal year ending March 20 or 21.

b/ No statement was published between August 1952 and August 1953; figures are at annual rate of first five months of Iranian year March 20, 1952 - August 22, 1952.

c/ Year ending August 1953.

d/ For full detail see Table A, Appendix, page 18.

e/ In annual statements "domestic bills" and "debtors - others". In monthly statements "bills" and "other advances".

f/ Other assets less other liabilities. In annual statements other assets are "silver and fractional coins, mortgage bank shares, bank premises less depreciation, furniture less depreciation and notes on hand"; in monthly statements "premises and furniture, and notes on hand". In annual statements other liabilities are "capital, reserves, provision for income tax, dividends payable, balance of profits carried forward, Issue Department reserve, "creditors - bankers" and "sundries"; in monthly statements, "capital, reserve, sundries", and "current accounts and demand deposits - banks".

g/ Computed as residual from changes in cash and demand deposits in banks other than Bank Melli. See footnotes k/ and m/ below.

h/ No figures were available for other banks' accounts after August 1952, except for other banks' deposits with the Bank Melli. To arrive at estimates for the increases in demand deposits with other banks, it was assumed that the banks restored their cash holdings to the level of March 1952, after which date there had been a sizeable outflow. The estimated changes in their consolidated balance sheet would be as follows:

Assets		Liabilities	
Deposits with Bank Melli as shown in Bank Melli balance sheet	404	Deposits	551
Other assets (change in cash)	147	Other liabilities	--
	551		551

Continued from page 24.

i/ In annual statements composed of "gold, crown jewels", "subscription to IMF and IBRD" in Issue Department; "gold and silver, money at call with banks abroad, and foreign currencies, money at short notice with banks abroad, and foreign currencies, foreign securities, or foreign correspondents, demand deposits and foreign currencies, foreign correspondents time deposits, foreign treasury bills and securities" in Banking Department. In monthly statements, foreign exchange is reported as "bullion, cash at bankers and fractional coins" to which has been added "other securities".

j/ Savings deposits are included with "current accounts and demand deposits - other" in the bi-weekly statements but reported separately in the annual statements.

k/ Derived by subtracting "notes held in Bank Melli" from cash holdings of all banks as reported in Bank Melli Bulletin (see April 1953 issue pages 97 and 98).

l/ In annual statements "creditors - others" reduced by foreign exchange of Issue Department reportedly included therein. In monthly statements "current accounts and demand deposits, other".

m/ Derived by subtracting (l) above from private sight deposits of all banks as reported in Bank Melli Bulletin (see April 1952 issue pages 97 - 98).

n/ "Notes in circulation" less cash in other banks (item 7, Table 6).

Table G

Iran
Gold and Foreign Exchange Reserves
Selected Dates
(In millions of dollars)

	Gold	Foreign Exchange	Total
March 1946	127	100	227
March 1949	140	134	274
March 1950	140	103	243
March 1951 a/	139	113	252
August 1951	140	81	221
End of 1951	138	58	196
March 1952	138	52	190
August 1952	138	43	181
End of 1952	138	39	177
March 1953	137	36	173
August 1953	137	35	172

Source: IMF, International Financial Statistics.

a/ Oil production was nationalized in May 1951.

Notes to Table 1, Text page 4

a/ Year ending March 21.

b/ Consists of "other goods and services", i.e., other than oil company and Caspian fisheries transactions, plus "private donations, and capital movements", and "special official financing". (Comparison of IMF import figures and the relevant data as published by the Bank Melli would seem to indicate that the IMF figures beginning 1950 are based on effective rates rather than the official rate as stated in the notes in IMF B.o.P. Year Book, vol. 4, page 161.)

c/ Includes small amounts of "noncontractual debt repayment" and "short-term liabilities" for 1949/50 through 1951/52.

d/ These errors and omissions are not identical with those found in IMF, B.o.P. Year Book, vol. 4, page 160. The two series can be reconciled by adjusting the series in Table 1 for (i) difference between balance shown in IMF for transactions of Foreign-Owned Companies and figures for royalties and local currency purchases as published by Bank Melli, (ii) difference between "other" imports as shown in B.o.P. Year Book and same values converted to imports at the official rate (see note b/ above), (iii) AIOC imports for own employees, as not requiring Iranian exchange resources.

Notes to Table 3

a/ 1949/50 through 1951/52: fiscal year ending March 20 or 21.

b/ 1952/53: year ending August 22, 1953.

c/ See Table A, Appendix.

d/ Royalty payments by AIOC as reported in Bank Melli Iran Bulletin, October 1952, page 479. Data are expressed at rate of 32.25 rials per U.S. $1.00, i.e., average of official buying and selling rates.

e/ See footnote n/, below.

f/ The entire drawing of $8.75 million at the official rate of 32.25 rials per U.S. $1.00 has been included for 1951/52; it is possible that part of the rial proceeds of the sale of IMF dollars to importers did not become available until some time in 1952/53. The exchange profits derived from dollar sales are entered in line 1, b (iv).

g/ The figures for 1951/52 and 1952/53 include the counterpart of U.S. aid (sugar imports, student expenditures abroad) of $6.0 million (1951/52) and local currency expenditures under U.S. aid programs of $.7 million (1951/52). The total for 1952/53 is estimated at $6.0 million. An average rate of exchange of 55 rials per U.S. $1.00 has been applied to these figures.

h/ Estimated profits accruing from sale to importers at current market rates of official exchange received from (i) royalties, (ii) in exchange for rials purchased by AIOC for local expenditures, (iii) from the release of £ 14 million backing for note issue, and (iv) $8.75 million purchased from the IMF. The current market rates were calculated from Table B of the Appendix as follows:

(in rials per U.S. $1)

1949/50: 42 rials - average rate over period;

1950/51: 43 rials - average of essential and non-essential rates;

1951/52: 53 rials - average of essential and non-essential rates from 3/51 - 6/51; average rate 7/51 - 3/53;

43 rials - essential rate officially reported as realized on sale of £ 14 million note backing;

68 rials - average rate Dec. 1951 - March 1952, used in sale of IMF Dollars.

Continued on page 29.

Application of these rates resulted in profits as follows:

	1949/50	1950/51	1951/52	1952/53
Royalties				
at official rate	1,284	1,885	271	
at market rate	1,669	2,507	439	
profit	385	622	168	
AIOC purchases				
at official rate	2,240	1,795	694	
at market rate	2,912	2,387	1,430	
profit	672	592	430	
£ 14 million released from note cover				
at official rate			1,264	
at market rate			1,618	
profit			354	
Dollar purchased from IMF				
at official rate			284	
at market rate			602	
profit			318	
Total Profit	1,057	1,214	1,270	

i/ Through 1951 shown in draft budgest as revenue of 80 million rials carried forward from preceding year. For year ending March 1952, includes in addition, 65 million rials from sale of tea in warehouses, 3 million rials seigniorage, and 1 million rials capital payments from private persons.

j/ Estimate.

k/ Total government expenditures less current revenues, such as taxes, customs, fees, monopoly profits.

l/ AIOC purchases of rials for local expenditures. Figures reported in BMI Bulletin for October 1952, page 479.

m/ Trade figures reported by Iranian Ministry of Finance, plus "other services" (net) as reported in the IMF Balance of Payments Year Book 1950/51, latest figure carried forward. As reported by Iranian Customs, imports prior to November 1950 are valued at the official rate of exchange and at the effective rate or rates thereafter. Figures for the fiscal year 1949/50, and the months March 22 to November 21, 1950, have been increased by 2,036 million rials and 1,203 million rials respectively, the difference between the reported value and the value calculated at the effective rate or rates. The difference between these figures and those reported as Government exchange profits in item (e) above, (2/3 of 1950/51), represents the adjustment on direct purchases of exchange by importers from exporters in the open market.

n/ It is assumed that (i) the 500 million rials (National Loan) were borrowed and spent entirely in 1951/52, (ii) bonds were bought exclusively by the public rather than the banking system.

Further comments on specific items included in Table 3

Line 3 of Table 3 shows the sum of what might be called expansionary sources of funds. In addition to annual changes in government net indebtedness with the Bank Melli and government revenues on capital account, such as royalty payments by the AIOC and internal and external loans and grants, exchange profits have also been included in the expansionary forces. To the extent that they are earned on exchange sales to exporters of capital, they probably do not come out of funds which would otherwise have been spent internally. To the extent that they are paid to the Government by importers, they are, of course, offset by correspondingly higher values for imports. The expenditures of the proceeds of a government loan floated during the period is shown to have been financially neutral; it is assumed that the subscriptions came out of current private savings rather than from the banking system. An equivalent amount has been subtracted, therefore, from expenditures in line 4, b of the table.

To the aggregate deficit of the government sector are added the annual purchases by the AIOC of local currency required to meet the cost of local labor and supplies. The bulk of these expenditures should have had an internal effect similar to that of the government deficits. Line 2, b of Table 3 shows local currency receipts from imports by the AIOC for company employees. Similar reasoning as in the case of exchange profits applies to the net financial effect of the expenditure of these receipts. To the extent that employees paid for these imports in rials, the expenditure effect is offset completely by an equivalent value of imports. To the extent that employees paid for such imports in sterling, both the local currency expenditures of the company and the anti-inflationary effect of the import surplus (line 4, a) would be overstated by the same amount. The net results of the over-all expenditure analysis as shown in line 5 of Table 3 remain unaffected.