

## RELATIONS WITH INTERNATIONAL MONETARY AND FINANCIAL ORGANIZATIONS

In 1388, Iran continued collaborations and interactions with international financial institutions such as the International Monetary Fund, the World Bank, the Islamic Development Bank, Asian Clearing Union, the Islamic Financial Services Board, and the Developing Eight.

### International Monetary Fund (IMF)

Discussions for the 1388 Article IV consultation were held in Iran to assess the monetary, financial, foreign exchange, Special Data Dissemination Standards, and policy-making, as well as macroeconomic trends in case of implementation of the 1<sup>st</sup> phase of Subsidy Reform Plan.

During the discussion of the staff report that concluded the 2009 Article IV consultation on February 4, 2010 (Bahman 15, 1388), the executive board reiterated the positive impact of high oil prices as well as implementation of strong expansionary fiscal and monetary policies on Iranian economy's performance over the recent years. Decrease in oil prices, however, had negative implications on production volume and fiscal and external balances. Executive directors commended results of Iran Subsidy Reform Plan, setting the medium-term for the observance of positive impacts of adjusting energy carriers' prices on macroeconomic aggregates. IMF staff emphasized the outcomes of successful implementation of the Subsidy Reform Plan, which include: strengthening

of fiscal position, raising of investment in energy sector, as well as higher and more stable growth rates. Moreover, they referred to inflation expectation control through implementation of appropriate economic policies, as well as prevention of quasi-fiscal operations via the banking system as determining factors in restricting side effects of Iran Subsidy Reform Plan.

According to IMF executive directors, success of energy carriers' price reform plan depends on effective and scheduled cash compensation mechanisms aimed at helping low-income groups, as well as employment of technical assistance to raise efficiency of energy utilization.

IMF executive directors acknowledged positive performance of the Iranian economy, in particular the achievement regarding noticeable reduction of inflation rate through implementation of contractionary monetary and fiscal policies, and the efforts made to unify term investment deposit rates between public and private banks. Moreover, IMF executive directors reiterated the necessity for gradual liberalization of banks' rates of return, especially in lending operations.

Based on the executive directors' assessment of the Iranian economy, the external value of the rial is consistent with economic fundamental variables, however, due to sharp fluctuations of global crude oil prices, higher flexibility of exchange rate for the adjustment

of the current account and strengthening of foreign reserves are recommended.

Furthermore, the IMF mission commended Iran's anti-money laundering actions and its attempts to combat the financing of terrorism, and reiterated the continuation of these efforts in compliance with global standards.

### World Bank

The World Bank provision of credits, as well as provision of technical assistance and cooperation with Iran, was in effect during the past years. However, in 1388, World Bank's cooperation with Iran was limited due to imposed restrictions. World Bank's cooperation with Iran comprised a survey on doing business in Iran, as well as a comparative analysis of 11 economic indicators across Iran and other member countries.

### Islamic Development Bank (IsDB)

Iran is considered the second largest shareholder of Islamic Development Bank by underwriting shares worth 1,481 million Islamic dinars. In 1388, IsDB provided Iran with project-based credits as well as trade facilities, technical and educational assistance, and science and technology awards. In this year, IsDB approved \$449 million credits for Iran.

Despite underwriting shares worth \$1.9 million, Iran is not a major shareholder of International Islamic Trade Finance Corporation (ITFC). However, Iran is a major beneficiary of this institution. Bank Keshavarzi, Export Development Bank of Iran, EN Bank, Bank Mellat, Bank of Industry and Mine, Bank Melli Iran, and Tejarat Bank are among the shareholders of ITFC. In 1388, Iran

### World Bank Group's Projects in Iran in 1388

Project	Status	Commitment amount (million dollars)	Used amount till end-1388 (million dollars)
Earthquake Emergency Recovery in Four Northwestern Provinces	Closed (Tir 1388)	180	174.9
Iran Urban Upgrading and Housing Reform	Closed (Dey 1388)	80	34.36
Alborz Integrated Land and Water Management	Ongoing	120	27.96
Ahwaz and Shiraz Water Supply and Sanitation	Closed (Dey 1388)	279	200.6
Bam Earthquake Emergency Reconstruction	Closed (Khordad 1388)	220	154.4
The Northern Cities Water Supply and Sanitation	Ongoing	224	124.6

Source: Organization for Investment, Economic and Technical Assistance of Iran (OIETAI)

### Grants-in-Aid Approved by the Islamic Development Bank and Its Affiliates in 1388

Beneficiaries	Project	Approved credit (million dollars)
Sistan and Baluchestan Regional Water Company	Kahir Storage Dam	103.8
Qom Regional Water Authority	Water Supply from Kochery Dam to Qom	137.9
Tehran Regional Electric Company (TREC)	Increase in the Loan for Electricity Transfer to Tehran	7.5
Qom and Kashan Water and Sewage Companies	Sewage Collection and Disposal in Qom and Kashan	199.7
Faculty of Health Sciences, University of Tehran <sup>1</sup>	Malaria Control Training Course	0.2

Source: OIETAI

<sup>1</sup> Approved IsDB grants-in-aid to Iran

ranked second in utilizing short-term credits extended by ITFC. In this year, a sum of \$246.4 million was approved as direct and indirect trade credit (through extending of credit lines to Iranian banks).

### Asian Clearing Union (ACU)

The total value of transactions within the ACU decreased by 32.9 percent to \$14,072.4 million in 2009 compared with the previous year. Furthermore, total transactions channeled through the ACU<sup>1</sup> worth \$28,144.8 million, were the lowest over the last two years. Thus, the monthly value of transactions reached \$1,172.7 million (on average), indicating a sharp fall compared with the

corresponding figure of previous year (\$1,747.2 million). In 1388, 41.1 percent of total ACU transactions valued at \$5,780 million were cleared.

In 2009, India and Myanmar were at the top by clearing respectively 63.7 and 30.0 percent of their transactions through the ACU. Iran and India were the largest creditors, and India, Bangladesh, and Pakistan the largest debtors.

Based on the ACU Secretariat report, Iran, by \$8,840.5 million, had the highest positive balance (creditor) in 2009. Nepal with \$37.3 million, Butan with \$16.3 million, and Myanmar with \$2.2 million, enjoyed a positive balance, while other countries had

### Value of ACU Transactions in 2009<sup>1</sup> (million dollars)

	Credit transactions	Debit transactions	Balance	Cleared-settled (percent)	Settled in foreign exchange (percent)
Bangladesh	137.5	3,026.1	-2,888.6	4.5	95.5
Bhutan	16.3	0.02	16.3	0.12	99.9
India	4,801.6	7,541.6	-2,740.0	63.7	36.3
Iran	8,538.4	302.1	8,236.3	3.5	96.5
Myanmar	3.1	0.94	2.2	30.0	70.0
Nepal	51.6	14.3	37.3	27.7	72.3
Pakistan	383.9	1,666.7	-1,282.8	23.0	77.0
Sri Lanka	140.1	1,520.7	-1,380.6	9.2	90.8
<b>Total</b>	<b>14,072.5</b>	<b>14,072.4</b>	<b>±8,292.1<sup>2</sup></b>	<b>41.1</b>	<b>58.9</b>

Source: The ACU Secretariat, report for 2009 <sup>1</sup>Includes transfers, accrued interest, as well as transactions in US dollar and euro. <sup>2</sup>The ± symbol indicates net debit/credit transactions.

### Total Transactions Channeled through the ACU<sup>1</sup> (million dollars)

	2008	2009	Share (percent)		Change	Growth rate (percent)
			2008	2009		
Bangladesh	3,856.9	3,163.6	9.2	11.2	-693.4	-18.0
Bhutan	14.9	16.3	0.04	0.06	1.4	9.1
India	18,780.6	12,343.2	44.8	43.9	-6,437.4	-34.3
Iran	13,363.6	8,840.5	31.9	31.4	-4,523.0	-33.9
Myanmar	5.5	4.1	0.01	0.01	-1.4	-26.1
Nepal	99.1	65.9	0.2	0.2	-33.2	-33.5
Pakistan	2,458.5	2,050.6	5.9	7.3	-407.9	-16.6
Sri Lanka	3,354.4	1,660.7	8.0	5.9	-1,693.7	-50.5
<b>Total</b>	<b>41,933.5</b>	<b>28,144.8</b>	<b>100.0</b>	<b>100.0</b>	<b>-13,788.6</b>	<b>-32.9</b>

Source: The ACU Secretariat, report for 2009 <sup>1</sup>Includes total debit and credit transactions as well as accrued interest.

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a negative balance. Of total Iran transactions in 2009, \$8,538.4 million were exports (creditor) and \$302.1 million imports (debtor). Moreover, 3.5 percent of Iran's transactions were cleared, and the remaining were settled in foreign exchange.

### Islamic Financial Services Board (IFSB)

Islamic Republic of Iran stands among the major founders of the Islamic Financial Services Board (IFSB), which formulates regulatory and supervisory standards for agencies that render Islamic financial services. By end-November 2009, over 193 members of the IFSB comprised regulatory and supervisory authorities; international financial organizations such as the International Monetary Fund, the World Bank, and the Basel Committee on Banking Supervision (BCBS); and other financial actors. Among the important measures adopted by the IFSB in 1388 with the cooperation of the CBI are: the draft of Guiding Principles on Governance for Takaful (Islamic Insurance) Undertakings; Guiding Principles

on Conduct of Business for Takaful Operations, Approval of Guiding Principles on Governance by Takaful Institutions; Guiding Principles on Shariah Governance Systems for Institutions Offering Islamic Financial Services; Guidance Note in Connection with the IFSB Capital Adequacy Standard: The Determination of Alpha<sup>1</sup> in the Capital Adequacy Ratio for Institutions (other than Insurance Institutions) offering only Islamic Financial Services; Guiding Principles on Liquidity Risk Management; and Guiding Principles on Stress Testing. Moreover, the Board conducted a field research on Islamic capital and money markets to formulate strategies for the development of Islamic capital market in cooperation with CBI, and Securities and Exchange Organization (SEO).

### The Developing 8

Established in 1997, the Developing 8 (D-8 or Developing Eight) is a group of developing countries, which are members of OIC (Organization of Islamic Conference), for the

ACU Transactions Matrix in 2009

(million dollars)

Debtors \ Creditors									Total
	Bangladesh	Bhutan	India	Iran	Myanmar	Nepal	Pakistan	Sri Lanka	
Bangladesh	0.0	16.3	2,633.0	6.4	2.9	49.4	282.0	35.7	<b>3,025.6</b>
Bhutan	0.01	0.0	0.0	0.0	0.0	0.0	0.0	0.0	<b>0.01</b>
India	49.3	0.0	0.0	7,433.8	0.0	0.0	7.9	48.2	<b>7,539.1</b>
Iran	26.5	0.0	250.2	0.0	0.0	0.0	4.6	20.9	<b>302.1</b>
Myanmar	0.6	0.0	0.14	0.0	0.0	0.0	0.1	0.04	<b>0.9</b>
Nepal	8.6	0.0	0.0	0.9	0.0	0.0	3.9	0.9	<b>14.3</b>
Pakistan	46.1	0.0	793.3	791.3	0.2	1.1	0.0	34.4	<b>1,666.4</b>
Sri Lanka	6.4	0.0	1,124.2	303.4	0.0	1.1	85.4	0.0	<b>1,520.5</b>
<b>Total</b>	<b>137.5</b>	<b>16.3</b>	<b>4,800.8</b>	<b>8,535.8</b>	<b>3.1</b>	<b>51.6</b>	<b>383.9</b>	<b>140.1</b>	<b>14,069.0</b>

Source: The ACU Secretariat, report for 2009

<sup>1</sup>To calculate capital adequacy ratio (CAR), a ratio of risk-weighted assets to credit, market, and operational risks is considered. Therefore, bank and investors each bear part of credit and market risks. Bank's share of credit and market risks will be set by the alpha parameter, determined by field research in the Islamic countries.

enhancement of cooperation in areas such as trade, investment, science and technology, agriculture, and health and for improvement in economic status and living standards of member states. Member states, with a population of 962 million, constitute 15 percent of the world's population. Four of D-8 members are among the first 25 exporting countries of the world. Moreover, 45 percent of total exports of members to the Organization of Islamic Conference (OIC) are channeled through D-8 countries. Major events of D-8 during the review year include: "Meeting on Financial Infrastructure Development and Micro-Insurance" held in Cairo and the "D-8 Meeting of Ministers of Industry" held in Tehran, which mark a turning point in the 13-year history of D-8. Participants discussed and debated micro-insurance and Takaful (Islamic insurance) in the workshops held during the Cairo Meeting.

The Tehran Meeting was convened for the realization of D-8 Ten-Year Vision Plan objectives in Esfand 1388, concerning strategic cooperation among member countries in economic and industrial areas. The meeting included 11 specialized working groups, four of which were managed by the private

sector. Harmonization of customs procedures, transfer of technical know-how proportionate to industrial priorities, and launching of joint industrial research centers based on regional capabilities were among the agreements made by these working groups.

Other achievements of the Tehran Meeting included: conclusion of bilateral and multi-lateral agreements to develop trade and banking cooperation and facilitation of investment in public and private sectors such as joint automobile production projects.

Furthermore, regarding industrial projects' financing constraints in developing countries, especially during the current global economic recession and liquidity shortage, D-8 members were recommended to use international financing opportunities for the implementation of joint industrial, commercial and research projects. Of note, members' cooperation is expanding by holding meetings on financial, energy, petrochemical, construction, transportation, tourism, food, and agriculture matters, helping industrial development. During the Meeting, Turkey's Minister of Industry reiterated establishment of a free industrial zone at the joint border of neighboring countries based on agreements.