

RELATIONS WITH INTERNATIONAL MONETARY AND FINANCIAL ORGANIZATIONS

Despite the tightening of international restrictions in 1389, 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, the Developing Eight, and ECO Trade and Development Bank.

International Monetary Fund (IMF)

Discussions for the 1389 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.

During the discussion of the staff report that concluded the Article IV consultation in June 2010 (Khordad 1389), the staff also provided the FSAP (Financial Stability Assessment Program) report on Iran. FSAP report included major financial issues of Iranian economy which included increasing the subsidized facilities aimed at higher economic growth, restricting government consumption over the short term, and the lifting of restrictions on implementation of monetary policy. Based on the staff report, the implementation of the first phase of Subsidy Reform Act may raise production costs for productive sectors while the sales of production units may fall at least in real terms. Consequently, some production units

may face losses as a result of delays in energy conservation restructuring efforts and some units may also be forced to close down. However, the authorities try to encourage energy conservation restructuring efforts of production units by introducing price and financial incentive packages and recognize the units with inappropriate conditions in adaptation with energy reform measures. The IMF Executive Board also recommended that measures be taken to reduce banks' non-performing loans through the creation of an asset management company. Moreover, a technical mission on AML measures visited Iran and provided the expertise and the experience of other countries on AML measures to their Iranian counterparts.

World Bank¹

The World Bank Group was active in Iran in provision of infrastructural credit, as well as provision of technical assistance and cooperation with Iran, prior to 1389. However, these relations were restricted in 1389. In the review year, the World Bank cooperated

¹In the World Bank Group, the developing countries and the emerging market economies jointly own 43 percent of the total voting share of the Bank. In order to bring into balance the combined share of developing countries and transit economies with that of developed countries, a program titled "strengthening the combined shares of developing and emerging market countries" in the World Bank and IMF was launched in 2002. The purpose of this program was to gradually transfer 7 percent of voting shares of the industrial countries to developing and transition economies based on the latter's proportional economic strength. The implementation of this program was however voluntary for industrial countries.

with Iran in preparation of Country Assistance Strategy approved by World Bank Executive Directors Steering Committee. Iran also actively participated in World Bank annual and spring meetings as well as in the World Bank general capital increase and in enhancement of World Bank governance structure through collaboration in increasing the share of developing and emerging market countries in World Bank capital. Given the termination of the latest World Bank Country Strategy Report, no new project was approved for Iran in 1389. In fact, no new World Bank loans have been approved for Iran since 2005. Currently, the World Bank projects in the process of implementation in Iran are: Northern Cities Water Supply and Sanitation Project with a loan amount of \$224 million, and Alborz Integrated Land and Water Management Project with \$120 million.

Table 13.1. World Bank Group's Projects in Iran in 1389 (million dollars)

Project	Status	Loan amount	Disbursed amount till end-1389
Alborz Integrated Land and Water Management	Effective	120	44
Northern Cities Water Supply and Sanitation	Effective	224	170

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

Table 13.2. Long-term Facilities of IsDB to Iran

Beneficiaries	Project	Approved credit (million euros)	Approval date
Iran Minerals Production and Supply Company (IMPASCO)	Khomrood Coal Mine	56.00	31.03.1389
Ministry of Jihad-e-Agriculture	Construction of East Tehran Grain Silo	18.96	17.05.1389
National Water and Wastewater Engineering Company	Wastewater Collection and Disposal in Rural Areas	194.57	12.07.1389 & 18.10.1389
Iran Power Plant Projects Management Company (MAPNA)	Fars Combined Cycle Power Plant	81.50	07.09.1389

Source: OIETAI

Islamic Development Bank (IsDB)

Iran is considered the third largest shareholder of Islamic Development Bank (IsDB) by underwriting shares worth 1,491 million Islamic dinars¹. In this year, IsDB approved €351.03 million credits for the financing of different projects in Iran.

The Iranian government, as well as several Iranian banks, are shareholders of International Islamic Trade Finance Corporation (ITFC), a subsidiary of the Islamic Development Bank. In the review year, a sum of \$232.5 million was approved as direct and indirect trade credit (through extending of credit lines to Iranian banks).

Table 13.3. IsDB Finished Projects in Iran in 1389 (million dollars)

Project	Loan amount	Closing date
Equipment Purchase and Electricity Transmitter Post in Fars Province	43.0	09.04.1389
Hamedan Sewerage Network and Treatment Plant	35.7	06.07.1389
Flood Prevention Plan in Golestan Province	14.5	08.07.1389
Aidoghmoosh Dam Construction and Drainage System	46.2	03.10.1389

Source: OIETAI

¹The Islamic Dinar is a unit of account at the Islamic Development Bank, equal in value to one SDR.

Asian Clearing Union (ACU)

The total value of transactions within the ACU (one way plus accrued interest) rose by 46.6 percent to \$20,634.2 million in 2010 compared with the previous year. Furthermore, total transactions channeled through the ACU¹ went up by 46.6 percent to \$41,268.4 million, compared with 2009. In 2010, 43.1 percent of total ACU transactions were cleared.

In 2010, India and Myanmar were at the top by clearing respectively 64.9 and 46.5 percent of their transactions through the ACU. Iran and India were the largest

creditors while India, Bangladesh, and Sri Lanka were the largest debtors.

Based on the ACU Secretariat report, Iran, accounting for \$13,191.3 million of total transactions channeled through the ACU, had the highest positive balance (creditor) of \$11,665.9 million in 2010. Nepal with \$44.1 million, Bhutan with \$21.1 million, and Myanmar with \$2.5 million, enjoyed a positive balance, while other countries had a negative balance. Of total Iran transactions in 2010, \$12,428.6 million were exports (creditor) and

Table 13.4. Value of ACU Transactions in 2010¹ (million dollars)

	Credit transactions	Debit transactions	Balance	Cleared-settled (percent)	Settled in foreign exchange (percent)
Bangladesh	165.3	4,389.5	-4,224.2	3.8	96.2
Bhutan	21.1	0.0	21.1	0.1	99.9
India	7,193.9	11,089.8	-3,895.9	64.9	35.1
Iran	12,428.6	762.7	11,665.9	6.1	93.9
Maldives	0.0	13.8	-13.8	0.0	100.0
Myanmar	4.6	2.1	2.5	46.5	53.5
Nepal	58.1	13.9	44.1	24.0	76.0
Pakistan	564.6	1,809.8	-1,245.2	31.2	68.8
Sri Lanka	198.0	2,552.5	-2,354.5	7.8	92.2
Total	20,634.2	20,634.2	±11,733.5²	43.1	56.9

Source: The ACU Secretariat, report for 2010 ¹ Includes one way transactions plus accrued interest, as well as transactions in US dollar and euro. ² The ± symbol indicates net debit/credit transactions.

Table 13.5. Total Transactions Channeled through the ACU¹ (million dollars)

	2009	2010	Share (percent)		Change	Growth rate (percent)
			2009	2010		
Bangladesh	3,163.6	4,554.8	11.2	11.0	1,391.2	44.0
Bhutan	16.3	21.1	0.1	0.1	4.8	29.7
India	12,343.2	18,283.7	43.9	44.3	5,940.5	48.1
Iran	8,840.5	13,191.3	31.4	32.0	4,350.8	49.2
Maldives ²	–	13.8	–	*	–	–
Myanmar	4.1	6.8	*	*	2.7	65.9
Nepal	65.9	72.0	0.2	0.2	6.1	9.3
Pakistan	2,050.6	2,374.5	7.3	5.8	323.9	15.8
Sri Lanka	1,660.7	2,750.6	5.9	6.7	1,089.8	65.6
Total	28,144.8	41,268.4	100.0	100.0	13,123.6	46.6

Source: The ACU Secretariat, report for 2010 ¹ Includes total debit and credit transactions as well as accrued interest. ² As of 2010, Maldives joined the Asian Clearing Union.

¹ Includes total debit and credit transactions as well as accrued interest.

\$762.7 million imports (debtor). Moreover, 6.1 percent of Iran's transactions were cleared, and the remaining were settled in foreign exchange.

Major exported items to ACU member countries in 1389 included: bitumen and derivatives thereof, chemicals and petrochemical products (Vaseline and paraffin), oil products, benzene, zinc, copper nugget, iron and steel products, building stones, carpeting, hides and leather, pistachio, fresh and dried dates, cumin, dried whey, coriander seed, wheat and macaroni. Meanwhile, major imported items from ACU member countries in this year comprised: cloth and fabrics, fibers, soy bean, banana, maize kernels, sesame seeds, iron and steel, aluminum, lead monoxide, human vaccines, casting equipment and supplies, dietary supplements, various beans, rice, tangerine, guavas, mango, fresh and dried walnut, livestock, sugarcane juice, date seed oil, water supply equipment, tea, ethylic alcohol, coconut, dried coconut, hides and leather, light oils, and tropical fruits.

Islamic Financial Services Board (IFSB)

Iran, as one of the main members of the Islamic Financial Services Board (IFSB), participated in the High Council Sessions, as well as the General Assembly Meetings of the Board. The main areas of cooperation between Iran and the IFSB included the participation of Iran's officials in High Council Sessions as well as the General Assembly Meetings of the IFSB, both as the main member and a member to the Capital Adequacy Working Group, Technical Committees, and the management body.

The important measures adopted by the High Council and General Assembly of the IFSB in 1389 included the preparation and declaration of the Standard on Solvency Requirements for Takâful (Islamic Insurance) Undertakings, IFSB-11, December, 2010;

Guidance Note in Connection with the Risk Management and Capital Adequacy Standards: Commodity Murâbahah Transactions, Guidance Notes 2, December 2010; Guidance Note on the Practice of Smoothing the Profits Payout to Investment Account Holders, Guidance Notes 3, December 2010; The Determination of Alpha in the Capital Adequacy Ratio for Institutions (other than Insurance Institutions) offering only Islamic Financial Services, Guidance Notes 4, March 2011; Guidance Note on the Recognition of Ratings by External Credit Assessment Institutions (ECAIS) on Takâful and ReTakâful Undertakings, Guidance Notes 5, March 2011. In addition to the CBI, Securities and Exchange Organization and some Iranian banks are members of the IFSB.

The Developing 8

Established in 1997, the Developing 8 (D-8 or Developing Eight), is a group of developing countries, with a population of over one billion, comprising Iran, Turkey, Malaysia, Indonesia, Egypt, Pakistan, Nigeria and Bangladesh. According to the D-8 database, in 2011, the intra-trade of D-8 countries represented roughly 3 percent of total trade in the world. The D-8 aspires to facilitate intra-trade to increase its trade volume within the range of 15 to 20 percent by 2018, which is in line with the targets stipulated in the D-8 Roadmap 2008-2018. D-8 member states, with the exception of Turkey and Malaysia, suffer from lack of financial development, high cost of exports owing to geographical distance as well as customs and non-tariff barriers, which brought about partial regional cooperation among member states, leading to the conclusion of various trade agreements. However, unlike the Association of South East Nations (ASEAN), the Developing 8 hardly achieved their economic objectives.

Major events of D-8 during 1389 included: raising the proposal for setting up a joint

investment fund among the D-8 member states by Iran; the D-8 SMEs Governmental Bodies Meeting in Tehran; the High Level Trade Officials (HLTO) Meeting in Istanbul, Turkey, to facilitate the implementation of Preferential Trade Agreement (PTA); the Session of the Developing Eight (D-8) Working Group on the Development of the Islamic Financial Services Industry in Kuala Lumpur, Malaysia, with the emphasis on Sukuk; the 1st Meeting of D-8 Working Group on Shipping in Nigeria; the Meeting of D-8 Directors General of Civil Aviation in Antalya; and holding of industrial workshops by Iran Small Industries and Industrial Parks Organization (ISIPO).

Moreover, achievements of the Meeting of Central Banks' experts included: conclusion of bilateral and multi-lateral agreements to develop trade and usury-free banking operations, microfinance, AML cooperation, and collaborations in the related fields.

ECO Trade and Development Bank

ECO Trade and Development Bank (ETDB), a multilateral development bank established by Iran, Turkey and Pakistan, the founding members of the Economic Cooperation Organization (ECO), aims at promoting socio-economic development and intra-regional trade amongst ECO member states. The ETDB's strategic objectives are to finance trade transactions between the member states and facilitate meeting their investment needs. Moreover, the Bank formulates joint-programs to support job-creating projects. The banks' and other financial institutions' membership in the ETDB depends upon the approval of the Bank's member states. Currently, all the payments of the member countries are in Special Drawing Right (SDR). Notably, there are proposals for the SDR replacement with US dollar and euro in the Bank's accounts.