

Summary of the Monetary Policy

Monetary and Credit Policy

The monetary and credit policy for 1393, approved by the Money and Credit Council (MCC) on Tir 3, 1393, comprising 7 Articles, was dispatched to banks and credit institutions as follows:

Monetary Policy

Article 1: Upon agreement between banks, credit institutions, and the Central Bank on Ordibehesht 8, 1393, regarding the provisional banks deposit rate, the MCC approved the new rate for one-year deposits at a maximum level of 22.0 percent.

Note 1: Banks and credit institutions are obligated to finalize the provisional deposit rates under the Islamic contracts, at the end of the financial period, based on audited financial statements and their actual profit after approval of the Central Bank.

Note 2: Laws and regulations related to the issuance of general and special Certificates of Deposit (CDs), including the amount and value of issued CDs, their provisional profit rates and maturity, etc., shall be determined by the Central Bank.

Article 2: The maximum lending rate on loans and facilities extended by banks and credit institutions under non-PLS contracts is set at 22.0 percent. The expected minimum profit rate of PLS contracts between *banks and credit institutions* and *their clients* is set at 21.0 percent.

Note 1: The lending rate on loans and facilities extended to the housing sector under Bank Maskan's installment sale contracts is determined at 16.0 percent. Furthermore, the lending rate on housing loans extended by Bank Maskan under the Housing Savings Fund program is set at 14.0 percent.

Note 2: The lending rate on the facilities extended for Islamic contracts under Mehr Housing Program in housing sector is set at 11.0 percent for the construction period of the new projects and 12.0 percent for installment sale after the completion of projects.

Note 3: The lending rate on facilities extended by leasing companies is set at 22.0 percent. Any extra charge by these companies for the extension of such facilities shall be prohibited.

Article 3: The reserve requirement ratio applied to both commercial banks and credit institutions (state-owned and private ones) is unified at 13.5 percent. The reserve requirement ratio for specialized banks and credit institutions' branches in free economic zones is determined at 10.0 percent. The reserve requirement ratio for the Housing Savings Fund of Bank Maskan remains unchanged. The reserves which are released after the execution of lowered reserve requirement ratio can only be utilized for banks and credit institutions' debt repayments to Central Bank.

Note 1: Reserve requirement ratio on Gharz-al-hasaneh savings deposits held with banks and credit institutions is determined at 10.0 percent.

Note 2: Banks' permission to keep up to 2.0 percentage points of their reserve requirement (deposits) with the Central Bank in cash (subject of Circular No. MB/2412 dated 28.06.1387) remains in effect in 1393.

Article 4: The provisional profit rate of participation papers issued by public and private corporations and municipalities is determined tantamount to the expected profit accrued from the investment projects and will be paid on a quarterly basis. The maximum provisional profit rate on these papers is set at 22.0 percent per annum. The issuing institutions are obligated to calculate the profit rate of the projects and finalize the profit payment to paper holders.

Note: The repurchase of participation papers by banks is not allowed prior to the maturity date of papers. However, these papers can be transacted in secondary market in banks and the Stock Exchange.

Article 5: A ceiling of Rls. 100 trillion will be applied to the issuance of participation papers and Sukuk by banks, municipalities, and public corporations for 1393 (based on the license issued by the Central Bank). The ceiling for the issuance of participation papers, subject of the Note under Article 4 of the Law on Issuance of Participation Papers, based on the license issued by the Securities and Exchange Organization, is set at Rls. 50 trillion for 1393.

Article 6: In implementation of the monetary policy, the Central Bank is authorized to issue participation papers in 1393, up to a value of Rls. 100 trillion. Conditions for the issuance of participation papers by the Central Bank, including the provisional profit rate, maturity date, penalty rate on prior-to-maturity repurchase, and other relevant issues, will be determined by the CBI Governor.

Article 7: The rate of Sukuk issued under the license of the CBI shall be set by the CBI, proportionate to the value of the underlying asset and maturity of Sukuk. Repurchase and secondary market transaction of these papers shall be subject to the Note under Article 4.

Note: The rate of Sukuk in the money market, issued under the license of the Securities and Exchange Organization or guaranteed by the credit institutions, shall be set in coordination with the CBI.