

CHAPTER TWELVE

RELATIONS WITH INTERNATIONAL MONETARY & FINANCIAL ORGANIZATIONS

In 1383, financial organizations and institutions continued their economic cooperation with international financial organizations, such as IMF, World Bank and Islamic Development Bank (IDB) as before. Iran's relations with IMF revolve basically around the conclusion of the Article IV consultation. Furthermore, taking advantage of technical advisory and financial assistance from the World Bank continued as before, and IDB provided Iran with 9 items of facility.

International Monetary Fund (IMF)

IMF Article IV Consultation Mission, upon their two visits to Iran, prepared a report on various economic sectors during 1383. Commending Iran for attaining a growth rate of over 6 percent for the second consecutive year and other achievements, the report expressed concerns over the continued challenges facing the country. The concomitant of the mentioned growth with reduced unemployment rate, strengthened international reserves, lower external debts, and better business climate were among Iran's macroeconomic achievements in 1383. IMF Board reiterated that the pace of the structural reforms, aimed at enhancing firms' efficiency, absorbing foreign direct investment and improving business climate, slowed down. Therefore, Iran's achievements in 1383 were mainly ascribable to unsustainable and short-lived factors such as high oil prices. This situation is against the background of Iranian economy's pressing need for long-term indigenous growth and sufficient job opportunity creation.

Moreover, adoption of expansionary monetary and fiscal policies, in pursuance of prevailing condition in the international oil market, added to inflationary pressures on the Iranian economy. High oil prices affected the government spending and monetary aggregates, raised liquidity growth and continued maintaining a double-digit inflation rate. The Board concluded that lack of sufficient monetary policy instruments made managing excess liquidity and maintaining macroeconomic stability difficult.

Furthermore, despite reduction in the government revenues (in rials), increase in budget spending raised non-oil fiscal deficit in 1383. Since bank profit rates remained relatively unchanged and inflation remained high, current account surplus faced a downward trend. The managed float exchange rate regime operated smoothly and provided foreign exchange instruments to the domestic sector of the economy.

To tackle with economic issues and to reduce vulnerabilities of the economy caused by oil price fluctuations, the Board suggested that budget spending be designed according to prudent scenarios of the budget law as fiscal discipline being observed.

Government attempts to reduce expenses and increase the accumulated amount of excess foreign exchange revenues in the OSF. On the basis of the Board's view, achieving a sustained economic growth, increase in employment rate and expansion of economic activities through eliminating structural impediments, continued privatization process, trade deregulation and reform in labor market are the main priorities of the Iranian economy.

On macroeconomic level, the Board emphasized on the congruity between monetary and fiscal policies and the use of the CBI participation papers as an instrument to mop up excess liquidity. The CBI independence and new liquidity management instrument were among factors necessary for curbing inflation in the form of medium-term program. Shifting tax collection system to value-added tax, reduction in subsidy together with the implementation of a plan supporting the deprived were among effective measures taken to reform budgetary sector.

It is to be noted that, the staff of IMF, besides Article IV consultation, provided technical and advisory assistance in the area of tax affairs management and VAT, Article VIII, and Special Data Dissemination Standard (SDDS) in 2004/05. Iran's quota with the IMF amounted to 1,497 million SDR at the end of June, 2004.

World Bank

Iran's relation with the World Bank in 2004/05 included certain economic case studies and the use of Bank's resources for development projects and poverty alleviation.

One of the main areas of Iran's cooperation with the World Bank is the policy discussion on structural reform programs and utilization of Bank's resources to reform and improve social and environmental areas congruent with the 3rd Plan targets. To this end, certain studies were carried out on reform of pricing system of energy, evaluation of commercial and foreign exchange systems and revision in public spending during the past years. Reports on case studies in the areas of water system in urban areas, housing, and agriculture, and air pollution were presented.

The World Bank lending focuses mainly on priority areas such as sanitation, environment and sewerage. In May 2004, the World Bank approved lending to Iran for the implementation of two projects that support the government in delivering a clean and reliable water supply and sanitation to poor urban neighborhoods in two cities of Shiraz and Ahwaz. This program also aimed at reforming housing condition and enhancing living standard in urban areas. Moreover, World Bank loan to support Iran's reconstruction efforts following Bam earthquake is a project underway. (The Bam Earthquake Emergency Reconstruction Project)

By and large, the total loan granted by International Bank for Reconstruction and Development (IBRD) amounted to \$1,069 million on June 30, 2004. Of this amount, \$359 million was approved, not yet paid; \$373 million paid and \$337 million was the outstanding balance.

In 2004, the International Finance Corporation (IFC), which is affiliated to the World Bank, approved some items of facilities for investment in insurance and financial sectors of Iran (Saman and Karafarin Banks and Karafarin Leasing Company). The IFC has helped to provide an alternate source of finance for further investment in private sector, which is expected to boost job creation, ultimately leading to a sustainable growth in Iran. The IFC also provides technical assistance and advice to the government.

Iran became a member of Multilateral Investment Guarantee Agency (MIGA) in December, 2003. Holding 1,836 votes (0.93 percent of the total), Iran had a strong position in the agency at the end of June, 2004.

The World Bank is expecting that, with the inception of the Agency's activities in Iran, the absorption of foreign direct investment increase and direct investment of Iranians abroad facilitate.

Islamic Development Bank (IDB)

Holding nearly 9.59 percent of total IDB capital (695 million dinars), Iran is one of the active members of IDB. Iran's relation with the IDB basically revolves around receiving facilities for financial affairs. In 1383, nine development projects were implemented, with the assistance of this Bank. The following table indicates major contracts concluded through this Bank:

Project	Type of Facility	Amount (million dollars)
Iran Khodro	Leasing	59.9
Galivard Dam and Neka Project	Istisna'a (1)	46.5
Reconstruction of Bam Sewerage System	Istisna'a	42.7
Western Railway	Installment sale	33.4
Pharmaceutical Provision Organization	Leasing	32.4

(1) It is a contract whereby a party undertakes to deliver a specific thing which is possible to be made according to certain agreed-upon specifications at a determined price and for a fixed date of delivery.

Asian Clearing Union (Clearing accounts)

The total volume of transactions through the Asian Clearing Union reached \$3,264 million, showing 61 percent growth, compared with the previous year. These transactions include \$2,929 million for exports, \$335 million for imports, showing a surplus of \$2,594 million. Iran ranked the first in trade balance and with making up 24 percent of the volume of ACU tradings, ranked the second, after India. Despite Iran's quota of \$47 million for the utilization of swap facilities in 2004, due to its credit position, this facility could not be utilized.