Monetary and Credit Policies in 1385

According to the Cabinet and MCC approvals as well as the Parliament's plan for rationalizing the rate of return on banking facilities, the CBI is required to perform the following tasks.

A. Monetary Policy Approved by the Parliament

Liquidity and Inflation Growth Targets

The targets for inflation rate and liquidity (M2) growth in the 4th FYDP are set at 11.5 and 22 percent, respectively.

Rationalization of Rate of Return on Banking Facilities

Single Article- Government and the CBI are obliged to administer the mechanisms to mobilize and allocate banking resources in such a manner that the expected rate of return on banking facilities for contracts with fixed return decreases during the 4th FYDP. Such a decrease shall lead to realization of a single-digit rate of return on banking facilities before the end of the said Plan.

Note 1. In accordance with the Usury-Free Banking Law, banks shall share the proceeds acquired from the economic activities referred to in the contracts with variable return. The expected rate of return of such contracts shall not be predetermined. In case of the contracts for partnership in production referred to in the Usury-Free Banking Law enacted in 1362 (1983/84), banks shall not request collaterals beyond the property related to the project.

Note 2. The cooperative and the private sectors shall enjoy priority over the public sector in respect of granting facilities and financing the economically justified projects by the banking system.

Note 3. The CBI shall prepare the executive by-law for this Law in coordination with the Ministry of Economic Affairs and Finance and Management and Planning Organization, within two months from the date of approval, and implement it upon approval of the Cabinet.

The Law on Setting the Ceiling for Issuance of Participation Papers

Single Article- According to the 4th FYDP, the CBI is authorized to issue participation papers worth Rls. 20 trillion to mop up excess liquidity.

B. Credit Policy Approved by the Cabinet

1. According to Cabinet approval, based on Article 16 of the by-law on supporting the expansion of Small and Medium Enterprises (SMEs), it is determined that the Ministry of Economic Affairs and Finance put Rls. 180 trillion at the disposal of agent banks excluding Bank Maskan.

2. According to Cabinet approval, the rate of return on the facilities extended to the agriculture sector was set at 2.5 percent less than the rate approved by the Money and Credit Council (MCC). Moreover, the Management and Planning Organization, as government's representative, is required to finance the 11.5 percent differential rate of agriculture sector with other sectors to agent banks. The CBI shall issue the required directives concerning implementation of Article 10, 4th FYDP on allocation of at least 25 percent of the bank resources to the agriculture sector.

C. Monetary Policies Approved by the MCC

1. The Money and Credit Council (MCC) approved the following policy decisions to be implemented in 1385:

a. According to the Usury-Free Banking Law, as well as the 4th FYDP Law, the minimum expected rate of return on the facilities extended by public banks to all economic sectors shall be unified at 14 percent.

b. The rates of return on the previously extended facilities shall not be subject to the above-mentioned paragraph. The aforesaid shall solely apply to new banking facilities.

c. The provisional profit rates of deposits with public banks shall be within the range of 7 percent for the short-term and 16 percent for five-year investment deposits.

2. The minimum expected rate of return on the facilities extended by private banks and credit institutions to all economic sectors shall be 3 percent higher than the same rate for the facilities extended by the public banks in 1385.

3. a. The MCC approved the increase in the minimum required capital for establishment of private banks and non-bank credit institutions to Rls. 3,500 and 1,500 billion, respectively.

b. The MCC approved issuance of CBI participation papers worth Rls. 20 trillion with a provisional rate of return of 15.5 percent. Such papers shall be tax-exempt and valid for a period of one year upon issuance. In accordance with the 4th FYDP, issuance of CBI participation papers is subject to the Parliament approval.

4. Considering the increased rate of liquidity growth in 1385 compared to the target set in the 4th Plan, the CBI is authorized to issue participation papers worth Rls. 10 trillion to substitute the previous papers which will be matured during the last four months of the year upon approval of the Parliament.

5. a. In case of the hire purchase, installment sale, forward transactions, jo'aalah and debt purchase contracts, the rate of return on facilities extended by public banks as well as private banks and credit institutions are set at 14 and 17 percent, respectively, in 1385.

b. In order to provide more facilities for the indebted individuals due to exchange rate differential, those who have not concluded any contract with the bank in due time may receive facilities of 7 percent rate of return in case of concluding a contract with the bank within at most six months from the date of this approval.

c. Repayment period for Rls. 30 million Gharz-al-hasaneh housing loan paid to low-income groups rose from 3 to 5 years.