

In 1384, 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 relation with IMF was largely related to the conclusion of the Article IV consultation. The World Bank contributed to a range of activities to offer technical advisory and financial assistance and IDB extended facilities to Iran. Moreover, one of the meetings of the Islamic Financial Services Board (IFSB) was held in Iran in this year.

International Monetary Fund (IMF)

IMF Article IV Consultation Mission, upon their two visits to Iran, prepared a report on various economic sectors during the review year, the key issues and recommendations highlighted by the staff and the Executive Board are as follows:

Amid uncertainties, Iranian economy experienced relatively robust growth in 1384. All the major indicators (except for inflation) signaled improvement. High rate of inflation together with large increases in subsidies and administrative barriers hampered productivity growth.

Given the sharp rise in oil revenue and deregulations during the past five years, the real GDP growth accelerated to 5.5 percent, while reducing unemployment, the staff stated in their report. Despite acceleration of growth, job creation was not sufficient to match the new entrants in the labor force. Moreover, the Board called for increased fiscal transparency, improved policy coordination, and a fiscal framework which could reduce its pro-cyclicality.

To successfully curb inflation, the staff advocated utilization of more effective policy instruments, Central Bank's independency and further exchange rate flexibility.

The Board also reiterated that drastic fluctuations were not observed in financial sector. However, measures should be taken to improve the efficiency of banking system through reducing non-performing loans. To this end, the staff called for a direct supervision of the Central Bank on banks credit portfolio and upgrading management of large public banks.

The World Bank Group

The World Bank Group incorporates five closely associated entities that work collaboratively toward poverty reduction, namely IBRD (International Bank for Reconstruction and Development), IDA (International Development Association), IFC (International Finance Corporation), MIGA (Multilateral Investment Guarantee Agency) and ICSID (International Center for Settlement of Investment Disputes).

As of Bahman 1324, Iran became a member of the World Bank. The coordination of World Bank activities in Iran is vested with the Organization for Investment, Economic and

Technical Assistance of Iran (OIETA). Iran's share in the World Bank amounted to \$2,857 million, roughly 1.48 percent of total, resulting in 1.48 percent voting power.

Before the victory of the Islamic Revolution, the World Bank financed 33 projects valued at \$1,210 million. In the post-revolutionary era, the World Bank approved \$2,202 million loan for the implementation of 15 projects. In addition, \$1.8 million was received in the form of grants in aid. Lending focused mainly on priority areas such as water and sewerage, earthquake emergency recovery project, health, energy, and social protections. Moreover, for the repayment of the loans, the grace period varied between 3-5 years, and the repayment period between 12 to 17 years. The total amount of loans granted by the World Bank is projected at \$500 million per year. By and large, projects to be funded by the loans primarily include provision of housing for the poor, improvement in the efficiency of services in urban areas and job creation policies for the poor.

WORLD BANK PROJECTS IN IRAN DURING 1384

Project	Status	Loan amount (million dollars)
Bam Earthquake Emergency Reconstruction Project	Effective (finalized)	220
Alborz Integrated Land and Water Management Project (Pashakala)	"	120
Ahwaz and Shiraz Water and Wastewater Project	"	279
Tehran Sewerage Project	"	145
The Northern Cities Supply and Sanitation Project	"	224
Environmental Management Project	"	20
Healthcare and Nutrition Project	"	87
Earthquake Emergency Reconstruction Project in North-West Regions	"	180
Urban Upgrading and Housing Reform Project	"	80
Mehr Petrochemical Project (1)	"	128
Cesur Packaging Project (1)	"	6
Tehran Sewerage Project (2 nd Phase)	Under review	..
Technical and Vocational Training Organization Project	"	..
Solid Waste Management Project	"	..
Jareh Dam Project in Ramhormuz	"	..
Electric Power Transmission and Distribution Lines Project in Tehran Regional Electricity Company	"	..
Road Safety Project	"	..
Labor Market Studies Project	"	..
Public Expenditure System Project	"	..
Promotion of Agricultural Export Project	"	..
Growth Diagnostic Studies Project	"	..

Source: Organization for Investment, Economic and Technical Assistance of Iran; Office for Loans, International Organizations and Institutions

(1) Guaranteed by MIGA.

Islamic Development Bank (IDB)

The IsDB (the Islamic Development Bank), as a premier multilateral financial institution of the Muslim world, was established in October 1975 to foster economic development and social progress of member states in accordance with the principles of the Shariah. The present membership of the IsDB consists of 56 countries, all members of the Organization of the Islamic Conference (OIC) as well. The subscribed capital of the IsDB has been increased from 2 billion Islamic dinars at the end of June 1992 to 6 billion dinars in July 1992 and another 15

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billion dinars was added during the next 10 years. Saudi Arabia, with 24.8 percent share, has the highest voting power. Iran's share is 8.7 percent of the total.

The IDB group consists of four institutions, namely Islamic Development Bank (IDB), Islamic Research and Training Institute (IRTI), Islamic Corporation for the Development of the Private Sector (ICD) and Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC). As of the 30th annual meeting held in Malaysia, the International Islamic Trade Finance Corporation (ITFC) joined the IDB as well.

The strategic framework of the IDB includes targets such as promotion of industries and Islamic financial institutions, poverty alleviation and enhancing cooperation between member countries. To this end, the IDB follows certain priority areas such as human development, expansion of agriculture sector, infrastructure, trade, research and finance.

FACILITIES AND GRANTS IN AID PROVIDED BY THE IDB AND THE AFFILIATED INSTITUTIONS

Beneficiary	Project	Approved amount (million dollars)	Year of approval
Ministry of Energy (Hamedan Water and Sewerage Company)	Hamedan Sewerage Network and Treatment Plant	28.5	1380
Ministry of Road and Transportation (Railway)	Tehran-Mashhad Double-track Line	35.0	1380
Tabriz Municipality	Tabriz Subway Comprehensive Plan	1.3	1380
Ministry of Energy (Regional Water Company of East Azerbaijan and Ardebil)	Shahid Madani Dam	26.0	1381
Ministry of Energy (Regional Water Company of Mazandaran and Golestan)	Water Sector Projects-Flood Prevention Plan in Golestan Province	14.5	1381
Ministry of Industries and Mines (National Iranian Copper Industries Company)	Miduk and Sarcheshmeh Copper Concentration Plant	69.8	1381
Ministry of Industries and Mines (Khuzestan Steel Company)	Khuzestan Steel Company Expansion Project	30.0	1382
Ministry of Energy (Organization for Development of Electric Power of Iran)	Kerman Combined Cycle Power Plant, 2 nd Phase	44.6	1382
Ministry of Energy (Regional Water Company of East Azerbaijan and Ardebil)	Idoghmoosh Dam and Irrigation Network Project	€33.1 million	1382
Ministry of Energy (Regional Water Company of West)	Dasht-e-Abbas Irrigation Network Project	€36.3 million	1382
Ministry of Energy (Regional Water Company of Mazandaran and Golestan)	Galvard Dam and Irrigation Network Project in Neka	€38.8 million	1383
Medical Supplies Organization affiliated to the Red Crescent	Soha Pharmaceutical Project	€27.0 million	1383
Ministry of Road and Transportation	West Railway Line Project	€27.2 million	1383
State Organization of Schools Renovation, Development and Mobilization	Construction of Schools Project in Bam	10.0	1383
Iran Khodro (Sokuk)	Iran Khodro Expansion Project	60.0	1383
Iran Shipbuilding and Offshore Industries Complex Company	Expansion of Bandar Abbas Shipyard Project	37.7	1384
Tehran University	Equipping the Laboratories of Tehran University's Technical Faculty	36.4	1383
Grants in Aid			
Ministry of Health and Medical Education	Expansion of Laboratory Equipments Project	0.4	1380
Ministry of Science, Research and Technology, and Iran University of Science and Technology (IUST)	Center of Training and Research on Welding Quality	0.4	1382
The Red Crescent	Assistance to the Bam Earthquake Victims	0.3	1382
Welfare Organization of Kerman Province	Construction of Rehabilitation Center for the Disabled of Bam Earthquake	1.0	1383
Razi Metallurgy Research Center	Metal Casting Simulation Software Project	0.153	1383

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

Asian Clearing Union (ACU)

The total volume of transactions through the ACU reached \$8,199.6 million, representing an increase of 23 percent over corresponding figure of the previous year. The average volume of monthly transactions ⁽¹⁾ recorded the unprecedented amount of \$683.3 million as compared with the respective figure of 2004 (\$556.7 million). Therefore, the total transactions channeled through the ACU reached its highest level since its establishment in 1974.

ACU TRANSACTIONS CLEARED-SETTLED IN FOREIGN EXCHANGE IN 2005 (1) (2)

	Total Debit Transactions	Total Credit Transactions	Balance	Cleared in the System (percent)	Settled in Hard Currency (percent)
Bangladesh	1,981.7	127.9	-1,853.8	6	94
Bhutan	0.1	11.3	11.2	1	99
India	3,572	3,677.5	105.5	97	3
Iran	423.6	3,991.7	3,568.1	11	89
Myanmar	0.02	2.7	2.7	1	99
Nepal	8.4	4.7	-3.7	56	44
Pakistan	695.2	242.9	-452.3	35	65
Sri Lanka	1,518.6	140.9	-1,377.6	9	91
Total	8,199.6	8,199.6	±3,687.5 (3)	55	45

Source: The ACU Secretariat, report for 2005

(1) Including interest

(2) Components may not sum to total because of rounding.

(3) The ± symbol indicates volume of transactions.

In 2005, India was at the top by clearing 97 percent of its \$7,249.5 million transactions, followed by Iran, Bangladesh and Sri Lanka by \$4,415.3, 2,109.7 and 1,659.5 million, respectively. Considering the increase in the sum of transactions channeled through the ACU, the highest rise belonged to Bhutan, Iran and Myanmar by 50, 35 and 30 percent, respectively. In addition, Nepal was the only country which decreased its use of the ACU mechanism.

TOTAL TRANSACTIONS CHANELED THROUGH THE ACU DURING 2004-2005 (1)

Member Country	2004	Share (percent)	2005	Share (percent)	Change	Growth (percent)
Bangladesh	1,877.4	14	2,109.7	13	232.3	12
Bhutan	7.6	0	11.5	0	3.8	50
India	5,743.2	43	7,249.5	44	1,506.3	26
Iran	3,264.3	24	4,415.3	27	1,151.0	35
Myanmar	2.1	0	2.7	0	0.6	30
Nepal	16.5	0	13.1	0	-3.5	-21
Pakistan	865.7	6	938.2	6	72.4	8
Sri Lanka	1,582.8	12	1,659.5	10	76.7	5
Total	13,359.6	100	16,399.2	100	3,039.7	23

Source: The ACU Secretariat, report for 2005

(1) Including total debit/credit transactions as well as their accrued interest

(1) Sum of exports, imports and paid interest

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According to the ACU Secretariat, Iran ranked the first in trade balance ⁽¹⁾ by \$3,568.1 million, indicating \$3,980.6 and 423.6 million exports and imports, respectively, representing a 38 percent increase in the volume of transactions. India, by \$105.5 million, ranked the second.

ACU TRANSACTIONS MATRIX IN 2005 (1)

(million dollars)

Creditors										Total
Debtors	Bangladesh	Bhutan	India	Iran	Myanmar	Nepal	Pakistan	Sri Lanka		debtors
Bangladesh	0	11.3	1,810.5	4.7	0.5	2.5	141.2	5.7		1,976.7
Bhutan	0.1	0	0	0	0	0	0	0		0.1
India	31.4	0	0	3,441	0	0	19.1	79.3		3,570.7
Iran	44.1	0	320.6	0	0	0.05	37.2	21.7		423.6
Myanmar	0	0	0.02	0	0	0	0	0		0.02
Nepal	3.9	0	0	0.7	0	0	2.9	0.9		8.4
Pakistan	40.9	0	433	182.4	2.2	2.1	0	33.4		694.0
Sri Lanka	7.5	0	1,112.4	351.8	0	0.02	42.5	0		1,514.3
Total creditors	172.9	11.3	3,676.5	3,980.6	2.7	4.7	424.9	140.9		8,187.6

Source: The ACU Secretariat, report for 2005

(1) Components may not sum to total because of rounding.

Islamic Financial Services Board (IFSB)

The Islamic Financial Services Board (IFSB), comprising central banks of several Islamic countries, which is based in Kuala Lumpur, was officially inaugurated on 3rd November 2002 and started operation as of the beginning of 2003. It serves as an international standard setting body of regulatory and supervisory agencies that have vested interest in ensuring the soundness and stability of the Islamic financial services industry, which is defined broadly to include banking, capital market and insurance. The IFSB structure comprises the following constituent organs: General Assembly, High Council of Policy Making, Technical Committee, Working Group, and the IFSB Secretariat. The Central bank of the Islamic Republic of Iran, as one of the main members, presided over the Board in 2005.

In 2005, the 6th and 7th meetings of the technical committee were held in Tehran and Oman, respectively. The performance of "International Islamic Financial Markets (IIFM)" and the "Liquidity Management Center (LMC)", the significance of monetary management instruments as well as the Islamic money market instruments and regulations were on agenda.

D8 Group

Group of Eight Developing Countries (D8), also known as developing-8 (comprising Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan and Turkey), was established after an announcement in 1997 Summit in Istanbul, Turkey. The objectives are to foster trade and enhance participation in decision making at the international level and living standards. The main areas of cooperation include trade, finance, banking, rural development, science and technology, humanitarian development, agriculture, energy, environment, and health.

The 5th meeting of leaders of the eight Islamic member countries of D8 group was convened in Bali, Indonesia in Ordibehesht 1384, to review and evaluate the advances in development of bilateral cooperation as well as monetary and banking transactions. During the 1384 Summit, Preferential Trade Agreement (PTA) and Customs Cooperation Agreement were concluded. Moreover, Iran delivered presidency to Indonesia.

(1) Excluding interest