Monetary and Credit Policies in 1387 (2008/09)

A. Supervisory-Policy Package of the Banking System

On the basis of Supervisory-Policy Package of the banking system for 1387 (2008/09) as declared to public and non-public banks, and credit and financial institutions on Mordad 3, 1387 (July 24, 2008) to be implemented, the key credit and monetary policies for 1387 are as follows:

1. Given the widespread impacts of inflation on economic indicators, achieving the inflation target was regarded as the CBI main objective. Other policies such as supporting exports and granting export bonuses are to be designed on the basis of inflation rate for 1387 (Article 18).

2. Banking facilities and services are provided on the following bases in 1387 (Article 6):

2.1. Lending rate on the banking facilities extended for transaction contracts is set at 12 percent.

a. Lending rate on the banking facilities extended to SMEs and agricultural projects, with government subsidy, is set at 10 percent, and government will pay 2 percent subsidy. Priority for the payment of subsidy will be determined by the Government Economic Commission. This subsidy will not be paid if the targets are not realized and the principal and the profit should be paid by the bank client.

b. The commission of the contracts is set at 3 percent, and banks are authorized to reduce this rate and improve the quality of banking services.

2.2. Profit and Loss Sharing contracts: These contracts are concluded in the form of civil partnership, without a preset lending rate (settlement is based on the real rate of return after implementation of project) and with the bank's supervision as a partner in the respective affairs. The minimum profitability of the project is set at the rate which is equal to the lending rate for transaction contracts excluding the subsidy paid to each activity.

2.3. Services rendered to investors could be in the form of introducing their projects to those willing to participate in the purchase of corporate commercial papers (for working capital of manufacturing units) or corporate participation papers (for investment projects), convertible or non-convertible to shares within a legal framework. Repayment of capital is not guaranteed by the bank and the papers will be transacted on the secondary market before maturity. Bank's revenue is solely received from the commission of services rendered to each party.

2.4. Development banking aims at mobilizing government resources in the form of administered funds, government deposits with the bank with the stipulation of their use, or agency contracts to develop less privileged regions or the economic sectors supported by the government.

3. In order to diversify credit instruments and methods, contracts are structured on the basis of a floating rate of return (Article 15).

3.1. Facilities extended through civil partnership are truly on a floating basis, acquired at the real rate of return each year.

3.2. Rate of return on investment deposits are on a floating basis, paid at the real rate of return each year.

4. The maximum commission for investment deposits is set at 3 percent (Article 16).

5. Banks' reserve requirement ratio with the Central Bank in 1387 is shown in the respective table (Article 20).

Reserve Requirement Ratio

Type of deposit	(percent)
Current	20
Gharz-al-hasaneh	10
Short-term	17
One-year	17
Two and Three-year	15
Four-year	13
Five-year	11
Other deposits	20

6. The Central Bank is authorized to issue participation papers up to 50 percent of the papers to be substituted. Moreover, the Bank shall design and utilize more efficient and proper instruments to streamline management of the money market (Article 42).

Government and governmental organizations may issue participation papers in 1387 according to their regulations and in the real sense of participation. The profit rate which is commensurate with the profit received from investment projects and selling of these papers before the maturity date could be achieved only on the stock exchange.

7. In order to create an appropriate ground for better allocation of credits, in line with balanced growth, sectoral allocation of banking facilities is shown in the respective table (Article 3).

Sectoral Allocation of Banking Facilities

Sector	Share in total credits (percent)
Agriculture, water, and processing industries	25
Manufacturing and mining	33
Construction and housing	20
Trade and services	15
Export	7

8. Banking facilities shall not be extended for the purchase of housing units, both the site and the superstructure. Facilities shall be solely extended for construction of housing units with regard to the terms specified (Article 4).

9. Banking facilities and credits shall be paid out of Gharz-al-hasaneh sight deposits, savings deposits, term investment deposits, shareholders' capital (government or private shareholders) and/or interbank funds. Banks should mobilize their own resources, without overdraft from the CBI (Article 7).

9.1. Any overdraft from the CBI shall be for the sole purpose of resolving temporary problems, according to the table of banks' liquidity. Overdrafts will be controlled and regulated per annum on the following bases (Note 1):

First: imposing a high overcharge payment of 34 percent

Second: applying administrative control and management by the Central Bank

9.2. Banks are authorized to create obligations proportionate to their accessible funds with regard to management of sources and uses of funds as per the banking principles and standards as well as the regulations declared by the CBI. Moreover, creation of any obligations in excess of banks' acquirable resources and relying upon overdraft from the Central Bank are prohibited (Note 5).

10. Banks receive Gharz-al-hasaneh deposits and extend Gharz-al-hasaneh loans worth Rls. 100 million per each applicant for procurement of essential needs (Article 8). The commission received by banks shall be a maximum of 3 percent per annum to finance the costs incurred by rendering services and rewarding depositors.

11. Banks are solely authorized to extend Gharz-al-hasaneh deposits for Gharz-al-hasaneh facilities; thereby allocation of such deposits for investment purposes shall be prohibited (Article 9).

12. Banks finance large projects through partnership (consortium) (Article 12).

13. Banks are authorized to extend balance of Gharz-al-hasaneh current deposits as short-term Gharz-al-hasaneh loans. It is noteworthy that such deposits are classified as short-term Gharz-al-hasaneh resources (Article 19).

14. In order to provide an appropriate instrument for public daily transactions and to reduce the effects of abundant liquidity resulting from issuance of interbank checks, according to the Cabinet approval, since Ordibehesht 1387 (as of April 20, 2008), Iran checks are solely issued by the CBI and the printing costs will be paid by the Central Bank. The CBI will receive 100 percent rial equivalent of the mentioned checks from commercial and specialized banks (Article 22).

15. Banks' privatization program and also establishment of foreign banks' and banking institutions' branches in Iran are under process. In this regard, the Central Bank has taken necessary measures to step up the process of issuing licenses (Article 30).

B. The Amendment Law on Paragraph H, Article 10, 4th Plan Law of the Islamic Republic of Iran approved in 1383 (2004/05)

Single Article – Paragraph H, Article 10, 4th Plan Law of the Islamic Republic of Iran is revised as follows:

H – In order to implement monetary policies, the Central Bank of the Islamic Republic of Iran is authorized to issue participation papers within the framework of the Law for Usury (Interest) Free Banking approved on 08.06.1362 (29.08.1983), following the approval of the Money and Credit Council (MCC), to mop up excess liquidity in case it is required.

The above-mentioned Law including the Single Article was ratified by the Parliament through its public session on Wednesday 22.08.1387 (12.11.2008) and was approved by the Guardian Council on 06.09.1387 (26.11.2008).