

RELATIONS WITH INTERNATIONAL MONETARY AND FINANCIAL ORGANIZATIONS

In 1385, Iranian 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.

International Monetary Fund (IMF)

Discussions for Article IV Consultation were held in Tehran for a period of 10 days in Azar 1385 to consider the monetary, financial, foreign exchange, Special Data Dissemination Standard (SDDS), policymaking, and institutional issues. Executive Directors commended Iran's macroeconomic performance, emanating from favorable oil market conditions and implementation of appropriate economic policies.

The discussions for the 2006 Article IV Consultation focused on the macroeconomic and structural policy adjustments that would be necessary to achieve and sustain higher growth rates while reducing inflation. The main challenge faced by Iran is the need to attain a higher and sustainable growth to create jobs for its fast growing labor force. The staff encouraged the authorities to implement a strong fiscal adjustment supported by a tighter monetary policy and greater exchange rate

flexibility to ease demand pressures and put inflation on a downward path. It also stressed the importance of addressing the numerous distortions stemming from the extensive controls on prices and rates of return, and of phasing out energy subsidies, which are very large. The staff emphasized that, to be successful, the privatization program needs to be accompanied by initiatives to pave the way for further participation of the private sector in economic activities.

Based on the staff report, despite relative controls, the rate of inflation increased in certain months in 1385. Moreover, in external sector most of the indicators, due to increasing oil prices, continued to improve. Notwithstanding the real appreciation of the rial, non-oil exports have continued their increasing trend and growth of imports has declined. With the exception of petrochemical products which have benefited from highly subsidized inputs, most other non-oil exports performed well in recent years.

After two consecutive years, increasing trend of price indices in Tehran Stock Exchange (TSE) declined, owing to political uncertainties. This led to the slowing of the privatization program at the takeover of the new government. However, the amendment of Article 44 of the Constitution, whose implementation is supposed to garner a lot of public support, portrays a benign outlook for the future.

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According to the staff, Iran's financial system remains dominated by large state-owned banks and extensive regulations, including controls on rates of return, subsidized credit for deprived regions, and a credit target for the agriculture and water sectors. Therefore, the scope for competition is limited. The staff called for a gradual elimination of distortionary regulations and controls, which do not favor an efficient intermediation of financial savings and encourage the development of circumventing mechanisms.

The World Bank Group

In the 2006 joint IMF-World Bank meeting, attended by representatives from Iranian financial and economic organizations, a one million dollar loan was approved to be extended to Iran Technical and Vocational Training Organization. Meanwhile, the plan for the implementation of "A Diagnostic Study of Economic Growth in Iran" project was finalized and several research projects including "A Review of Households' Access

to Financial Services" and "Estimating Country's Total Wealth" were put on the agenda.

Islamic Development Bank (IDB)

In 1385, the IDB group approved a total of \$49.8 million facilities to be extended to Hormozgan Regional Water Company for implementation of the project for operation of Chegin dam (\$6.8 million) and Fars Regional Electric Company for the project of electricity distribution and transfer in Fars Province (\$43.1 million).

Asian Clearing Union (ACU)

The total volume of transactions through the ACU reached \$12,049.8 million in 2006, representing an increase of 47 percent over corresponding figure of the previous year. The average volume of monthly transactions⁽¹⁾ amounted to \$1,004.2 million as compared with the respective figure of the previous year (\$683.3 million), up by 47 percent. 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 2006 (including interest)**

(million dollars)

Member country	Total debit transactions	Total credit transactions	Balance	Cleared in the system (percent)	Settled in hard currency (percent)
Bangladesh	2,132.4	144.7	-1,987.7	6.8	93.2
Bhutan	0	10.6	10.6	0.1	99.9
India	5,684.8	4,835.2	-849.6	85.1	14.9
Iran	423.1	6,594.8	6,171.7	6.4	93.6
Myanmar	0	3.3	3.3	0.3	99.7
Nepal	9.6	6.0	-3.6	62.6	37.4
Pakistan	1,373.6	302.1	-1,071.5	22.0	78.0
Sri Lanka	2,426.4	153.2	-2,273.2	6.3	93.7
Total⁽¹⁾	12,049.8	12,049.8	±6,185.6⁽²⁾	48.7	51.3

Source: The ACU Secretariat, report for 2006

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

(2) The ± symbol indicates net debit/credit transactions.

(1) Sum of exports, imports, and paid interest

In 2006, India was at the top by clearing 85.1 percent of its \$10,519.9 million transactions, followed by Iran, Sri Lanka, and Bangladesh by \$7,017.9, 2,579.5 and 2,277.1 million, respectively. Considering the increase in the sum of transactions channeled through

the ACU, the highest rise belonged to Pakistan, Iran, and Sri Lanka by 78.6, 59 and 55.4 percent, respectively. In addition, Bhutan was the only country which decreased its use of the ACU mechanism.

TOTAL TRANSACTIONS CHANNELED THROUGH THE ACU ⁽¹⁾ (million dollars)

Member country	Year		Share (percent)		Change	Growth rate (percent)
	2005	2006	2005	2006		
Bangladesh	2,109.7	2,277.1	12.9	9.5	167.4	7.9
Bhutan	11.5	10.6	0.1	0.1	-0.8	-7.3
India	7,249.5	10,519.9	44.2	43.7	3,270.5	45.1
Iran	4,415.3	7,017.9	26.9	29.1	2,602.7	59.0
Myanmar	2.7	3.4	0	0	0.6	23.8
Nepal	13.1	15.7	0.1	0.1	2.5	19.0
Pakistan	938.2	1,675.7	5.7	7.0	737.6	78.6
Sri Lanka	1,659.5	2,579.5	10.1	10.7	920.0	55.4
Total	16,399.2	24,099.7	100.0	100.0	7,700.5	47.0

Source: The ACU Secretariat, report for 2006

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

According to the ACU Secretariat, Iran ranked the first in trade balance by \$7,017.9 million, showing 59 percent increase in the value of transactions, and indicating \$6,594.8 and 423.1 million exports and imports, respec-

tively. Iran's balance of debit/credit transactions was +\$6,171.7 million in this year. Bhutan and Myanmar, by \$10.6 and 3.4 million, ranked the second and third and other member countries had a negative balance.

ACU TRANSACTIONS MATRIX IN 2006 ⁽¹⁾ (million dollars)

Debtors \ Creditors									
	Bangladesh	Bhutan	India	Iran	Myanmar	Nepal	Pakistan	Sri Lanka	Total debtors
Bangladesh	0	10.6	1,906.8	11.3	1.5	3.7	180.4	8.4	2,122.6
Bhutan	0	0	0	0	0	0	0	0	0
India	49.4	0	0	5,531.5	0	0	25.2	74.5	5,680.6
Iran	37.4	0	316.4	0	0	0	52.5	16.8	423.1
Myanmar	0	0	0	0	0	0	0	0	0
Nepal	5.0	0	0	0.9	0	0	2.8	0.8	9.5
Pakistan	44.7	0	975.5	291.6	1.9	2.2	0	52.7	1,368.6
Sri Lanka	8.2	0	1,635.7	730.6	0	0.1	41.2	0	2,415.8
Total creditors	144.7	10.6	4,834.5	6,566.0	3.3	6.0	302.1	153.2	12,020.3

Source: The ACU Secretariat, report for 2006

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

Islamic Financial Services Board (IFSB)

The most important activity of the IFSB in 1385 was the expansion of Islamic Banking worldwide through setting new standards in monetary and financial activities of banks and financial institutions in compliance with Sharia principles.

Key decisions taken by the High Council of IFSB in 1385 to facilitate adoption of Board standards in Islamic countries revolve around: approval of the 10-Year plan aimed

at restructuring monetary and financial market in Islamic countries, reform and formulation of regulations pertaining to supervisory membership, approval of a framework for appointing auditors for financial statements of the Board and issuance of Board standards. The standards prepared by the IFSB coordinate initiatives on corporate governance issues, Islamic investment funds, capital adequacy principle, and transparency in Islamic money market.