

RELATIONS WITH INTERNATIONAL MONETARY AND FINANCIAL ORGANIZATIONS

In 1387, Iran continued its normal relations and interactions with international financial institutions, such as International Monetary Fund, Islamic Financial Services Board, Islamic Development Bank and Asian Clearing Union, based on the rules of membership and association of these institutions. In this chapter, the economic cooperation of Iran with these organizations is briefly reviewed.

International Monetary Fund (IMF)

Discussions on Article IV Consultation with IMF were held in Tehran in the review year to assess the monetary, financial, foreign exchange, Special Data Dissemination Standards, policymaking, and institutional aspects of economic decision making process. In these meetings, technical issues were discussed with international experts. In particular, as Iran was engaged in energy price reform and targeted subsidy program, so much time was devoted to impact analysis of economic adjustment policies in Iran.

The Article IV technical consultation mission of IMF (Article IV of IMF by-laws) visited Iran twice (December 6, 2008 and February 25, 2009) and reviewed the published macroeconomic data in Iran. Moreover, an IMF mission of legal experts visited Iran for two weeks in Mehr 1387, provided judicial consultation, and discussed different issues with Iranian authorities.

In the first visit of IMF Article IV consultation mission, IMF staff (with the assistance

of their Iranian counterparts) provided three different economic scenarios to show the likely impacts of government economic policies on macroeconomic indicators of Iran over the medium term. These scenarios were based on the projected (forward) international oil prices at the time of review and the likely price reform of energy carriers in domestic market. Based on preliminary findings of the assessed scenarios, if economic restructuring policies are not implemented by the government, with the estimated international oil prices at the time of review, and with conceived restrictions of non-oil income and foreign financing for Iran, general government outlays and public investment expenditures should fall so that equilibrium in major macroeconomic accounts of Iran is attained. In this case, the Iranian economy's potentials (rate) and the foreign reserve holdings will decline substantially. On the contrary, if the government commits itself to reform efforts including the rationalization of energy prices to international price levels, promotion of domestic and foreign investment, and efficiency enhancement of measures in resource allocation, the current restrictions on the Iranian economy could be circumvented in the medium run.

In the concluding session of IMF Article IV second consultation mission, IMF staff commended Iranian authorities for the achievement of solid growth of the economy of Iran and the strengthening of the external sector. IMF staff noted with appreciation an

average GDP growth of 5.3 percent during 1384-87 and the rise in foreign reserves of Iran (gross) to the level of 18 months of import requirements of the country. Improvement of most welfare indices and reduction of the unemployment rate were also confirmed by the staff.

As the international economic crisis and financial meltdown commenced in the middle of 1387, the lowering of dependence of the Iranian economy on oil was greatly emphasized. During the discussions, the Iranian officials emphasized the need for supporting the growth of the non-oil sector, reducing the dependency of government financial operations on foreign exchange revenues emanating from the oil and gas sector, boosting other revenues, and decreasing inflation.

A significant part of the discussion included the price reform plan and replacing the current subsidy program by targeted cash transfers to the poor which would have an undeniable impact on the Iranian economy and alleviate the problems associated with resource allocation. As the implementation details of the energy price reform had not been worked out while the staff were in Iran, they utilized price vectors to make projections regarding this plan over the short,

medium, and long term based on the macro-economic accounts.

Islamic Development Bank (IDB)

Islamic Republic of Iran received a number of facilities from the Islamic Development Bank (IDB) Group in 1387 as follows: 6 items of facility from the International Islamic Trade Finance Corporation (ITFC), a member of the IDB Group, worth \$97 million, one item of long-term facility valued at \$106.5 million, and a grant-in-aid with a value of \$395 thousand. With the prior agreement of the bank, the mentioned resources were allocated to the construction of Shahid Madani Rockfill Dam in Tabriz, Hamedan Sewerage Project, Golestan Province Water Projects, construction of Aidoghmoosh and Galvard dams, water supply to Dasht-e-Abbas, re-furbishment of laboratories in the Technical Faculty, establishment of the western railway, and purchasing of equipment for Fars Province Post Company.

Asian Clearing Union (ACU)

The total value of transactions within the ACU mechanism reached \$20,966.7 million in 2008, up by 32.4 percent compared with the previous year. Moreover, total transactions channeled through the ACU mechanism¹,

Value of ACU Transactions in 2008¹ (million dollars)

	Credit transactions	Debit transactions	Balance	Cleared-settled (percent)	Settled in foreign exchange (percent)
Bangladesh	149.5	3,707.4	-3,557.9	4.0	96.0
Bhutan	14.9	0.1	14.8	0.6	99.4
India	6,962.3	11,818.3	-4,856.0	58.9	41.1
Iran	13,098.9	264.6	12,834.3	2.0	98.0
Myanmar	5.5	0.0	5.5	0.0	100.0
Nepal	90.0	9.1	80.9	10.1	89.9
Pakistan	423.6	2,034.9	-1,611.3	20.8	79.2
Sri Lanka	222.0	3,132.3	-2,910.3	7.1	92.9
Total	20,966.7	20,966.7	±12,935.5²	38.3	61.7

Source: The ACU Secretariat, report for 2008

¹Includes accrued interest.

²The ± symbol indicates net debit/credit transactions.

¹Includes total debit and credit transactions as well as accrued interest.

valued at \$41,933.4 million, were the highest over the years of its operation. Therefore, the monthly average of the value of transactions amounted to a remarkable \$1,747.2 million, as against \$1,319.2 million of the year before. In this year, 38.3 percent of total ACU transactions at \$8,031.3 million were cleared.

In 2008, India and Pakistan were at the top by clearing respectively 58.9 and 20.8 percent of their transactions. Iran, India, and Pakistan were the largest creditors, while India, Bangladesh, and Sri Lanka the largest debtors.

According to the ACU Secretariat, Iran, by \$13,098.9 million, had the highest positive balance (creditor) in 2008. Bhutan with \$14.8 million, Nepal with \$80.9 million, and Myanmar with \$5.5 million, enjoyed a positive balance, while other countries had a negative

balance. Of total Iran transactions, \$13,098.9 million were exports (creditor) and \$264.6 million imports (debtor). Moreover, 2.0 percent of total transactions were cleared, and the remaining were settled in foreign exchange.

Islamic Financial Services Board (IFSB)

The Islamic Financial Services Board (IFSB) had a favorable performance in 1387. The Board, in collaboration with the member countries including Iran, formulated the following standards: the draft of Guiding Principles on Governance for Takaful (Islamic Insurance) Undertakings, Guiding Principles on Conduct of Business for Institutions Offering Islamic Financial Services, and Guiding Principles on Shariah Governance Systems for Institutions Offering Islamic Financial Services. Among other important measures taken by the Board in this year,

Total Transactions Channeled through the ACU¹ (million dollars)

	2007	2008	Share (percent)		Change	Growth rate (percent)
			2007	2008		
Bangladesh	2,767.9	3,856.9	8.7	9.2	1,089.0	39.3
Bhutan	12.0	15.0	0.0	0.0	3.0	25.0
India	14,105.2	18,780.6	44.6	44.8	4,675.4	33.1
Iran	9,931.9	13,363.5	31.4	31.9	3,431.6	34.6
Myanmar	1.5	5.5	0.0	0.0	4.0	266.7
Nepal	28.8	99.1	0.1	0.2	70.3	244.1
Pakistan	1,759.0	2,458.5	5.6	5.9	699.5	39.8
Sri Lanka	3,054.7	3,354.3	9.6	8.0	299.6	9.8
Total	31,661.0	41,933.4	100.0	100.0	10,272.4	32.4

Source: The ACU Secretariat, report for 2008

¹Includes total debit and credit transactions as well as accrued interest.

ACU Transactions Matrix in 2008 (million dollars)

Debtors \ Creditors									
	Bangladesh	Bhutan	India	Iran	Myanmar	Nepal	Pakistan	Sri Lanka	Total
Bangladesh	0.0	14.8	3,302.6	3.3	0.7	88.1	275.9	15.4	3,700.8
Bhutan	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
India	44.2	0.0	0.0	11,643.6	0.0	0.0	14.1	106.1	11,808.0
Iran	35.5	0.0	169.3	0.0	0.0	0.0	12.5	47.4	264.7
Myanmar	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nepal	5.1	0.0	0.0	0.7	0.0	0.0	2.6	0.6	9.0
Pakistan	57.2	0.0	1,434.2	485.1	1.6	0.6	0.0	52.6	2,031.3
Sri Lanka	7.4	0.0	2,056.1	940.3	3.1	1.2	118.5	0.0	3,126.6
Total	149.5	14.8	6,962.2	13,073.0	5.4	89.9	423.6	222.1	20,940.5

Source: The ACU Secretariat, report for 2008

with the cooperation of the Iranian experts, are the implementation of the second phase of the prudential Islamic finance database (subject of the Approval of the 11th Council Meeting on March 25, 2007), follow-up of affairs related to the instruments for liquidity management (subject of the Approval of the 14th Council Meeting on March 31, 2009 in Riyadh), and setting up of the special workgroup on Islamic finance and global financial stability (in collaboration with the Islamic Development Bank).

In 1387, the Board also took measures to run "Facilitating the Implementation of IFSB Standards Workshop". Other programs managed by the Board include holding seminars with the aim of raising awareness about Islamic banking. In this respect, Iran had the honor to host two seminars namely, "Capital Adequacy" and "Transparency and Market Discipline".

Considering the progressive role of the Board in the international finance, a number

of countries requested to become members to this Board or promote their position including Bank of Morocco, which asked to be promoted from the associate member position to the full member position, as well as Morocco Commission of Financial Services and Khartoum Stock Exchange. Meanwhile, Central Bank of Afghanistan, KMC (Kapital Management and Consulting) Corporation in Azerbaijan, Hong Kong Association of Banks, Jordan-based Islamic International Arab Bank, Liquidity Management House headquartered in Kuwait, and Mawarid Finance in UAE sent requests to become observer members to the Board. As the requests met with the regulations of the Board, they were accepted by the High Council to which the Central Bank of Iran is a main member.

Of other activities undertaken by the Board in this year is the revision of the secretariat rules and regulations to enhance accuracy and efficiency. The Central Bank of the Islamic Republic of Iran expressed its views in High Council in this regard as well.