Banking System and the 4^{th} FYDP

Major Monetary Policies in the 4^{th} FYDP Law

Article 2, Paragraph B: To create financial and budgetary discipline during the course of the Plan, monetizing budget deficit through borrowing from the CBI and the banks is prohibited.

Article 10:

Paragraph A: Since the beginning of the 4^{th} FYDP, allocation of banking facilities (by various economic sectors and regions) and priorities given to sectors and regions shall be carried out through encouragement of the banking system by using cash subsidy and administered funds with the approval of the Cabinet.

Paragraph B: Requiring banks to extend facilities at lower rates, within the framework of Islamic contracts, shall be allowed if the difference between the lower rates and the official determined rate is financed through subsidies by the government or administered funds. Reserve requirement ratios for commercial banks, private banks and non-bank credit institutions are unified at the rate of weighted average of reserve requirement ratio at the end of 1382.

Paragraph C: **1.** To enhance economic growth, curb inflation and improve the efficiency of the banking system's financial resources, the government is required to reduce its indebtedness to the CBI and banks during the 4^{th} FYDP through the inclusion of repayments in the annual budgets.

2. During the course of the 4^{th} Plan, at least 25 percent of banking facilities shall be allocated to agriculture and water sector in coordination with relevant executive bodies.

3. Increase in the outstanding of directed credits during the 4th FYDP period shall be reduced by 20 percent on average per annum compared to the approved figure for 1383.

4. The government is obliged to take initiatives regarding the establishment of electronic banking system and putting into operation the national and international electronic banking services and payment systems in all banks and for all clients.

Paragraph D: To create a competitive environment free from monopoly in the banking system and to economize the operation of public institutions and organizations, enterprises, entities and municipalities, the mentioned enterprises are authorized to select the agent bank themselves to receive banking services.

Paragraph E: The composition of the General Assembly of the Central Bank of the Islamic Republic of Iran is as follows: the President (Chairman of Assembly), Minister of Economic Affairs and Finance, Head of Management and Planning Organization, Minister of Commerce and a minister selected by the Cabinet.

Note 1: The Governor of the CBI is appointed on the basis of the President's nomination, after being confirmed by the General Assembly, upon President's decree.

Note 2: The Deputy Governor of the Central Bank is appointed on the basis of the Governor's nomination and after being confirmed by the General Assembly, upon President's decree.

Paragraph F: The composition of the membership of the Money and Credit Council (MCC) is changed as follows:

- The Governor of the Central Bank of the Islamic Republic of Iran,
- The Minister of Economic Affairs and Finance or his Deputy,
- The Head of Management and Planning Organization or his Deputy,
- Two ministers, selected by the Cabinet,
- The Minister of Commerce,
- The Head of Iran Central Chamber of Cooperative,
- Two monetary and banking experts nominated by the Governor of the CBI and confirmed by the President,
- The Attorney General or his Deputy,
- The Head of the Chamber of Commerce, Industries and Mines,
- Representatives of the "Economic Affairs" and "Plan and Budget and Audit" Commissions of the Parliament as observer, selected by the Parliament.

Note: The Council will be chaired by the Governor of the CBI.

Paragraph G: To implement monetary policies, the CBI is authorized to use participation papers or other similar instruments within the framework of Islamic contracts, subject of Usury-free Banking Law approved in 1362, with the approval of the Parliament.

Paragraph H: In order to maintain public confidence in the banking system, the system of deposits insurance is being created, and the Ministry of Economic Affairs and Finance is required to put into effect the necessary legal measures by the end of the first year of the 4th FYDP.

Article 13:

B: The government is obliged to:

1. Schedule the repayment of external debts (short- and medium-term) in a way that their repayment would not exceed 30 percent of government foreign exchange revenues by the end of the last year of the 4th FYDP (excluding buyback agreements). Priority will be given to long-term debts.

2. Arrange the repayment of external debts during the course of the 4th FYDP in a way that their net current value would not exceed $30 billion in the last year of the 4th FYDP, excluding debts due to contracts subject to Foreign Investment Promotion and Protection Act.