IRAN - Correspondence & Memos 1974-78

BOX 116

FILE 1

ETRAI ETR FILES

#47645

MATERIAL IN THIS FOLDER
MUST NOT BE REMOVED

Return to:
ETR FILES

MR WILLIAMS

October 17, 1978

MEMORANDUM FOR FILES

Subject: Iran - Telephone Call from Ms. Irene King, Morgan Guaranty Company, New York

Ms. King called to elicit the reasons for discrepancy between Iran's data on nonmilitary imports as reported in IFS and industrial countries' direction of export data for the first five months of 1978. She also wanted to know the reasons for an apparent upserge in Iran's imports during the current year. I informed her that these discrepancies could be traced to differences in classification followed by exporters and Iran for nonmilitary products. As far as upserge in imports during the current year was concerned, it partly reflected the consequence of stated official policy which aims at reactivating the private sector, hence higher imports of raw materials and capital goods.

Zubair Iqbal
Economist
External Finance Division, ETR

cc: Mr. Mookerjee
Mr. Richard C. Williams
Mr. Yaqub

Consulted
Mr Sandwood — [illegible]

Office Memorandum

TO : Mr. Mookerjee

DATE: August 4, 1978

FROM : John B. McLenaghan

SUBJECT : Iran--Exchange Arrangements

Further to the comment at today's Front Office meeting concerning the communication from the Iranian authorities (see attachment) I continue to believe that the notification should be forwarded to the Executive Board for information. While the statement by Iran indicates that no change in the classification of the Iranian rial (i.e., the residual category "Other") is involved, it may not be generally known that Iran was not adhering to margins of 7.25 per cent. The announcement could therefore be seen as an important development in Iran's exchange arrangements warranting the attention of the Executive Board and Fund members generally.

Could we discuss this please.

Attachment

cc: Mr. Sturc
Mr. Finch

Mr. Mookerjee stated that information contained in the attachment had been provided by ED on the basis that there would be no separate paper issued to the Board. An understanding to this effect had been reached between ETR, MED and LEG.

8/7/78

Office Memorandum

451163

TO : Mr. Jacques de Larosière, Managing Director — DATE: August 2, 1978

FROM : J. Amuzegar

SUBJECT : Exchange Arrangements - Iran

I have received the following cable from the Governor of the Central Bank of Iran regarding Iran's exchange regime which I submit to you for your information:

> "Pursuant to our letter of April 23, 1978 to the Secretary of the Fund about Iran's exchange arrangements and in accordance with Article IV Section 2 (a) of the amended articles of the Fund, the following is Iran's exchange arrangements in effect as of July 29, 1978. The currency of Iran is the Iranian rial which is pegged to the SDR at rials 82.2425 per SDR. Iran intends to confine exchange rates for the Iranian rial within a target zone above and below the fixed central rate in terms of SDR. The upper and lower limits of the target zone will be based on the relative purchasing power of the rial vis-a-vis that of the currencies of Iran's major trading partners and other basic underlying economic conditions. The U.S. dollar shall remain the intervention currency and the only currency the daily rate of which is quoted by the Bank Markazi Iran (The Central Bank of Iran)."

Orig: ETR
cc: MED
Mr. McLenaghan

RECEIVED
INTERNATIONAL
MONETARY FUND
1978 AUG -3 AM 9: 11
COMMUNICATIONS
DIVISION

Mr Guitián

File

INTERNATIONAL MONETARY FUND

July 26, 1978

TO : Mr. McLenaghan

FROM: Zubair Iqbal

Subject: Iran: Classification According to Exchange Regime

During the recent Article IV Consultation discussions with Iran, I raised the issue of Iran's classification for the staff paper on member countries' exchange regimes. The Central Bank authorities indicated that they had no objection to Iran's being classified as belonging to "other" countries category along with Saudi Arabia and Qatar which maintain fixed relationships between their currencies and the SDR with margins of up to ±7.25 per cent.

cc: Mr. Guitián

Mr Sandoval file
~~cc: E.S. file~~

Office Memorandum

CONTAINS CONFIDENTIAL INFORMATION

TO : Mr. McLenaghan

DATE: July 24, 1978

FROM : Zubair Iqbal

SUBJECT : Iran - Recent Changes in the Exchange and Trade System

This note is aimed at summarizing changes in Iran's exchange and trade system during the last year. It is based on information collected by a staff team including myself during the 1978 Article IV consultation discussions which were held recently with Iran.

On December 14, 1977 Iran discontinued the procedure followed since March 1975 to change the rial/dollar rate whenever the dollar/SDR rate moved beyond the 2.5 per cent margins on either side of the rate of Rls 82.2425 = SDR 1 and remained outside these margins for five consecutive business days. The Iranian authorities felt that this action was necessary because it had become difficult to determine the durability of any change in the value of the U.S. dollar and also because the procedure followed to adjust the rial/dollar rate gave an unfair advantage to speculators. Furthermore, any appreciation of the rial in terms of the dollar would have adversely affected the government revenues from oil exports. In the authorities' view, it would also have disrupted other exchange transactions which were primarily denominated in dollars. The authorities therefore widened the margins from 2.5 per cent to 7.25 per cent in order to postpone the need for changing the rial/dollar rate. On July 6, 1978, the actual rial/SDR rate exceeded the upper limit of the widened margins. In place of the procedure followed up to December 14, 1977 for adjusting the rial/dollar rate, the Iranian authorities intend to use a set of economic indicators, such as relative rates of inflation at home and abroad, performance of nonoil exports, imports and need for import substitution, and potential effects on government revenues, in order to determine the need and extent of the rate adjustment. However, the authorities felt that it was essential to ensure a stable rial/dollar rate. Therefore, should the U.S. dollar depreciate further, the Iranian authorities were not inclined to appreciate the rial vis-à-vis the dollar just in order to stay within the margins.

When did this become effective? April 1, 1978

The noncommercial exchange market expanded substantially in 1977/78 to US$4.2 billion and was fed by a transfer of US$2.1 billion from the Bank Markazi Iran. Without such a transfer it would not have been possible to maintain unified real/dollar rates in the official and noncommercial markets. The authorities intend to continue sustaining the noncommercial market so long as demand in that market does not expand abnormally, in which case they would have to reappraise their policy.

There has been no change in the official policy toward Iran's bilateral payments arrangement with Romania and no new bilateral payments have been signed since the last consultation discussions.

See Baumgartner Turkey

While there have been no changes in restrictions on current payments, which continue to be liberal, trade restrictions have been intensified. Even though the list of imports subject to "prior approval" remains unchanged for 1978/79, the application of this provision has become restrictive as is evidenced by the prohibition of certain textile imports since January 1, 1978. At the same time, commercial benefit taxes have been raised on a large number of commodities including petrochemical products, iron and steel, textiles, cement, tires, nonmetalic mineral products, such as glass and ceramics, and electric cables and wires. The increases range between 40 and 250 per cent (specific duties). This indicates a reversal in the trend toward a reduction in these taxes initiated in 1974/75.

cc: Mr. Guitián

MR GUITIAN
File

Office Memorandum

TO : Mr. Mookerjee DATE: June 13, 1978

FROM : Zubair Iqbal

SUBJECT : Iran - 1978 Article IV Consultation

A staff team consisting of Messrs P. Boxall, S. Hitti, S. Shaalan (Chief), Ms. P. Curtis (all of the MED), and myself will be visiting Tehran during June 25-July 17, 1978 to hold discussions with the Iranian authorities under Article IV of the amended Fund Articles of Agreement. This note is aimed at specifying certain issues relating to Iran's balance of payments developments, exchange and trade system, and the overall macroeconomic policies which should form part of discussions with the authorities.

After experiencing approximate equilibrium in the balance of payments during 1975/76 on account of conscious policies aimed at import liberalization and expanded capital outflows, Iran is estimated to have registered a large surplus of about US$2.3 billion in 1976/77. This turnabout in the external payments situation is reflective of a sharply reduced net capital outflow and some increase in trade surplus on account of stagnant imports. During 1977/78, the Government continued to follow restrained expenditure policies to contain inflationary pressures and, at the same time, encourage import-substituting industrialization through selective use of quantitative and tax restrictions on imports. The net foreign assets of the banking system registered an increase of about US$3.2 billion in the first 11 months of 1977/78. While the exchange system under which dual exchange markets operate remained unchanged, the mechanism of the system in the official market was modified. Effective December 14, 1977, the procedure followed concerning the change of the dollar/rial rate under which whenever the dollar/SDR rate moved beyond the 2 1/2 per cent margin on either side of the central rate and remained outside the margins for five consecutive business days, was abandoned to avoid unnecessary speculative pressures against the rial. As of April 1, 1978, according to official Iranian notification of its exchange system to the Fund under Article IV, Section 2 (a), Iran enlarged the margins either side of the fixed rial/SDR rate from 2 1/2 per cent to 7 1/4 per cent. Over the 12 months ending in April 1978, the rial/dollar rate was once slightly changed, while the U.S. dollar depreciated by over 5 per cent during the same period. Consequently, the rial was effectively depreciated vis-a-vis the SDR by about 5 per cent but still continues to be within the widened margins of 7 1/4 per cent.

Since the forthcoming mission will be the first contact with the Iranian authorities under the provisions of Article IV, Section 3 of the amended Articles of Agreement, discussions should focus on the appropriateness of the current exchange rate, procedures relating to it, and the macroeconomic policies currently being pursued by the authorities. Iran is attempting to achieve accelerated growth through diversification of its industrial base away from the oil sector while at the same time keeping a lid on inflationary pressures generated by increased spending made possible by larger oil revenues. The balance of payments outcome over the last few years has been the consequence of these two opposing policy stances. In 1977/78 the realization of a large overall surplus appears to be a reflection of cautious expenditure policies on the part of the Government. At the same time monetary expansion was kept well below that realized in 1976/77. Against this background, the mission should assess the prospects for balance of payments during the current fiscal year (March 20, 1978-March 19, 1979). In the event of a large projected surplus, the staff team should explore with the authorities ways to eliminate it in order to ensure a better allocation of resources in Iran and also to assist in achieving a global equilibrium through lessening the strain of adjustment on deficit countries. Conceptually, an appreciation of the rial could be considered an approach toward this objective. But in the case of Iran it will be difficult to justify such an adjustment given the fact that the rate of inflation in Iran has been much higher than in its trading partners during the last few years. As a matter of fact, the Iranian authorities believe that the rial has been overvalued and it is for that reason, apparently, that the margins around the fixed rial/SDR rate have been enlarged recently so as to permit a downward float of the rial with the U.S. dollar. Moreover, the authorities will be quite averse to such a step because it might hinder their drive toward import-substituting industrialization. The main determinants of the balance of payments outcome in Iran, apart from the exogenously determined oil exports, are government expenditure policies, credit to the private sector, and import controls. Therefore, while the mission should review with the authorities the changes in mechanisms relating to the exchange rate, concentration should be on evaluating government financial policies. It may be necessary to emphasize on the Government the need for further import liberalization and restoration of capital outflows (especially aid flows). In view of the continued high inflation, it would be difficult to propose a further relaxation in government expenditure policies to restore the balance of payments equilibrium.

In addition, the mission should seek to review with the authorities the current exchange rate practices. Now that the formal procedure followed since March 1975 to fix the rial/dollar rate has been abandoned, attempt should be made to understand the indicators followed by the authorities in determining the need for a change in this rate. Official reasoning behind the widening of margins around the fixed rial/SDR rate in April 1978 should also be evaluated. This action has made pegging of the rial to the SDR somewhat meaningless which lets the authorities determine the rial/dollar rate on grounds other than the dollar/SDR rate. Official intentions relating to the current exchange system in the near future will also be sought. These recent changes in the exchange practices may also have affected the operations of the dual exchange market, such as the emergence of different rates in the two markets, which will be worth exploring. Apart from the above, the changes in policies relating to external trade also need to be reviewed. Recently import policy for 1978/79 has been announced which has proposed quantitative controls on a large number of imports to protect domestic competitors while, at the same time has reduced commercial benefit taxes on a large number of import items. Attempts will need to be made to determine the change in the overall restrictiveness of the system.

The Asian Clearing Union has been in operation for over two years now and the mission should collect information on its operations and on difficulties, if any, in its effective functioning. A routine check should also be made on the operation of the Regional Cooperation for Development, especially in the light of the Izmir Declaration in early 1977. While reviewing changes in exchange and trade policies, the mission should also examine the restrictiveness of the bilateral trade arrangements maintained by Iran and urge the termination of such an arrangement with Romania.

cc: Mr. Guitian
Mr. McLenaghan

SEC-78/1911
Translated by contractor
446488

1469 -- 28/1/2537

To: The Iranian Delegation in the International Monetary Fund

Attached hereto for your information is a copy of the Imperial decree relating to the implementation of the law amending the Development and Public Credits Guarantee law, along with a copy of the aforementioned law itself. This law, after having been considered by the Senate, was approved by Parliament and communicated to the Ministry of Economic and Wealth Affairs in First Ministerial No. 20030 -- 22/1/2537.

The Director General of the
Office of the Ministry of
Economic and Wealth Affairs

Received in Correspondence Sec. 4/26/78
Received from Translation Sec. 5/5/78

20030 -- 22/1/2537

The Ministry of Economic and Wealth Affairs

Notice is given herewith of the Imperial decree relating to the implementation of the law amending the Development and Public Credits Guarantee law, along with the aforementioned law which, after having been considered by the Senate, was approved by Parliament.

With the help of God, the Exalted One,

We,

Mohammad Reza Pahlavi Arya Mehr, Emperor of Iran,

(space for the esteemed Imperial signature)

by virtue of Supplementary Article 27 of the Constitution decree:

Section 1. The law amending the Development and Public Credits Guarantee law which, after having been considered by the Senate, has been approved by Parliament and is attached to this decree, shall come into force.

Section 2. The Government is charged with the implementation of this law. Done on the ninth of Farvardīn in 2537 of the Imperial era.

Number and date: 4 - 200 - 17/1/2537 -- Special Imperial File

Law amending the Development and Public Credits Guarantee law

One Section. Section 3 of the Development and Public Credits Guarantee law and the Notes thereto approved on the eighth of Āzar 1343 (2523 of the Imperial era); and Note 1 of the law amending the aforesaid law approved on 26 Esfand 2535 of the

Imperial era, are amended as follows and three Notes are appended thereto as Notes 4, 5, and 6.

Section 3. As of the date when this bill was submitted[?], the sum of twenty thousand rials is to be collected from every traveller holding an Imperial Government of Iran passport on each occasion when he leaves the country for abroad.

Note 1. In addition to the aforementioned sum collected from the holder of the passport, the sum of five thousand rials is to be collected from each additional member of a family travelling on a single passport.

Note 2. Children up to 7 years of age shall be exempt from the payment of the sum referred to in this law.

Note 3. A reduction of seventy percent from the sum referred to in this law is granted to persons visiting the holy places.

Note 4. The designation of those travellers who are not covered by this law is to be made by means of a schedule drawn up by the Ministry of Economic and Wealth Affairs and approved by the Economic and Wealth Affairs Commission of Parliament. Until such date as the aforementioned schedule is approved, the regulations already approved by the Cabinet with respect to exemptions from taxes on exit from the country shall remain in force.

Note 5. The issuance of a separate passport by Imperial representatives abroad for persons covered by Note 1 of this law shall be subject to the payment of the difference between the taxes on exit from the country and the base figure of twenty thousand rials fixed in this law.

Note 6. When this law comes into force, Note 65 of the national budget law for the year 1344 (2524 of the Imperial era) and Note 28 of the supplementary national budget law for the year 1346 (2526 of the Imperial era) shall be abrogated.

The foregoing law, consisting of one section, was considered by the Senate in its session of Saturday, 13/12/2536, 77/78 and was approved by Parliament in its session of Thursday, the twenty-fifth of Esfand, two thousand five hundred and thirty- 16 March '78 six of the Imperial era.

The President of Parliament

ʻAbdollāh Rīāzī

The original of the Imperial decree and of the law are in the First File of the Minister.

Hulāgū Rāmbod

Minister Counsellor for
Parliamentary Affairs

Iran -
Correspondence
cc: to legislation files

June 7, 1978

MEMORANDUM FOR FILES

Subject: Iran - Tax on Travel Abroad

A law (copy attached) amending the Development and Public Credits Guarantee law, was approved by Parliament on March 16, 1978 and implemented by Imperial decree on March 29, 1978. The law provides for an increase from Rls 10,000 to Rls 20,000 (approximately US$280) in the amount collected from every traveler holding an Iranian passport at the time of departure from his country for abroad. Moreover, the amount collected from each additional member of a family traveling on the same single passport was raised from Rls 2,500 to Rls 5,000 (approximately US$70).

As in the past, the sale of foreign exchange for travel abroad is not conditional on the presentation of evidence that the above fee has been paid. The text of the law states that payment of the fee occurs "when [the traveler] leaves the country for abroad." On the basis of this information the measure does not give rise to a current payments restriction. However, the forthcoming mission to Iran may wish to verify any relevant details of the amended law.

Maria Tyler

Attachment

cc: Mr. Mookerjee
Mr. McLenaghan
Mr. Iqbal
Mr. Nsouli

SUBJECT COPY

RCA Global Telegram

1978 MAY 16 PM 1:00

340176

CABLE
ROOM

ZCZC 248331 PDC0412 RMB6761 INU791

URWT CO IRTN 117

TEHERAN 117/115 16 1907

ORIG: TRE
CC: MR. AMUZEGAR
LEG
RES
MED
ETR
SEC

MR .W.O. HABERMEIER, THE TREASURER

INTERFUND WASHINGTON D.C.

16 REFERENCE YOUR TELEX OF MAY 8,1978 I WISH TO INFORM YOU THAT PER DECREE OF COUNCIL OF MINISTERS, IRAN STANDS READY TO PAY ON MAY 31,1978 THE AMOUNT OF THE INCREASEIN ITS QUOTA WHOLLY IN IRANIAN RIALS. 25 PER CENT OF THE AMOUNT

PAGE/2

PAY ABTE WHICH IS EQUAL TO SDRS
117 MILLION SHALL BE PAID IN CASHTO YOUR NO ONE ACCOUNT WITH USAND FOR THE REMAINDER WHICH IS EQUAL TO SDRS 351 MILLION THE MINISTRY OF ECONOMIC AFFAIRS AND FINANCE WILL ISSUE NON- NEGOTIABLE NON- INTEREST BEARING NOTE PAY ABLE ON DEMAND TO

PAGE/3

THE INTERNATIONAL
MONETARY FUND PLEASE ADVISE PRECISE AMOUNT TO BE PAID
YOUSSEF KHOSHKISH GOVERNOR [redacted] 26/2/37 MARKAZBANK

COLL 16 8,1978 I WISH
31, 1978 25 117 351 883 26/2/37

TEST NUMBER CHECKS
P Cable Room

Mr Finch

INTERNATIONAL MONETARY FUND

May 10, 1978

Messrs. Finch and Mookerjee:

John's memo (attached) raises an interesting question. I suggest that the four of us find time sometime today to discuss this issue.

Attachment

cc: Mr. McLenaghan

Donald K. Palmer

Office Memorandum

TO : Mr. Palmer DATE: May 9, 1978

FROM : John B. McLenaghan

SUBJECT : Iran--Notification of Exchange Arrangements

The communication forwarded by Iran under Article IV, Section 2(a) indicated that whilst retaining a peg of the Iranian rial to the SDR, the authorities had decided to specify margins of 7¼ per cent in respect of the rial/SDR rate. Previously, margins of 2¼ per cent had been applied. Whilst this change presumably does not necessarily signify any immediate adjustments of the market rate of the rial, it indicates that the Iranian authorities have moved to align their exchange arrangements in their basic form to those maintained by Saudi Arabia and Qatar. In other respects, the Iranian authorities did not amend the description of exchange arrangements prepared by the staff (e.g., with respect to the dual market arrangements).

The Iranian statement raises two questions. First, Iran's notification could be said to involve a change in its exchange arrangement, since the margins of 7¼ per cent may be considered so large as no longer to justify the classification of "pegged" to the SDR, but more properly to place the Iranian rial in the residual "Other" group of currencies. The latter classification is applied to Saudi Arabia and Qatar, which also apply margins of 7¼ per cent on their SDR peg. Second, a fundamental question yet to be determined in the light of the notifications received under the new Article IV is the actual level of margins within which currencies may be deemed to be "pegged", and beyond which currencies may be considered as belonging to the more flexible arrangements covered in the residual category "Other". The Iranian action pinpoints the need for a decision on this aspect before we can finalize the latest quarterly paper on Classification of Exchange Rate Regimes. This paper is to show the classification as of April 1, 1978, the date of the Second Amendment.

cc: Mr. Finch
Mr. Mookerjee

Iran

The currency of Iran is the Iranian Rial which is pegged to the SDR at Rls 82.2425 per SDR 1. Iran intends to confine exchange rates for the Iranian rial within margins of 7 1/4 per cent in terms of the fixed relationship between the Iranian rial and the SDR. Previously, Iran applied margins of 2.25 per cent in respect of exchange transactions, based on the fixed Iranian rial/SDR rate. The middle rate of the Iranian rial for the U.S. dollar, the intervention currency, and the only currency that is quoted by the Bank Markazi Iran (the central bank) is determined on the basis of the Fund's daily calculation of the U.S. dollar/SDR rate. The Central Bank of Iran also publishes daily exchange rates for 12 other currencies 1/ for the purpose of the calculation of import registration fees and import duties; these rates are based on the official rates for the U.S. dollar and the London market rates for the currencies concerned.

There is a dual exchange market, consisting of a commercial market (or official rate market) with fixed U.S. dollar rates and a noncommercial market with fluctuating rates. Both markets operate within the banking system. The Central Bank stands ready to purchase from the commercial banks, at official rates, any foreign exchange proceeds from exports of goods and services. Import payments must in principle be settled in the official rate market. Also settled at official rates are basic allocations for certain authorized current payments (travel, study, and medical treatment abroad) and, on the supply side, any export proceeds and other current receipts converted by public sector agencies (including the National

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1/ Austrian schilling, Belgian franc, Danish krone, deutsche mark, French franc, Italian lira, Japanese yen, Netherlands guilder, Norwegian krone, pound sterling, Swedish krona, and Swiss franc.

Iranian Oil Company). Proceeds from exports other than oil, oil products, and natural gas, as well as the proceeds from exports of services, may be sold either in the official or the noncommercial market. All other payments and receipts are settled at the noncommercial market rate. However, transactions over clearing accounts denominated in U.S. dollars are in all cases settled at the official buying and selling rates.

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447845

BANK MARKAZI IRAN
(THE CENTERAL BANK OF IRAN)

BANK MARKAZI IRAN

Vice - Governor

Tehran
16 May, 1978
IRS/ 161

Mr. Ernest Sturc
Director,
Exchange and Trade Relations Dept.,
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Sturc

With reference to your letter of March 6, 1978 to Governor Khoshkish and ours dated April 28, 1978 to Mr. Van Houtven, enclosed please find more detailed description of Iran's present exchange arrangements.

Sincerely yours,

B. Homayoun

Bahman Homayoun

Orig: ETR
cc: Mr. Amuzegar
MED
Mr. McLenaghan

RECEIVED
INTERNATIONAL
MONETARY FUND
1978 MAY 24 PM 4: 01
COMMUNICATIONS
DIVISION

MAY 25 1978

Iran

The currency of Iran is the Iranian Rial which is pegged to the SDR at Rls 82.2425 per SDR 1. Iran intends to confine exchange rates for the Iranian Rial within margins of 7.25 per cent in terms of the fixed relationship between the Iranian Rial and the SDR. Previously Iran applied margins of 2.25 per cent in respect of exchange transactions based on the fixed Iranian Rial / SDR rate. The middle rate of the Iranian Rial for the U.S. dollar, the intervention currency, and the only currency that is quoted by the Bank Markazi Iran (the central bank) is determined on the basis of the Fund's daily calculation of the U.S. dollar/SDR rate. The Central Bank of Iran also publishes daily exchange rates for 12 other currencies 1/ for the purpose of the calculation of import registration fees and import duties; these rates are based on the official rates for the U.S. dollar and the London market rates for the currencies concerned.

There is a dual exchange market, consisting of a commercial market (or official rate market) with fixed U.S. dollar rates and a noncommercial market with fluctuating rates. Both markets operate within the banking system. The Central Bank stands ready to purchase from the commercial banks, at official rates, any foreign exchange proceeds from exports of goods and services. Import payments must in principle be settled in the official rate market. Also settled at official rates are basic allocations for certain authorized current payments (travel, study, and medical treatment abroad) and, on the supply side, any export proceeds and other current receipts converted by public sector agencies (including the National Iranian Oil Company). Proceeds from exports other than oil, oil products,

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1/ Austrian schilling , Belgian franc, Danish krone, Deutsche mark, French franc, Italian lira, Japanese yen, Netherlands guilder , Norwegian krone, Pound sterling, Swedish krona and Swiss franc.

and natural gas, as well as the proceeds from exports of services, may be sold either in the official or the noncommercial market. All other payments and receipts are settled at the noncommercial market rate. However , transactions over clearing accounts denominated in U.S. dollars are in all cases settled at the official buying and selling rates.

Mr. Mookerjee May 9, 1978

John B. McLenaghan

Iran--Notification of Exchange Arrangements

As I mentioned yesterday, the communication forwarded byhthe Iranian authorities indicated that whilst retaining a peg of the Iranian rial to the SDR, the authorities had decided to specify margins of 7¼ per cent in respect of the peg of the rial to the SDR. Whilst this change presumably does not necessary signify any immediate adjustments of the middle rates of the rial, it indicates that the Iranian authorities have moved to align their exchange arrangements in its basket form to that maintained by Saudi Arabia and Qatar. In other respects, the Iranian authorities did not amend the description of exchange arrangements prepared by the staff with respect to its dual market aspects.

A question arising from Iran's notification is that it could be said to involve a change in its arrangement to the extent that, by specifying margins of 7¼ per cent, it may be deemed no longer to be pegged to the SDR but, along with Saudi Arabia and Qatar, could now be considered as properly belonging to the "Other" group of currencies. On the other hand, a fundamental question yet to be determined in the light of the notification received under the new Article IV is the level of margins within which currencies may be deemed to be "Pegged", and beyond which, currencies may be considered as belonging to the more flexible arrangements covered in the residual category "Other". This question is in need of early attention in view of the intention to produce the latest paper on Classification of Exchange Rate Regimes as of April 1, 1978. The selection of this date is the base for the latest classification is in order to present a classification as of the date of the Second Amendment.

SUBJECT COPY

Mr. Stuc

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

CABLE ADDRESS
INTERFUND

April 28, 1978

To: Mr. Leo Van Houtven

From: Jahangir Amuzegar

Enclosed please find a communication which I have received today from His Excellency Youssef Khoshkish, the Governor of Bank Markazi Iran regarding Iran's exchange arrangements.

Enclosure

Bank Markazi Iran

(The Central Bank of Iran)

Mr. Mc [illegible]

File

April 28, 1978

Mr. Leo Van Houtven
The Secretary
International Monetary Fund

Dear Mr. Van Houtven,

QUOTE "With reference to your communication of March 30, 1978, and in accordance with Article IV, Section 2(a) of the amended Articles of the Fund, I wish to notify you that Iran's exchange arrangements on April 1, 1978 are as follows:

The currency of Iran is the Iranian Rial which is pegged to the SDR at Rls 82.2425 per SDR 1. Iran intends to confine exchange rates for the Iranian rial within margins of 7.25 per cent in terms of the fixed relationship between the Iranian rial and the SDR. Previously Iran applied margins of 2.25 per cent in respect of exchange transactions, based on the fixed Iranian rial/SDR rate.

Please note that the other aspects of Iran's exchange arrangements remain the same as presented in the description accompanying the March 6, 1978 communication from Mr. Sturc, and yours of March 30, 1978."

Yours sincerely,

Youssef Khoshkish
Governor
Bank Markazi Iran

UNQUOTE

STURC

Iran

The currency of Iran is the Iranian Rial which is pegged to the SDR at Rls 82.2425 per SDR 1. Iran intends to confine exchange rates for the Iranian rial within margins of 7 1/4 per cent in terms of the fixed relationship between the Iranian rial and the SDR. Previously, Iran applied margins of 2 1/4 per cent in respect of exchange transactions, based on the fixed Iranian rial/SDR rate. The middle rate of the Iranian rial for the U.S. dollar, the intervention currency, and the only currency that is quoted by the Bank Markazi Iran (the central bank) is determined on the basis of the Fund's daily calculation of the U.S. dollar/SDR rate. Buying and selling rates for certain other currencies 1/ are determined on the basis of the official rates for the U.S. dollar and the London market.

There is a dual exchange market, consisting of a commercial market (or official rate market) with fixed U.S. dollar rates and a noncommercial market with fluctuating rates. Both markets operate within the banking system. The Central Bank stands ready to purchase from the commercial banks, at official rates, any foreign exchange proceeds from exports of goods and services. Import payments must in principle be settled in the official rate market. Also settled at official rates are basic allocations for certain authorized current payments (travel, study, and medical treatment abroad) and, on the supply side, any export proceeds and other current receipts converted by public sector agencies (including the National

1/ The Australian dollar, Austrian schilling, Belgian franc, Canadian dollar, Danish krone, deutsche mark, French franc, Italian lira, Japanese yen, Netherlands guilder, Norwegian krone, pound sterling, Swedish krona, and Swiss franc.

Iranian Oil Company). Proceeds from exports other than oil, oil products, and natural gas, as well as the proceeds from exports of services, may be sold either in the official or the noncommercial market. All other payments and receipts are settled at the noncommercial market rate. However, transactions over clearing accounts denominated in U.S. dollars are in all cases settled at the official buying and selling rates.

SPECIAL DELIVERY
CABLE

RECEIVED
I.M.F.

1978 APR 28 PM 6: 43

CABLE
ROOM

338405

9

1840 EST

440040 FUND UI

1777606 INTME

Orig: ETR
cc: Mr. Amuzegar
MED
Mr. McLenaghan

NUM-9

MEXICO DF, 28 ABRIL 1978

INTERFUND
WASHINGTON DC

FOR MR. JOHN MCCLANAHAN OR
MR. DONALD PALMER
EXCHANGE RESTRICTIONS DEPARTMENT

THE FOLLOWING LETTER WAS RECEIVED YESTERDAY BY MR. VAN HOUTVEN FROM MR. AMUZEGAR.

QUOTE

''WITH REFERENCE TO YOUR COMMUNICATION OF MARCH 30, 1978, AND IN ACCORDANCE WITH ARTICLE IV, SECTION 2(A) OF THE AMENDED ARTICLES OF THE FUND, I WISH TO NOTIFY YOU THAT IRAN'S EXCHANGE ARRANGEMENTS ON APRIL 1, 1978 ARE AS FOLLOWS:

THE CURRENCY OF IRAN IS THE IRANIAN RIAL WHICH IS PEGGED TO THE SDR AT R1S 82.2425 PER SDR 1. IRAN INTENDS TO CONFINE EXCHANGE RATES FOR THE IRANIAN RIAL WITHIN MARGINS OF 7.25 PER CENT IN TERMS OF THE FIXED RELATIONSHIP BETWEEN THE IRANIAN RIAL AND THE SDR. PREVIOUSLY IRAN APPLIED MARGINS OF 2.25 PER CENT IN RESPECT OF EXCHANGE TRANSACTIONS, BASED ON THE FIXED IRANIAN RIAL/SDR RATE.

ITT World Communications Inc. 1709 L St. N.W. Washington D.C. Phone 296-6200

THE CURRENCY OF IRAN IS THE IRANIAN RIAL WHICH IS PEGGED TO THE SDR AT R1S 82.2425 PER SDR 1. IRAN INTENDS TO CONFINE EXCHANGE RATES FOR THE IRANIAN RIAL WITHIN MARGINS OF 7.25 PER CENT IN TERMS OF THE FIXED RELATIONSHIP BETWEEN THE IRANIAN RIAL AND THE SDR. PREVIOUSLY IRAN APPLIED MARGINS OF 2.25 PER CENT IN RESPECT OF EXCHANGE TRANSACTIONS, BASED ON THE FIXED IRANIAN RIAL/SDR RATE.

PLEASE NOTE THAT THE OTHER ASPECTS OF IRAN'S EXCHANGE ARRANGEMENTS REMAIN THE SAME AS PRESENTED IN THE DESCRIPTION ACCOMPANYING THE MARCH 6, 1978 COMMUNICATION FROM MR. STURC, AND YOURS OF MARCH 30, 1978.

YOURS SINCERELY,

YOUSSEF KHOSHKISH
GOVERNOR
BANK MARKAZI IRAN

UNQUOTE

STURC

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1709 L St. N.W. Washington D.C. Phone 296-6200 ITT World Communications Inc.

INTERNATIONAL MONETARY FUND
SPECIAL DELIVERY

Mr. Stone

446704

INTERNATIONAL MONETARY FUND
WASHINGTON. D.C. 20431

CABLE ADDRESS
INTERFUND

April 28, 1978

Orig: ETR
cc: MED
Mr. McLenaghan

To: Mr. Leo Van Houtven

From: Jahangir Amuzegar

Enclosed please find a communication which I have received today from His Excellency Youssef Khoshkish, the Governor of Bank Markazi Iran regarding Iran's exchange arrangements.

MAY 2 1978
TRADE RELATIONS

Enclosure

RECEIVED
INTERNATIONAL
MONETARY FUND
1978 MAY -2 AM 11: 33
COMMUNICATIONS
DIVISION

Bank Markazi Iran

(The Central Bank of Iran)

April 28, 1978

Mr. Leo Van Houtven
The Secretary
International Monetary Fund

Dear Mr. Van Houtven,

With reference to your communication of March 30, 1978, and in accordance with Article IV, Section 2(a) of the amended Articles of the Fund, I wish to notify you that Iran's exchange arrangements on April 1, 1978 are as follows:

The currency of Iran is the Iranian Rial which is pegged to the SDR at Rls 82.2425 per SDR 1. Iran intends to confine exchange rates for the Iranian rial within margins of 7.25 per cent in terms of the fixed relationship between the Iranian rial and the SDR. Previously Iran applied margins of 2.25 per cent in respect of exchange transactions, based on the fixed Iranian rial/SDR rate.

Please note that the other aspects of Iran's exchange arrangements remain the same as presented in the description accompanying the March 6, 1978 communication from Mr. Sturc, and yours of March 30, 1978.

Yours sincerely,

Youssef Khoshkish
Governor
Bank Markazi Iran

CC: MD
DMD
MR. AMUZEGAR
MED
LEG
RES
ETR
SEC
TRE

APR 21 1978

Dear Mr. Governor:

I refer to the Subsidy Account established on August 1, 1975 under Executive Board Decision No. 4773-(75/136) to assist the most seriously affected members to meet the cost of using the 1975 Oil Facility. The countries which may derive benefit from the Subsidy Account are those which appeared in the United Nations list of countries "most seriously affected" and which were members of the Fund at that time. These countries are listed in Annex A to the above-mentioned Decision. The Executive Directors of the Fund have, on several occasions, discussed whether six members, all of which used the 1975 Oil Facility and are eligible to receive concessional financial assistance from the Trust Fund as developing countries with low per capita incomes, should also receive a subsidy payment proportionate to their use of the 1975 Oil Facility. These members are not included in the Subsidy Account arrangements because they were either not members of the Fund at the time the list of beneficiaries was agreed or were not included in the United Nations listing. The six countries are Grenada, Malawi, Morocco, Papua New Guinea, the Philippines and Zaire.

It has been suggested by certain Executive Directors that, if the list of beneficiaries were to be expanded, and if there are surplus funds in the Subsidy Account after the presently authorized beneficiaries have received assistance at a rate of 5 per cent, they should be distributed proportionately to the six additional countries.

Since discussing the addition of the above-mentioned six countries, Executive Directors have declared Zambia to be eligible to receive balance of payments assistance on concessional terms from the Trust Fund, with respect to its second period, as Zambia's per capita income is below the ceiling established as a criterion for inclusion in the list of members eligible to receive financial assistance from the Trust. For this reason Executive Directors are now agreed that Zambia could also qualify as a beneficiary of the Subsidy Account, in the event that the "six" countries mentioned above were added to the list of beneficiaries, to receive a subsidy at the same rate as the other six members. As Zambia will be added to the Trust Fund list of eligible members only for the period beginning July 1, 1976, any subsidy would be calculated on the basis of charges paid on balances Zambia has outstanding under the 1975 Oil Facility after that date.

I have been asked by Executive Directors to ascertain your views on these proposals. In this connection, I should point out that the decision on the Subsidy Account provides that any assets which remain in the Subsidy Account on the date of its termination will be divided among the donors in proportion to their contributions. It also provides that if the list

CENTRAL FILES

of beneficiaries in Annex A of the decision is amended, a donor can obtain the return of an amount equivalent to the unused portion of its contribution and may cancel any notice of intention to make further contributions.

The future financial situation of the Subsidy Account depends on several factors which are subject to some uncertainty. These include the timely receipt of all contributions, the possible variation in investment income over the lifetime of the account and a reduced need for subsidy payments because of possible advance repurchases in respect of amounts purchased under the 1975 Oil Facility by beneficiaries consequent on improvements in their balance of payments and reserve positions. The uncertainties make it difficult at the present time to formulate precise proposals for the disposition of the assets of the Subsidy Account although it now seems clear that there will be a surplus after the present beneficiaries have all received a subsidy payment at a rate of 5 per cent per annum. In these circumstances, Executive Directors would propose to defer the question of subsidy payments to the additional seven members until such time as the surplus in the Account can be established with precision.

In the meantime, and in order to advance this question, please advise me whether you could agree that Grenada, Malawi, Morocco, Papua New Guinea, Philippines, Zaire and Zambia be included in the list of beneficiaries, without a change in the contribution you have promised to make, for the eventual disbursement, in proportion to the use made by them of the 1975 Oil Facility, of any surplus funds remaining after the disbursement of subsidy payments at a rate of 5 per cent per annum has been made to all those on the list at present. Such a subsidy can be paid when it appears certain that there would be a surplus, at a rate not to exceed that paid to the original beneficiaries.

I propose to advise you and the Executive Board of the outcome of this inquiry.

I would be most grateful for an early response.

Sincerely yours,

H. Johannes Witteveen
Managing Director

Honorable Youssef Khoshkish
Governor of the International
Monetary Fund for Iran
Bank Markazi Iran
P. O. Box 3362
Teheran, Iran

WOH/RHM:caz (Cleared with Legal - Mr. Evans)

CENTRAL FILES

82

IRAN

Governor
Bank Markazi Iran
P.O. Box 3362
Teheran, Iran

CHECK SERVICE

Telex ☐
Night Letter ☐
Full Rate ☐
Code ☐

OFFICIAL MESSAGE
INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

TIME RECEIVED

ADDRESS

Special Instructions

Repeat to attached list

1. As you were notified, Second Amendment entered into force for all members on April 1, 1978. Under Article IV, Section 2(a) of the amended Articles of the Fund, each member is required to notify the Fund, by May 1, 1978, of the exchange arrangements it intends to apply in fulfillment of its obligations under Article IV, Section 1. The Executive Board of the Fund, in Decision No. 5712-(78/41), 3/23/78 has approved the procedures set forth in Section 2 of SM/78/81 for the initial notification of exchange arrangements.

2. With reference to letter of March 6, 1978 from Ernest Sturc and the accompanying description of your exchange arrangements, please: (1)(a) confirm that the description contained therein represents your exchange arrangements on April 1, 1978, and which you intend to apply; or (b) provide a corrected version or, if you prefer, alternative description of your exchange arrangements; (2) provide relevant information and data as indicated in

MESSAGE MUST END HERE

Distribution

cc: Executive Directors
Area Departments

Drafted by: JBMcLenaghan:jg
Department: ETR
Date: March 30, 1978

van Houtven

NAME (TYPE) SIGNATURE

NAME (TYPE) SIGNATURE

FOR CABLE ROOM USE ONLY

No. of words: Log: Route: Operator:

SEC-17/OCR

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Night Letter ☐
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Code ☐

OFFICIAL MESSAGE
INTERNATIONAL MONETARY FUND
Washington, D.C. 20431

TIME RECEIVED

ADDRESS

Special Instructions

the description as of the date of the Second Amendment (April 1, 1978); and (3) dispatch in time so that your communication reaches the Fund before May 1, 1978.

3. Please note that your reply to this communication in accordance with paragraph 2 above will serve formally to fulfill the obligation under Article IV, Section 2(a) to notify the Fund as referred to in paragraph 1 above.

Distribution

4. Further, Executive Board has approved procedures in Section IV of SM/77/277 for notification of subsequent changes and asked that members be guided by the considerations in that Section IV. The decision on these procedures is subject to review by the Executive Board not later than March 23, 1979.

Regards
van Houtven
Interfund

MESSAGE MUST END HERE

Drafted by:
Department:
Date:

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I.M.F.

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CABLE ROOM

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ORIG: ETR
CC: MR. AMUZEGAR
MED
MR. McLENAGHAN

MAR 20 1978

MR ERNEST STURC

DIRECTOR EXCHANGE AND TRADE RELATIONS

DEPARTMENT INTERFUND WASHINGTON DC

REFERENCE YOUUR LETTER OF MARCH 6, 1978 TO GOVERNOR KHOSHKISH PLEASE NOTE THAT OWING TO A NEED FOR AN IN-DEPTH CONSIDERATION OF ALL ASPECTS OF THE ISSUE. WE ARE ASYET NOT IN APOSITION TO MAKE A Y XORMAL DECLARATION F THE EXCHANGE ARRANGEMENTS IRAN INTENDS TO FOLLOW AFTER THE SECOND AMENDMENT STOP HOWEVER IN THE NEAR FUTURE WE SHALL COMMMUNICATE WITH YOU ON THIS MATTER ACCORDINGLY STOP BAHMAN HOMAYOUN VICE GOVERNOR MARKAZBANK

COL 6, 1978

cc: Mr. Mookerjee
Mr. Amuzegar

248331 IMF UR

IRAN

212359 MZBK IR

248331 IMF UR

212359 MZBK IR

MAR 15 1978

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1978 MAR 15 AM 10: 02

CABLE
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333278

MARCH 15, 1978

ORIG: TRE
CC: MD
DMD
MR. AMUZEGAR
LEG
RES
MED
ETR
SEC

THE TREASUREER

INTERFUND, WASHINGTON D.C.

REFERENCE YOUR CABLE NO. 11, DATED MARCH 8, 1978, FIRST A SEARCH INTO OUR FILE FAILED TO INDICATE ANY COMMUNICATION WITH THE OPEC SPECIAL FUND OR MANAGING DIRECTOR OF THE IMF REGARDING THE PROFITS FROM GOLD SALE BY THE IMF. OUR POSITION REMAINS AS STATED BEFORE BY OUR EXECUTIVE DIRECTOR IN THE CONTEXT OF THE COMMUNIQUE ISSUED BY OPEC FINANCE MINISTERS IN MANILA. SECOND CONCERNING DISTRIBUTION OF PROFITS FROM THE IMF GOLD SALE IRAN AT THIS TIME DOES NOT INTEND TO AVAIL ITSELF OF THE OPTION THAT PERMITS SUBMITTING NONCOMPETITIVE BIDS. BAHMAN HOMAYOUN, VICE GOVERNOR, MARKAZBANK

5

248331 IMF UR

212359 MZBK IR

RCA Global Communications

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Night Letter ☐
Full Rate ☐
Code ☐

OFFICIAL MESSAGE
INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

SPATCHED
IMF
1978 MAR -8 AM 10: 57

TIME RECEIVED

ADDRESS

Bank Markazi Iran
P.O. Box 3362
Teheran, Iran

Special Instructions

NO. 11

1. YOU WILL RECALL THAT AT ITS SPECIAL SESSION IN MANILA ON OCTOBER 6, 1976, THE MINISTERIAL COMMITTEE ON MONETARY AND FINANCIAL MATTERS OF OPEC MEMBER COUNTRIES DECIDED TO RECOMMEND TO THE GOVERNMENTS OF CERTAIN MEMBERS, INCLUDING IRAN, THAT THEY CONTRIBUTE TO THE IMF TRUST FUND THEIR SHARE OF THE PROFITS FROM THE GOLD SALES MADE BY THE TRUST FUND. THE MANAGING DIRECTOR WAS ADVISED SOME MONTHS AGO THAT IRAN HAD INFORMED THE MANAGEMENT OF THE OPEC SPECIAL FUND OF ITS DECISION TO TRANSFER ITS SHARE OF PROFITS FROM GOLD SALES TO THE TRUST FUND.

2. AS YOU ARE AWARE, THE TRUST FUND HAS NOT YET MADE A DISTRIBUTION OF PROFITS TO ANY ELIGIBLE MEMBER. YOU WILL RECALL, HOWEVER, THAT THE EXECUTIVE BOARD OF THE FUND DECIDED IN EARLY 1976 THAT ELIGIBLE DEVELOPING MEMBER COUNTRIES WOULD HAVE AN OPTION TO RECEIVE /C

Distribution

CC: TRE
MD
DMD
MR. AMUZEGAR
LEG
RES
MED
ETR
SEC

MESSAGE MUST END HERE

Drafted by: DW:bv
Department: TRE
Date: March ~~X~~ 8, 1978

Anna Watkins
NAME (TYPE) SIGNATURE

NAME (TYPE) SIGNATURE

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No. of words: 7Mins Log: 391873 Route: WUI Operator: HS

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- Code ☐

OFFICIAL MESSAGE

INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

ATCHED IMF

1978 MAR -8 AM 10:57

TIME RECEIVED

ADDRESS

Bank Markazi Iran

Special Instructions

\- 2 -

DIRECTLY THEIR SHARE OF THE DISTRIBUTION OF PROFITS AT THE TIME THAT ANY DISTRIBUTION IS MADE, OR TO RECEIVE THEIR SHARE OF PROFITS AFTER THE AMENDED ARTICLES ARE IN EFFECT AND TO SUBMIT NONCOMPETITIVE BIDS IN THE FUND'S GOLD AUCTIONS, AFTER THE AMENDED ARTICLES ARE IN EFFECT, UP TO THAT PART OF 25 MILLION OUNCES OF GOLD THAT CORRESPONDED TO A MEMBER'S SHARE IN TOTAL FUND QUOTAS AS OF AUGUST 31, 1975. NONCOMPETITIVE BIDS WOULD BE AWARDED AT THE AVERAGE PRICE IN BID PRICE AUCTIONS AND AT THE COMMON PRICE IN COMMON PRICE AUCTIONS; PAYMENT WOULD BE MADE TO THE FUND IN FOREIGN EXCHANGE SPECIFIED BY THE FUND.

3. IN PREPARATION OF PROCEDURES TO BE ADOPTED FOR THE POSTAMENDMENT GOLD AUCTIONS, THE FUND IS ENQUIRING OF ALL ELIGIBLE MEMBERS WHETHER THEY INTEND TO AVAIL THEMSELVES OF THE OPTION WHICH PERMITS THEM TO SUBMIT NONCOMPETITIVE BIDS EVEN THOUGH SOME MEMBERS INTEND /C.

Distribution

MESSAGE MUST END HERE

Drafted by: DW:bv

Department: TRE

Date: March ~~7~~ 8, 1978

Anna Watkins

NAME (TYPE) SIGNATURE

NAME (TYPE) SIGNATURE

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OFFICIAL MESSAGE
INTERNATIONAL MONETARY FUND
Washington, D.C. 20431

DISPATCHED
IMF
1978 MAR -8 AM 10: 57

TIME RECEIVED

ADDRESS

Bank Markazi Iran

- 3 -

Special Instructions

TO TRANSFER THE EQUIVALENT OF THEIR SHARE OF THE PROFITS TO THE TRUST FUND. WE SHOULD BE GRATEFUL IF IRAN COULD INDICATE WHETHER IT INTENDS TO AVAIL ITSELF OF THE OPTION TO SUBMIT NONCOMPETITIVE BIDS UP TO ITS PROPORTIONATE SHARE IN 25 MILLION OUNCES OF GOLD TO BE SOLD ON BEHALF OF DEVELOPING COUNTRIES. WE LOOK FORWARD TO HEARING FROM YOU AT YOUR EARLIEST CONVENIENCE.

TREASURER'S

INTERFUND (AS TRUSTEE)

Distribution

MESSAGE MUST END HERE

Drafted by: DW:bv
Department: TRE
Date: March ~~X~~ 8, 1978

Anna Watkins
NAME (TYPE) SIGNATURE

NAME (TYPE) SIGNATURE

FOR CABLE ROOM USE ONLY

No. of words: Log: Route: Operator:

March 6, 1978

Sir:

I write with reference to Article IV, Section 2(a) of the proposed Second Amendment of the Articles of Agreement, and in particular to the obligations of member countries under the provision to inform the Fund, within 30 days of the Second Amendment, of the exchange arrangements they intend to follow.

It appears that the Second Amendment may become effective in the near future. In order to assist members to comply with the provision referred to, and at the request of the Executive Board of the Fund, we are forwarding to each member, in advance of the expected adoption of the amendment, a description of its present exchange arrangements, as understood by the Fund's staff. It is hoped that this procedure will minimize any difficulties that might arise at the time that members give formal notice under Article IV, Section 2(a). We would be grateful, therefore, if you would review the attached statement of your exchange arrangements and advise the Fund as expeditiously as possible if the description is accurate or, if necessary, if you would provide a corrected description.

I would like to mention that these descriptive statements of exchange arrangements, especially for those members that maintain similar exchange arrangements, have been prepared along fairly uniform lines. If you would prefer to provide an alternative description that would fit more closely the exchange arrangements that you maintain, you would be most welcome to do so. In view of the likely adoption of the Second Amendment in the near future, we would be grateful if you would reply to this letter by cable.

Very truly yours,

Ernest Sturc
Director
Exchange and Trade
Relations Department

Attachment

Honorable Youssef Khoshkish
Governor of the International
Monetary Fund for Iran
Bank Markazi Iran
P.O. Box 3362
Teheran, Iran

cc: MR. AMUZEGAR
MED
ETRD

Iran

The currency of Iran is the Iranian Rial which is pegged to the SDR at Rls 82.2425 per SDR 1. Iran intends to confine exchange rates for the Iranian rial within margins of ... per cent in terms of the fixed relationship between the Iranian rial and the SDR. At present Iran applies margins of ... per cent in respect of exchange transactions, based on the fixed Iranian rial/SDR rate. The middle rate of the Iranian rial for the U.S. dollar, the intervention currency, and the only currency that is quoted by the Bank Markazi Iran (the central bank) is determined on the basis of the Fund's daily calculation of the U.S. dollar/SDR rate. Buying and selling rates for certain other currencies 1/ are determined on the basis of the official rates for the U.S. dollar and the London market.

There is a dual exchange market, consisting of a commercial market (or official rate market) with fixed U.S. dollar rates and a noncommercial market with fluctuating rates. Both markets operate within the banking system. The Central Bank stands ready to purchase from the commercial banks, at official rates, any foreign exchange proceeds from exports of goods and services. Import payments must in principle be settled in the official rate market. Also settled at official rates are basic allocations for certain authorized current payments (travel, study, and medical treatment abroad) and, on the supply side, any export proceeds and other current

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1/ The Australian dollar, Austrian schilling, Belgian franc, Canadian dollar, Danish krone, deutsche mark, French franc, Italian lira, Japanese yen, Netherlands guilder, Norwegian krone, pound sterling, Swedish krona, and Swiss franc.

receipts converted by public sector agencies (including the National Iranian Oil Company). Proceeds from exports other than oil, oil products, and natural gas, as well as the proceeds from exports of services, may be sold either in the official or the noncommercial market. All other payments and receipts are settled at the noncommercial market rate. However, transactions over clearing accounts denominated in U.S. dollars are in all cases settled at the official buying and selling rates.

Mr. Guitián

Office Memorandum

File

TO : Mr. Mookerjee

DATE: January 11, 1978

FROM : Zubair Iqbal

SUBJECT : Mr. Nsouli's Note on "Iran: Alternative Exchange Rate Policies"

I believe this note (attached) was prepared for Mr. Amuzegar and intended to provide him with the various alternative options open to Iran in the context of present circumstances where no procedures exist to alter the rial/dollar rate. Mr. Nsouli concentrates on the determination of a regime that would be the most suitable for ensuring stability of the effective exchange rate and, after considering various floating and pegging possibilities, concludes that the Iranian rial should be pegged to the SDR because movements in the value of the SDR have closely coincided with those of the import weighted effective exchange rate of the rial. Iran could continue to use the U.S. dollar as the intervention currency and changes in the rial/dollar rate could be used to ensure a constant SDR/rial value and, thus, greater stability in the effective rate.

Mr. Nsouli's suggestion is not significantly different from the one followed (in principle) by Iran until very recently (even though it was being done without any explicit intention to stabilize the effective rial rate). The one innovation being proposed is the more frequent changes in the rial/dollar rate in order to ensure continuous stability of the effective rate. He believes that the exchange rate practices of the recent past, where discreet changes in the rial/dollar rate were based on a certain procedure, in effect degenerated the sytem into one pegging the rial to the U.S. dollar which adversely affected the stability of the effective rate. His interpretation of Iran's exchange practices is borne out by the movements in the rial/dollar rate which did not closely follow the movements in the effective rate based on the SDR peg.

I agree with his analysis and conclusions but would like to suggest that the Iranian authorities may explore the practical possibilities of linking the rial to an import-weighted basket of currencies which would ensure maximum stability of the effective rate. In the absence of such an arrangement, link with the SDR would be appropriate as the effective rate based on such a peg approximates closely with the import-weighted basket. A word of caution: the analysis underlying this note may need further elaboration if it is going to form a basis for technical advice to the authorities.

Attachment

cc: Mr. Guitián

Date: June 8, 1977

MEMORANDUM FOR FILES

Subject: Telephone Discussions with Commercial Bank Officials

Country (countries) concerned: Iran

Date: June 8, 1977

Name of Bank Official(s) : Irene King

Bank: Morgan Guaranty Bank, New York

Staff present: H. E. Jakubiak

Inquiries of bank official(s)

1) Inquired about the reason for the upward adjustment in Iran's 1975 imports as reported by IFS.

2) Asked if it would be correct to add an estimate of military imports (derived from newspaper accounts) to the IFS 1975 import figures to approximate actual total imports.

Replies by staff

1) The IFS import figure for 1975 was adjusted up on the basis of information received from the Central Bank of Iran regarding the likely composition of the large errors and omissions entry.

2) No, it would not be correct.

Remarks:

MEMORANDUM FOR FILES

Date: May 5, 1977

Subject: Telephone Discussions with Commercial Bank Officials

Country (countries) concerned: Iran

Date: May 5, 1977

Name of Bank Official(s): Peter Humber

Bank: Lloyds Bank (San Francisco)

Staff present: H.E. Jakubiak

Inquiries of bank official(s)

Why does Bank Markazi Iran reporting of long-term debt repayments for 1972/73 and 1973/74 differ between the BMI monthly Bulletins and the BMI Annual Report ?

Replies by staff

Usually, the Iranian authorities consider the data in the Annual Reports to be more accurate.

Remarks:

Office Memorandum

TO : Mr. Sturc

DATE: February 23, 1977

FROM : Zubair Iqbal

SUBJECT : Iran--1977 Article XIV Consultation

A staff team consisting of Messrs. J.W. Gunter, H. Jakubiak, S. Nsouli (all from MED), N. Choudhury (FAD), and myself held 1977 Article XIV consultation discussions with the Iranian authorities in Tehran during February 12-16, 1977. The discussions centered around Government's demand management policies, developments in the petroleum sector and external sector including the performance of dual exchange market, a possible movement toward adoption of Article VIII obligations, and the ratification of the Second Amendment of the Fund's Articles of Agreement.

The real rate of growth of the Iranian economy slowed down in 1975/76 to about 5 per cent from 9 per cent in 1974/75 mainly as a result of an 11 per cent decline in oil output. The prospects for 1976/77, though uncertain on account of uncertainty with regard to oil sector performance in the last quarter of the year are for a further slack in growth. Even though no firm direction is discernible, the oil production is likely to decline due to stocks accumulated by oil importers toward the end of 1976 and due to the adverse implications for Iran of the present two-tier OPEC price system. In the first 20 days of January 1977, oil output averaged 4.4 million barrels per day as compared with an average of 6.1 million barrels per day during the first nine months of 1976/77. The non-oil sectors continued to grow rapidly, albeit at a slower rate than in the previous two years; agriculture, however, manifested a quickening pace of activity on account of favorable weather conditions. Iran is currently in the process of formulating the Sixth Five-Year Development Plan (1978/79-1983/84) and, in terms of sectoral investment, it is expected to give higher priority to the development of the agricultural sector.

Reflecting the Government policy aimed at restraining excessive domestic demand, the Government expenditures are anticipated to be kept below the budgeted level of Rls 1,911 billion (SDR 22.6 billion) in 1976/77. The growth of Government expenditures has been constrained by holding current expenditures to within the budget estimates and by restricting the initiation of new development projects in view of existing physical constraints existent in the economy. Even though the budget for 1977/78 was not yet finalized at the time when the staff team left Tehran due to uncertainty regarding oil revenues, the Iranian representatives indicated that the fiscal policies for the next year would continue to be aimed at achieving a trade off between the following two policy objectives: (1) accommodation of demands placed on financial resources by current social objectives and capital expenditure programs, and (2) combating the inflationary effects of an expanded budget. It was, therefore, expected that the 1977/78 budget would incorporate a 15 per cent increase in total nominal expenditures, but after allowing for price increases, this would imply an unchanged level of expenditure in real terms. As part of an overall relaxation of controls and to encourage private sector investments, the Government has reduced subsidies and eased its comprehensive price control program. The Government intends to keep the subsidy program within manageable proportions and allow for subsidization of only certain basic goods. However, this adjustment is expected to be effected only gradually since the authorities felt that their recent experience with removing all price controls on certain services was not encouraging and thus necessitated gradualism.

On the basis of monetary developments in the first three quarters of 1976/77 and the expected performance in the last quarter, the rate of monetary expansion is expected to slow down to 36 per cent as against 41 per cent in 1975/76 and 57 per cent in 1974/75. This slow down was primarily caused by a slower expansion of credit to both the public as well as the private sector. Despite this decline in the rate of expansion in domestic liquidity, which represented an improvement over the last year the authorities agreed with the staff's assessment that a 36 per cent expansion was still substantial and while not excessive in view of the real growth in non-oil GDP and the allowed rise in prices, it would not sufficiently dampen the inflationary pressures built by existing excess liquidity. Accordingly the Bank Markazi Iran has increased its rediscount rate, and has continued to enforce strictly the legal reserve requirements; the rediscount facilities available to the commercial banks have been reduced by about 50 per cent during 1976/77. The authorities, in their continuing attempt at controlling inflationary pressures, intend to continue with the tight credit policy during 1977/78 aimed at reducing the rate of growth of domestic liquidity to about 25 per cent.

Iran's balance of payments performance continues to be strongly influenced by developments in oil exports, rapidly expanding private sector imports, and large net capital outflows. Iran experienced a dramatic reversal in its overall balance in the foreign exchange receipts and payments statement in 1975/76 registering a deficit of about SDR 420 million as compared with a surplus of SDR 5,220 million in 1974/75. This reversal was precipitated, partly, by a 51 per cent increase in imports reflecting the effects of import liberalization policies aimed at meeting sharply expanded domestic demand and, partly, by only a modest increase in oil export receipts. At the same time outflows under Iran's foreign loans and investments program more than doubled. Estimates for 1976/77 indicate a modest improvement with an overall surplus of SDR 167 million as oil sector receipts are expected to register a moderate increase of 5 per cent, while the growth of imports is expected to decline to 6 per cent due to the impact of serious port and transportation bottlenecks earlier in the year. Net capital outflows are projected to be 30 per cent lower, reflecting larger drawings on foreign loans and reduced outflow under the official loans and investments program. In view of the uncertainty regarding oil exports in 1977/78, the official balance of payments policy appears to be aimed at adjustment of official imports and foreign loans and investments to changes in oil receipts with the objective of realizing an overall surplus of at least SDR 750 million. Official projections, however, show a resurgence in private sector imports in 1977/78 in view of the high level of aggregate domestic demand, the near full use of domestic productive capacity, and the easing of transportation constraints. An important feature of balance of payments developments over the last two years has been a significant increase in net private capital outflows mainly as a consequence of domestic price controls. The Iranian authorities, however, felt that this development was of little concern since the magnitude of these outflows was very small as compared with other magnitudes in the balance of payments. Moreover, these flows are taking place through the noncommercial market on which the Government has no intention of imposing any restrictions at the moment. Furthermore, the authorities believe that since price controls have been relaxed, the trend of the private capital movements is likely to be reversed.

While there has been no basic change in the official exchange and trade policy, the operation of the dual exchange market has undergone changes and, in consequence, the noncommercial market has become quite important. Due to the relative ease with which settlements can be made in this market, an increasing amount of transactions that would have passed through the official (commercial) market have been settled in the noncommercial market; official estimates place the size of this market at about 10 per cent of the commercial market, and at least 50 per cent of transactions can be clearly identified as belonging to the commercial market. Because of the existence of excess demand for foreign exchange in the noncommercial market, the Bank Markazi (the Central Bank) has intervened extensively through sale of foreign exchange in order to avoid the emergence of dual rates; the Bank Markazi sales amounted to US$700 million in 1975/76 and US$800 million by January 31, 1977 in 1976/77. The mission's opinion was sought by the authorities on whether it would be suitable to allow the emergence of a depreciated rate in the noncommercial market in order to restore a proper balance between the two markets. The mission indicated that the rates could differ as long as they were within the wider margin, but emphasized that there did not seem to be any imperative reason for allowing the rates to diverge since the present system appeared to be working adequately well. However, the staff suggested that, at their discretion, the authorities might consider collapsing the system of dual markets into a single market given the fact that the Iranian rial was effectively convertible and that there were no controls on payments. For the same reason the mission observed that Iran should give active consideration to moving to Article VIII status. The staff further indicated that such a move would, among other things, provide very favorable publicity and enhance Iran's prestige in the world financial markets on which Iran's dependence had increased recently and was expected to grow further in future. The official response was that the present arrangement was working satisfactorily and, therefore, the authorities were not interested in moving to the Article VIII status.

The commercial policy has remained more or less unchanged except for the reduction in commercial benefit taxes on certain consumer goods intended to ease the upward trend in domestic prices. A few textile products and some construction materials have been moved to the list of imports requiring prior approval with the intention of protecting domestic import substitutes. There has been no change in the official policy toward Iran's bilateral payments agreement with Romania. No new bilateral payments agreements had been signed since the last consultation discussion. The net deficit position of Iran under existing arrangements increased by 41 per cent to SDR 64 million in 1975/76. The Asian Clearing Union has been operating for over 15 months and Burma joined as the seventh member on January 13, 1977; about 7 per cent of the total trade among the member countries was settled through the clearing house managed by the Bank Markazi Iran.

No change has taken place in Iran's foreign exchange reserve management policy and it continues to be guided by considerations of safety, geographical and currency distribution, and terms. In view of Iran's balance of payments situation the Government intends to maintain minimum reserves of equivalent to six months of imports and also to keep a large proportion in highly liquid assets.

The ratification of the Second Amendment to the Fund's Articles of Agreement was under active government consideration. The Government intends to submit the Second Amendment to the Parliament in the next few days and it is expected that the ratification will be completed within two months.

cc: Mr. de Looper
Mr. Richard C. Williams

Office Memorandum

TO : Mr. Iqbal

DATE: January 19, 1977

FROM : Mark Allen MA

SUBJECT : Iran - Regional Integration

The Trade and Payments Division is trying to keep up-to-date and accurate information on the progress of regional integration arrangements around the world. We would be grateful if you could look into Iran's participation in such arrangements during your forthcoming visit.

According to our records, Iran participates in the Asian Clearing Union (ACU) and the Regional Cooperation for Development (RCD). The headquarters of both organizations are in Teheran: the ACU in the Bank Markazi and the RCD at 5 Los Angeles Avenue, Boulevard Elizabeth II, P.O.Box 3273, Teheran. Tel: 638614.

We are very short of up-to-date information on developments in the RCD. I believe that the Bank Markazi operates the RCD clearing scheme. Our latest data on this scheme is from 1971. We would be grateful if you could obtain information on the volume of transactions through the system during recent years, the current size of swing credit and, if possible, most recent version of the text of the agreement constituting it. Proposals have been made to link the RCD clearing scheme with the ACU. Is anything on these lines being done?

Newspaper reports indicated that new life was being breathed into the RCD at a meeting in Izmir (Turkey) in April 1976. The idea was to create a free trade area over a period of ten years and form a joint investment bank. Have any steps been taken to achieve either objective, or are any under preparation? We would be grateful if you could obtain the text of any agreement reached at Izmir.

As for the ACU, it would be useful to have data on recent transactions under the scheme and information about any changes in the rules or size of credit lines. Proposals have been made to extend the variety of transactions eligible for the clearing. As anything been done in this regard? ?

Finally, the nonaligned meeting, the G-77 and UNCTAD have been proposing that all the clearing schemes of developing countries be linked under a sort of umbrella, Developing Countries Clearing Union. What is the attitude of those actually administering the ACU and RCD schemes to this idea?

If you need any further information, we may be able to help you from our files.

cc: Mr. Nowzad

Office Memorandum

TO : Mr. Sturc DATE: January 4, 1977

FROM : Zubair Iqbal

SUBJECT : Iran--1977 Article XIV Consultation

A staff team consisting of Messrs. J.W. Gunter, H. Jakubiak, S. Nsouli (all from MED), Mr. N. Choudry, Miss Chin (both of FAD) and myself is scheduled to hold 1977 Article XIV consultation discussions in Tehran during the period February 6-14, 1976. Part of the team, including myself, will reach Tehran on January 22, 1977 to prepare for the discussions.

After having expanded at a real growth rate of about 11 per cent during the five year period 1970/71-1974/75, the Iranian economy registered only a 5 per cent increase in real income in 1975/76 (Iranian year ended March 20) primarily on account of lower than expected petroleum exports in that year as lower petroleum prices forced reduced output. While there was some recovery in the early months of 1976/77, the overall growth performance is not expected to be different from the previous year. In response to a four-fold increase in revenues from oil exports due to higher petroleum prices in 1973/74, the government expenditure has expanded sharply and has resulted in a rapid monetary expansion which, owing to supply constraints, has resulted in excess demand and inflationary pressures. The Government, in order to contain these pressures, has tried to keep the prices down through very comprehensive and rigidly applied price controls and, at the same time, has tried to keep the growth in government expenditures down. In 1975/76, the Government appears to have kept the growth in expenditures down to 20 per cent as compared with a 160 per cent increase in 1974/75. The Government also appears to have abandoned the price controls which had created considerable uncertainties with respect to private sector investments and had prompted private capital outflow. Supply constraints such as limited capacity of domestic production units and port conjestions mitigating against import-related relief of excess domestic demand have, however, continued to operate. The money supply (including quasi-money) which rose by 61 per cent in 1974/75 reflecting increased government expenditures, registered a 40 per cent increase in 1975/76 due to reduced expansion in the government expenditures and continued at about the same rate in the first six months of 1976/77. The banking system's claims on the private sector have, however, continued to increase rapidly. The monetary program of the Bank Markazi, the central bank, envisages monetary expansion to be no more than 35 per cent in 1976/77.

In response to a virtual elimination of exchange and trade controls and a conscious policy on part of the Government to encourage imports, investments abroad and expanded aid outflows, Iran has been able to achieve approximate equilibrium in its balance of payments in 1975/76 when it registered a modest overall deficit of about SDR 0.5 billion as against a surplus of over SDR 5 billion in 1974/75. This was due to a sharp increase in net capital outflows which amounted to SDR 3 billion and exceeded a much reduced current account surplus of SDR 2.5 billion. The balance of payments prospects for 1976/77 are quite uncertain, and the final outcome will depend upon the bahavior of oil export earnings and developments on the capital account. Initial expectations are that oil exports will continue as strongly for the rest of the year as in the first half of the year; thus, resulting in a large trade and current account surplus in view of the fact that imports have not been growing rapidly over the year. Developments in the capital account have been rather unpredictable. Iran has borrowed heavily in the Euro-dollar market with the objective of meeting its investment and aid obligations. It plans to obtain about SDR 840 million for this purpose. At the same time the private sector and autonomous public enterprises have already borrowed SDR 600 million. At the same time, Iran has already prepaid most of the high interest bearing debt and initial official estimates indicate that debt service payments in the current year may not exceed SDR 250 million. Uncertainties emerge when these developments are viewed in light of the fact that official reserves have been increasing and at end-November they stood at SDR 8 billion or the equivalent of about seven months of imports in 1975/76.

Iran's exchange and trade system has been progressively liberalized since 1973/74 and available information indicates that all current and capital transactions are now virtually free of restrictions. The Iranian rial continues to be linked to the SDR. Since January 1974, a dual exchange market system within the banking system has been in operation, the commercial market (official rate market) with fixed U.S. dollar rates and a noncommercial market with fluctuating rates. The trade system of Iran, however, provides considerable degree of protection to domestic production of import substitutes and potential manufactured exports. Iran maintains bilateral payments agreements with seven CMEA countries, including Romania, North Korea, and the Peoples Republic of China, and is a member of the Asian Clearing Union. Similarly, some payments are also made through clearing accounts maintained with Pakistan and Turkey under the RCD agreement.

The main thrust of the mission should be toward an assessment of movement toward internal and external balance in light of the official policies and likely developments in the oil sector. While the external sector equilibrium was realized through import liberalization and large capital outflows, it has not been possible to achieve internal balance and excess demand situation has continued to persist. In this context, the mission should evaluate with the authorities their fiscal and monetary policies aimed at eliminating the supply-demand disequilibrium and suggest, if necessary, additional measures to achieve the desired objective. In view of the fact that price controls do not appear to have worked, and given that real incomes have gone up considerably, it would be useful to suggest further dismantling of remaining price controls and to allow the free market to speed up the process of adjustment.

With respect to the external sector, the mission should review recent developments in the balance of payments and prospects for 1977/78 in light of higher petroleum prices recently instituted by OPEC and likely developments in the capital account. In view of the fact that even though foreign reserves are at such a high level, public sector borrowing abroad has shown an increase recently, a detailed assessment of capital account will be necessary to ascertain official outlook toward Iran's investment and aid plans and also its reserve management policy. The dual exchange rate system has now been operating for three years and should be evaluated with regard to its mechanism, distribution of transactions between commercial and noncommercial markets, and spread between the two rates. The mission may also seek to know about future exchange rate policies and assess whether there was any possibility for a unified rate with free convertibility. In view of the de facto convertibility of the rial, the mission should explore the attitude of the authorities toward a move to Article VIII status. Even though adoption of amendments to the Articles of Agreement of the Fund are likely to eliminate the formal distinction between Article XIV and Article VIII, a distinctly separate treatment of countries with restrictions and nonconvertibility would continue to be applied. Therefore, a transition to Article VIII by Iran prior to formal adoption of amendments should not create any complications. In addition, the mission should evaluate any changes in the exchange and trade system since the last consultation and also examine the restrictiveness of the bilateral and regional arrangements maintained by Iran. Information should be sought on the operations of the Asian Clearing Union and the extent to which it has facilitated regional trade. The mission should also urge the authorities to terminate the bilateral payments agreement with another Fund member, Romania.

cc: Mr. Richard Williams

OFFICIAL OUTGOING MESSAGE OFFICIAL

4

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

FOR PREPARING OFFICER
- [ ] Night Letter
- [ ] Full Rate
- [ ] Code

SPECIAL INSTRUCTIONS

SEND VIA TELEX

cc: Mr. Amuzegar
Mr. Palmer
~~Mr.~~ Jakubiak

DISPATCHED
NOV 30 1976
IMF
CABLE
ROOM

To: His Excellency Hassan Ali Mehran
Governor, Bank Markazi Iran
Teheran, Iran

Reference our conversation in Manila. It is proposed to hold consultation discussions during the period February 6-14, 1[illegible] Hopefully these dates are convenient for you; they are acceptabl[illegible] to Mr. Amuzegar. The advance party would arrive in Teheran on January 22 and consist of Messrs. Jakubiak and Nsouli of Middle Eastern Department, Mr. Choudhry of the Fiscal Affairs Department an economist from the Exchange and Trade Relations Department and a secretary. Would appreciate Central Bank's assistance in securing following reservations at the Intercontinental Hotel four singles for 24 nights starting January 22; one single for 17 nights starting January 29; one suite for 10 nights starting February 5. Please telex whether proposed schedule is agreeable and confirmation of hotel reservations. Will telex arrival particulars later. Looking forward to meeting with you. Best regards.

Gunter
Interfund

[illegible]d by S.H. Hitti/bw

Department MED

Date November 30, 1976

AUTHORIZATION

Signature
/s/ J. W. Gunter

Second Signature When Required

FOR CODE ROOM

Time Received 5:35 P.M.
Time Dispatched 6:09 P.M.
Number of Words 4 mins.
Log 326691
Route WUI
Operator H

DO NOT TYPE BELOW THIS LINE

13

OFFICIAL **OUTGOING MESSAGE** OFFICIAL

INTERNATIONAL MONETARY FUND

WASHINGTON D.C.

FOR PREPARING OFFICER

- [ ] Night Letter
- [x] Full Rate
- [ ] Code

SPECIAL INSTRUCTIONS

CC: TRE
MD
DMD
MR. AMUZEGAR
LEG
RES
MED
ETR
SEC

To: The Governor
Bank Markazi
Teheran - Iran

MAY 4 1976 IMF CABLE ROOM

I received your cable regarding the use by the Fund of SDR 20 millinn of Iranian rials with particular satisfaction. I would like to express my warm appreciation for your assistance and for Iran's cooperation in this matter and I look forward to continuing the close relationship between Iran and the Fund that has developed over the years.

With kindest regards,

H. Johannes Witteveen
Managing Director

MAY 5 1976 EXCHANGE AND TRADE RELATIONS DEPARTMENT

DW

Drafted by DWilliams:rb

Department TRE

Date MAY 3/76

AUTHORIZATION

Signature

H. Johannes Witteveen

Second Signature When Required

FOR CODE ROOM

Time Received 11:00 AM May 4

Time Dispatched 11:41 AM

Number of Words 2 mins

Log 299132

Route ITT

Operator JH

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0606 EDT

INTERFUND WSH

IRAN

212503 MZBK IR

INTERFUND WSH

RECEIVED
1976 MAY -1 AM 8 07
CABLE ROOM

cc: Mr. Finch
Mr. Palmer
Mr. Koolhaze

273962

ORIG: TRE
CC: MD
DMD
MR. AMUZEGAR
LEG
RES
MED
ETR
SEC

212503 MZBK IR

MAY 1, 1976

EXCHANGE & TRADE RELATIONS
MAY 3 1976

INTERFUND WASHINGTON D.C.

ATTENTION: MR. H.J. WITTEVEEN, MANAGING DIRECTOR

FOLLOWING MY TELEPHONE CONVERSATIONS WITH MR. DAVID WILLIAMS OF YOUR STAFF ON THURSDAY APRIL 29, 1976, I AM HAPPY TO INFORM YOU THAT WE ARE WILLING TO MAKE AVAILABLE EQUIVALENT OF SDR 20 MILLION IN IRANIAN RIALS FOR USE BY THE FUND STOP I MUST ADD, HOWEVER, THAT THIS ACTION IS BEING TAKEN BY THE IMPERIAL GOVERNMENT OF IRAN IN A SPIRIT OF COOPERATION WITH THE FUND AND DOES NOT, IN ANY WAY, REFLECT ANY CHANGE IN OUR POSITION AS EXPLAINED IN MY CONVERSATIONS WITH YOU IN KINGSTON, JAMAICA, ON THE OCCASION OF THE MEETING OF INTERIM COMMITTEE STOP

WITH WARMEST REGARDS H.A. MEHRAN GOVERNOR FOR IRAN

MARKAZBANK

INTERFUND WSH

212503 MZBK IR

TLX VIA ITT DIAL 103 08 303

Western Union International Telex, Western Union International, Inc.

OFFICIAL | **OUTGOING MESSAGE** | **OFFICIAL**

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

FOR PREPARING OFFICER
- [ ] Night Letter
- [ ] Full Rate
- [ ] Code

SPECIAL INSTRUCTIONS

To: Mr. Hassan Ali Mehran
Governor
Bankmarkazi Iran
Teheran (IRAN)

Re your telex of February 8 to Mr. Sturc my itinerary and other material was airmailed to you a week ago. I would confirm that I shall be leaving Zurich on Wednesday February 25 at 1550 hours on Swiss Air 378 and arriving Tehran at ~~migh~~ midnight.

Regards.

NOWZAD
INTERFUND

DISPATCHED
FEB 10 1976
IMF
CABLE
ROOM

FEB 11 197

Drafted by B.Nowzad/vp

ment ETR

Date Feb.10,1976

AUTHORIZATION

Signature

NOWZAD
Second Signature When Required

FOR CODE ROOM

Time Received 10:30 AM
Time Dispatched 11:08 AM
Number of Words 2 MIN
Log 288219'
Route TRT TLX
Operator H.S.

DO NOT TYPE BELOW THIS LINE

SEC-17
4-18-73

cc: Mr. Nowzad

Office Memorandum

TO : Mr. Sturc

FROM : Bahram Nowzad

SUBJECT : Informal Visit to Iran

DATE: January 23, 1976

JAN 23 1976

On his way back from Jamaica, Mr. Mehran called me from New York to discuss my forthcoming visit to Iran. We agreed that it would be mutually convenient for me to arrive in Tehran on February 25 and to stay for two weeks. As regards the nature of my visit he confirmed that the Central Bank was reviewing the operation, and possible expansion, of the Asian Clearing Union and he thought that in this task I could be of assistance. He also suggested that, should there be sufficient time, it would be useful for me to meet informally with various Central Bank officials to discuss certain matters within our competence (e.g., the MTN, the Generalized System of Preferences).

During Mr. Jones' visit to Washington we had a discussion on a number of issues. I informed him that en route to Tehran, I would be making a one-night stopover in Geneva and might drop by the office for a brief chat. He said this would be too short and suggested that, if possible, I should spent a couple of days in Geneva. I feel that this would be useful in that it would allow me to have informal meetings with the GATT secretariat (in particular to discuss the program of balance of payments consultations for 1976) and to review with Mr. Jones and his staff a number of issues of common concern. I would also be able to discuss, in person, Mr. Baban's performance report and rating, which was our responsibility since he spent most of 1975 in our division.

Subject to your approval, I plan to arrange my schedule so as to spend two days in Geneva. I would appreciate learning your decision on this matter.

O.K.

cc: Mr. Palmer

1975

212503 MZBK IR

cc: Mr. Nowzad

RECEIVED
I.M.F.

1975 DEC 15 AM 9:01

CABLE
ROOM

262958

DECEMBER 15, 1975

MR. ERNEST STURC

INTERFUND

WASHINGTON D.C.

U.S.A.

ORIG: ETR
CC: MD
DMD
MED

ACKNOWLEDGE WITH THANKS YOUR TELEX OF DECEMBER

10, 1975 CONCERNING MR. NOWZAD'S COMING TO TEHRAN

STOP WARMEST REGARDS HASSAN ALI MEHRAN MARKAZBANK

RECEIVED
DEC 15 1975

INTERFUND WSH

212503 MZBK IR

DIAL 102 OR 302 FOR INTL TELEX/6482 FOR INTL TELEGRAMS VIA RCA

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OFFICIAL **OUTGOING MESSAGE** OFFICIAL

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

FOR PREPARING OFFICER
- [ ] Night Letter
- [ ] Full Rate
- [ ] Code

SPECIAL INSTRUCTIONS

by telex

DISPATCHED DEC 10 1975 IMF CABLE ROOM

cc: MD
DMD
MED
ETR

Drafted by B.Nowzad
Department ETR
December10,1975

AUTHORIZATION

Signature

/s/ E. Sturc

Second Signature When Required

FOR CODE ROOM
Time Received 3:15 PM
Time Dispatched 3:24 PM
Number of Words 3 mins
Log 280725
Route RCA
Operator HS

To: Mr. Hassan Ali Mehran
Governor
MARKAZBANK, Tehran (Iran)

In reply your telex of December 8 to Managing Director I take pleasure in informing you that Mr. Nowzad has been authorized to go to Tehran in connection with your review of ACU. His precise date of arrival will depend on dates of possible GATT meeting in Geneva in February and he could visit Tehran before or following this meeting. If GATT meeting does not take place he will be free to come at a date convenient to you. He will communicate with you precise dates as soon as possible, mindful that February would be your preferred date. I would consider a two week stay sufficient for the purpose~~--at least in the first instance~~.

Best regards,

ERNEST STURC
INTERFUND

RECEIVED DEC 12 1975

DO NOT TYPE BELOW THIS LINE

SEC-17
4-18-73

Orig: MED
cc: MD
DMD
LEG
RES
TRE
ETR ✓

cc: Mr. Mookerjee
Mr de Looper
Mr. Furce

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

EXECUTIVE DIRECTOR

CABLE ADDRESS
INTERFUND

JUL 28 1975

July 28, 1975

URGENT

To: Mr. Witteveen, Managing Director

From: Jahangir Amuzegar

I have received the following cable from the Governor of the Central Bank of Iran:

"Effective from July 27, 1975 the buying and selling rates for the US dollars will be Rls. 67.250 and Rls. 67.500 respectively."

Orig: MED
cc: MD
cc: Mr. Kroeker / Mr. de Fontenay / Mr. Tura
DMD
LEG
RES
TRE
ETR

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

EXECUTIVE DIRECTOR

July 25, 1975

CABLE ADDRESS
INTERFUND

URGENT

To: Mr. Witteveen, Managing Director

From: Jahangir Amuzegar

I have received the following cable from the Governor of the Central Bank of Iran:

"Effective from today July 23, 1975 buying and selling rates for U.S. dollars will be Rls. 66.766 and 67.016 respectively."

JUL 25 1975

391760

cc: Mr. Mookerjee

BANK MARKAZI IRAN
(THE CENTRAL BANK OF IRAN)

ORIG. & ENC: MD
CC: DMD
MR. AMUZEGAR
LEG
RES
TRE
ETR
MED
SEC

Governor

Tehran

July 8, 1975

EB/359

The Honourable H. Johannes Witteveen
Managing Director
International Monetary Fund
Washington, D.C. 20431.

Dear Mr. Witteveen,

On behalf of the Central Bank of Iran I accept the proposal outlined in your letter of June 26, 1975 concerning the 1975 Oil Facility, and enclose a photocopy of my telex of July 7, 1975 to you in this connection.

Very truly yours,

M. Yeganeh

Mohammed Yeganeh

RECEIVED
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1975 JUL 17 PM 12: 30
COMMUNICATIONS
DIVISION

RECEIVED
JUL 17 1975

0

Mr Stur

1006 EDT

440375 FUND UI

IRAN

212503 MZBK IR Teheran

c: Mr. Mohsesi
Mr de Larosiere

cc: Mr. Amuzegar
ETR
TRE
LEG
Mr. Hitti
Mr. Jakubiak

440385 FUND UI

212503 MZBK IR

WE HAVE A MESSAGE FOR MR. JOHN GUNTER CAN WE TRANSMIT IT VIA THIS NUMBER?+

YES PLS GA

MAY 30 1975

247364

OK THFA THANK YOU VERY MUCH HERE IT IS:

MAY 29 1975

RECEIVED I. M. F. MAY 30 1975 CABLE ROOM

MR. JOHN GUNTER

ACTING DIRECTOR

INTERNATIONAL MONETARY FUND

WASHINGTON D. C.

14 REFERENCE YOUR MODIFICATION OF THE EXCHANGE SYSTEM IN IRAN DATED MARCH 3, 1975 PLEASE CONFIRM THAT AT THE CURRENT SELLING RATE FOR THE DOLLAR OF RIALS 66.766 THE UPPER AND LOWER MARGINS FOR THE DOLLER/RIAL RATE IS RIALS 68.2027 AND RIALS 65.2968 RESPECTIVELY. THANKS AND REGARDS SHIRAZI MARKAZBANK

WELL RECIEVED PLS?+

NOW

0

1006 EDT

440385 FUND UI

IRAN

212503 MZBK IR Teheran

440385 FUND UI

212503 MZBK IR

Mr. Sturc

cc: Mr. Mutrezer
Mr. de Looper

cc: Mr. Amuzegar
ETR
TRE
LEG
Mr. Hitti
Mr. Jakubiak

WE HAVE A MESSAGE FOR MR. JOHN GUNTER CAN WE TRANSMIT IT VIA THIS NUMBER?+

YES PLS GA

RECEIVED
MAY 30 1975
EXCHANGE & TRADE RELATIONS

247364

OK THFA THANK YOU VERY MUCH HERE IT IS:

MAY 29 1975

RECEIVED
I. M. F.
MAY 29 1975
CABLE ROOM

MR. JOHN GUNTER
ACTING DIRECTOR
INTERNATIONAL MONETARY FUND
WASHINGTON D. C.

14 REFERENCE YOUR MODIFICATION OF THE EXCHANGE SYSTEM IN IRAN DATED MARCH 3, 1975 PLEASE CONFIRM THAT AT THE CURRENT SELLING RATE FOR THE DOLLAR OF RIALS 66.766 THE UPPER AND LOWER MARGINS FOR THE DOLLER/RIAL RATE IS RIALS 68.3027 AND RIALS 65.2968 RESPECTIVELY. THANKS AND REGARDS SHIRAZI MARKAZBANK

WELL RECIEVED PLS?+

MOM

البنك المركزي العراقي

CENTRAL BANK OF IRAQ

cc: Mr. Palmer 38.8.814
Mr. Mookerjee

Telegraphic Address:
"Markazi Baghdad"
P.O. Box No. 64

Statistics & Research Dept.

ORIG: ETR
cc: MD
DMD
MR. DEIF
LEG
RES
MED
TRE
SEC

Ref. No. AA/8921/

Baghdad 17 May 197

Dear Mr. Witteveen,

Your letter of May 1,1975 received due attention and thorough consideration, commensurate with its importance.

We, no doubt, highly appreciate every collective effort to provide aid to the most seriously affected developing countries, and would very much like to make every possible contribution to such efforts. We have already committed significant amounts for this purpose.

However, for the proposal expressed in your letter above, we would like to make it clear that Iraq has assigned all her oil revenues to the prerequistes of financing major development projects, currently underway, and imports of counsumer goods urgently needed for our people.

Therefore, we feel sorry to see ourselves in a position of not being able to contribute to the Subsidy Account under consideration by the Executive Board.

We enclose, herewith, a copy for your information of a letter to our Executive Director regarding our comments on contributions to this Account.

With my best regards.

Sincerely yours
Fawzi El-Kaissi

Governor
Dr. F. El-Kaissi

Honorable H. Johannes Witteveen,
Managing Director,
International Monetary Fund,
Washington D.C.
U.S.A.

MAY 27 1975

Statistics & Research

AA/832/ 6, May 1975

Dr. Nazih Deif,
Executive Director,
International Monetary Fund,
U.S.A.

Dear Mr. Deif,

Reference to your letter April 10, we indicated our opposition to the 50/50 principle during the last Interim Committee meeting which endorsed establishment of a Special Account with "appropriate contributions by oil exporting and industrial countries". Thus, we are not aware of any consensus on the 50/50 sharing.

As to the Managing Director's modified approach to contributions to the Account, it is not clear on what criteria for burden sharing it is based. It is reasonable to expect that any sound crtieria should take into consideration the degree of responsibility of oil producing countries in causing LDC deficits. An indication of this degree can be found in the percentage of the oil component in the increased deficits of LDCs in 1973-75. The recent IMF estimates in ID/75/1 puts the oil component at 20 % of the overall increase in deficits. If this criteria is taken as a basis for burden sharing, the oil producers cannot be expected to contribute more than this percentage to the Special Account.

As to the discussions in the Board, lack of support indicated by Executive Directors of major developed countries regarding commitments and contributions to the Account, does not encourage oil exporting countries to bear the burden of contributions alone.

We wish our observations to be conveyed to the Board and Directors of oil producers and communicate any further developments,

Sincerely yours

Dr. F. El Kaissi
Governor

Aabed/4/5

13

OFFICIAL **OUTGOING MESSAGE** OFFICIAL

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

FOR PREPARING OFFICER

- [ ] Night Letter
- [ ] Full Rate
- [ ] Code

SPECIAL INSTRUCTIONS

SM/75/48 (3/4/75)
EBM/75/29 (3/12/75)

DISPATCHED
MAR 13 1975
IMF CABLE ROOM

CC: MD
DMD
MR. AMUZEGAR
LEG
RES
TRE
ETR
SEC
MED

To: ~~Governor~~
Bank Markazi
~~P.O. Box 3362~~
Teheran, Iran

Executive Board took following decision March 12:

QUOTE

1. With effect from February 12, 1975, Iran advised the Fund that it ceased to peg the Iranian rial to the U.S. dollar and will maintain the exchange rates for the Iranian rial on the basis of Rls 82.2425 for one special drawing right. Iran will continue to avail itself of wider margins of 2.25 per cent on the special drawing right. In order to avoid making frequent changes in the rial/dollar rate, occasional brief nonobservance of the margins might occur.

2. The Fund notes the intention of the Iranian authorities to maintain the exchange rate of the rial in terms of the value of the special drawing right as defined by Rule O-3 and to continue to avail themselves of wider margins.

UNQUOTE

Anderson
Acting Secretary
Interfund

Cleared with:
MED JWG
ETRD w/cw
TRE EM
LEG

Drafted by JKay:jmh

ment SEC

Date March 12, 1975

AUTHORIZATION

Roger V. Anderson
Signature

Roger V. Anderson

Second Signature When Required

FOR CODE ROOM

Time Received 11:31 A.M., 3/13/75

Time Dispatched 11:46 A.M.

Number of Words (4 Min.)

Log 251109

Route WUI, TLX

Operator HS

DO NOT TYPE BELOW THIS LINE

SEC-17

Mr. Shure

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

CABLE ADDRESS
INTERFUND

March 12, 1975

MEMORANDUM

To: Treasurer
Internal Auditor
Director, Exchange and Trade Relations Department ✓
General Counsel
Acting Director, Middle Eastern Department
Secretary, IBRD

From: The Acting Secretary Roger V. Anderson

Subject: Iran - Exchange System

At EBM/75/29 (3/12/75), the Executive Board took a decision noting the intention of the Iranian authorities to maintain the exchange rates for the rial on the basis of Rls 82.2425 for one special drawing right as defined by Rule O-3 and to continue to avail themselves of wider margins of 2.25 per cent on the special drawing right.

Mr. Sturc

MEMORANDUM FOR THE FILES

RECEIVED JAN 15 1975

January 15, 1975

From: John W. Gunter

Subject: Conversation with Mr. H. Mehran of Iran

At Mr. Amuzegar's dinner party on the evening of January 14 I had a conversation with Mr. Mehran in which he made remarks of interest concerning quotas of OPEC countries and Iran's lending for the 1975 oil facility.

(1) He said that during the course of the day he had attended a caucus of representatives of OPEC countries who were in town for the Interim Committee Meeting, which had been primarily concerned with the question of relative quotas for the OPEC countries. There had been agreement by this group that the OPEC countries should reject the proposal to increase the relative size of their quotas from 5 to 10 per cent. This group felt that the OPEC countries should insist on 15 per cent and, if this were not agreed to, the OPEC countries would not accept any special increase. I understood him to say that this position might not be stated clearly during the Interim Committee proceedings since it had to be regarded at this stage as tentative. This position would come up for confirmation at an OPEC meeting scheduled for January 24 in Algiers. Mr. Mehran drew an analogy between "decision making" by the OPEC group and similar actions by the G-10.

(2) Mr. Mehran said that he was concerned about how Iran would finance its appropriate participation in the lending arrangements for the 1975 oil facility. He said that oil income in the next year was already substantially earmarked for either domestic purposes or external investment. The situation was such that if the Ministry of Finance were to take on a large commitment for the oil facility it would have to borrow from the Central Bank. I noted that while it might be that oil income was already appropriated for various purposes the expectation was that Iran would have a substantial balance of payments surplus which would be reflected partly in a large increase in the foreign exchange holdings of the Central Bank. Thus, if there were difficulties in the Ministry of Finance borrowing from the Central Bank, an alternative might be for the Central Bank to be the lending agency for the 1975 oil facility. Mr. Mehran inquired whether the Fund would regard a loan to the Fund as an appropriate asset for the Central Bank to hold; he noted that the Central Bank typically placed its reserve holdings in assets having a maturity of one year or less. I said that we regarded an outstanding loan to the Fund as being an appropriate reserve asset since it could be converted into foreign exchange on demand if needed for balance of payments purposes. Mr. Mehran said that this matter would require further study.

cc: The Managing Director
The Deputy Managing Director
Mr. D. Green
Mr. Polak
Mr. Gold
Mr. Habermeier
Mr. Sturc
Mr. Ray
Mr. Salehdar

INTERNATIONAL MONETARY FUND

Mr Sturc

We ~~are~~ notifying the Board of Iran's action, We need more information ~~on~~ how Iran is going to maintain the permissible margins around the basket SDR. We have ~~asked~~ cabled Iran for the information, Meanwhile, a ~~pol~~ note has been prepared for Mr Amuzegar giving our views on how such margins can be maintained

Subimal Mookerjee

INTERNATIONAL MONETARY FUND

Feb. 13, 1975

To: MD
DMD
MED
LEG
RES
ETR

TREAS
SEC

William B. Dale

Mr. Kwolceya[?]
cc: Mr. de Looper

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

EXECUTIVE DIRECTOR

February 13, 1975

CABLE ADDRESS
INTERFUND

To: Mr. Witteveen, Managing Director

From: Jahangir Amuzegar

Attached please find a copy of a telegram which I just received from His Excellency Mohammed Yeganeh, Governor of the Central Bank of Iran.

RECEIVED
FEB 14 1975
EXCHANGE & TRADE RELATIONS

Att:

what does that mean?

We should prepare a paper for E. B.

248331 IMF UR

IRAN

212359 MZBK IR

248331 IMF UR

212359 MZBK IR

FEB 13 1975

FEBRUARY 13, 1975

H.E. JAHANGIR AMUZEGAR

EXECUTIVE DIRECTOR

INTERFUND

WASHINGTON D.C.

3 PLEASE ADVISE THE FUND AUTHORITIES OF THE FOLLOWING DECISION TAKEN BY CBI.

QUOTE WITH EFFECT FROM FEBRUARY 12,1975 IRAN HAS ESTABLISHED A CENTRAL RATE FOR THE IRANIAN RIAL EQUAL TO RIALS 82.2425 FOR SDR ONE. IRAN WILL CONTINUE TO AVAIL ITSELF OF WIDER MARGINS. UNQUOTE KINDEST REGARDS , MOHAMMED YEGANEH GOVERNOR ~~CBI~~ MARKAZBANK

WELL RCD PLS??++

MOM

RCA Global Communications
RCA Global Communications
RCA Global Communications
RCA Global Cc

1974

13

OFFICIAL **OUTGOING MESSAGE** OFFICIAL

FOR PREPARING OFFICER

- [ ] Night Letter
- [ ] Full Rate
- [ ] Code

SPECIAL INSTRUCTIONS

Paragraphs 1,2 and 3: Code and ~~cipher~~

DISPATCHED DEC 19 1974 IMF CABLE ROOM

Drafted by AMAL-Samarrie/sj

Date December 19, 1974

Department Treasurer's

AUTHORIZATION

R J Hamilton

Signature

RJHamilton

Anna Watkins

Second Signature When Required

Anna Watkins

FOR CODE ROOM

Time Received 6:00 P.M.

Time Dispatched 6:30 P.M.

Number of Words (5 Min.)

Log 243427

Route RCA, TLX

Operator JE

INTERNATIONAL MONETARY FUND

WASHINGTON D.C.

~~XXXXXEM~~

CC: MD
DMD
Mr. Lieftinck
Mr. de Vries
EURO
LEG
RES
ETR
SEC
TRE

To: Bank Markazi Iran
P.O. Box 3362
Teheran, Iran

No. 29

Reference Fund cable No. 28 and borrowing agreement between Central Bank of Iran and Fund of August 13, 1974.

1. In accordance with paragraph 2(b) of above-mentioned borrowing agreement please credit Iranian rials /3,943,768,435 equivalent to SDR 48,000,000 to Fund's No. 1 Account with yourselves, value December 27, 1974 under cable advice to Fund.

2. Please debit Fund's No. 1 Account and place these Iranian rials at the disposal of Banque Nationale de Yougoslavie Belgrade value December 27, 1974 under cable advice to Fund.

3. Banque Nationale de Yougoslavie,/Belgrade has requested the Fund to instruct you on their behalf to convert above-mentioned Iranian rials into U.S. dollars and to pay proceeds, US$58,318,105.83 ~~to account~~ ~~of~~ to their account with Federal Reserve Bank of New York, New York value December 27, 1974. Please cable execution.

4. Reference your cable No. 8.

Nonnegotiable instrument of Fund indebtedness for

(cont'd)...

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SEC-17

13

OFFICIAL **OUTGOING MESSAGE** OFFICIAL

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

FOR PREPARING OFFICER

- [ ] Night Letter
- [ ] Full Rate
- [ ] Code

SPECIAL INSTRUCTIONS

Paragraphs 1, 2 and 3: Code and cipher

DISPATCHED DEC 19 1974 IMF CABLE ROOM

To: Bank Markazi Iran
P.O. Box 3362
Teheran, Iran

an amount equivalent to SDR 48,000,000 in accordance with paragraph 3 of borrowing agreement will be airmailed.

5. Fund will revalue its holdings of Iranian rials as of December 19, 1974 at SDR 0.0121711 per rial as determined under Rule 0-3(c)(i), i.e., derived from SDR value of U.S. dollar under Rule 0-3(b) on December 19, 1974 namely, SDR 0.823072 per U.S. dollar. Cable follows.

Treasurer
INTERFUND

Test No.

Drafted by AMAL-Samarrie/sj

tment Treasurer's

Date December 19, 1974

AUTHORIZATION

R. J. Hamilton

Signature

RJHamilton

Anna Watkins

Second Signature When Required

Anna Watkins

FOR CODE ROOM

Time Received 6:00 P.M.

Time Dispatched 6:30 P.M.

Number of Words (5 Min.)

Log 243427

Route RCA,TLX

Operator JE

DO NOT TYPE BELOW THIS LINE

13

OFFICIAL OUTGOING MESSAGE OFFICIAL

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

CC: MD
DMD
MR. AMUZEGAR
LEG
~~RES~~
TRE
~~MED~~
~~ETR~~
SEC

FOR PREPARING OFFICER

- [ ] Night Letter
- [ ] Full Rate
- [ ] Code

SPECIAL INSTRUCTIONS

TELEX

DISPATCHED
DEC 17 1974
CABLE ROOM

To: GOVERNOR YEGANEH
BANK MARKAZI
TEHRAN, IRAN

With respect to my telex to you of December 13, you will have gathered from the context of paragraph 3, that the words "Iranian rials" should be substituted for the "(currency)" in the first sentence of that paragraph and no parentheses should have been around the word "further" in the last sentence.

DALE
ACTING MANAGING DIRECTOR

RECEIVED
DEC 19 1974

Drafted by JGEvans:ssk

Department Legal

Date December 17, 1974

AUTHORIZATION

W B Dale
Signature

WBDale

Second Signature When Required

FOR CODE ROOM

Time Received 6:00 P.M.

Time Dispatched 6:30 P.M.

Number of Words (2 Min.)

Log 243153

Route ITT, TLX

Operator JEH

DO NOT TYPE BELOW THIS LINE

SEC-17

R. Nowzad

Office Memorandum

File IRAN

TO : Mr. Mookerjee DATE: December 3, 1974

FROM : Yukio Iura Y. I.

SUBJECT : Back to Office Report on Iran - 1974 Article XIV Consultation

The following are some of findings of the recent mission to Iran (November 16-23, 1974) to which I want to draw your attention. Minutes of the meetings on balance of payments, exchange system and commercial policy are also attached.

1. Exchange System

In January 1974, the Central Bank authorized two exchange markets, a commercial (or official rate) market and a noncommercial (or free rate) market. Foreign exchange proceeds received by the public sector (mainly oil revenues) and import payments were to be effected at the official rate. Non-oil export receipts, authorized invisible payments and authorized capital transfers were permitted to be effected either at the official rate or at the free rate. All other exchange transactions were to be effected at the free rate. Unlimited access to the free market for any purpose effectively eliminated all remaining exchange restrictions. Distinction between the official rate market and the free rate market does not make much sense at present, as the two market rates for the U.S. dollar (the intervention currency) have been identical since June 1974. The mission observed that the authorities had been operating the markets in such a manner which would result in the observance of the wider margins and the 2 per cent spread between buying and selling rates for the intervention currency. The Iranian authorities stated that, while they would guide the exchange markets in such manner under normal circumstances, they could not rule out the possibility that the two exchange rates might deviate in certain exceptional circumstances, such as when a sudden and large inflow or outflow of capital occurs. The Iranian authorities promised that they would notify the Fund and seek its approval when and if the two exchange rates diverge more than 2 per cent spread and/or exceed the wider margins agreed with the Fund. In practice, however, it appears to be unlikely that the free rate of the rial would depreciate or appreciate significantly against U.S. dollar in the immediate future. Given firm control of the Central Bank on domestic bank lending activities and bright prospects for domestic investment opportunities, sudden and large capital outflow would be highly unlikely. Capital inflow had been limited to the repatriation of the Iranian exchange holdings abroad, and foreigners portfolio investment in Iran had been negligible because of the unfamiliar nature of the Iranian capital market.

In Iran, certain exchange transactions take place in the street shops outside the banking system. These transactions are tolerated by the authorities. The unofficial market rate came sharply close to the official rate, when unlimited access to the free rate market within the banking systems was announced. The rate difference between the unofficial rate and the official rate is currently about 1 per cent, compared with 6 per cent in August 1973. The street shops normally contend with smaller handling charges and sometimes offer better services than authorized banks.

The Iranian authorities stated that, for the time being, Iran did not intend to move to Article VIII status in the Fund.

2. Commercial Policy

Since the higher oil revenue came into reality, Iran has liberalized imports under quantitative restrictions, and reduced level of import taxation rather sharply. Commercial policy measures by Iran in the past year to reduce import costs were equivalent in effect on imports of a revaluation of the rial of about 10-12 per cent. These included a sharp reduction in the import registration fee, substantial reduction in commercial benefit tax and import duties, a steep decrease in the prior import deposit requirement and increasing the subsidization of essential food imports. The mission emphasized that further progress in eliminating quantitative restrictions could be implemented by Iran. But the Iranian authorities explained that domestic industry especially on consumer goods must be properly protected because most of them were on early stage of development, but they stressed that excessive protection would be reviewed carefully to protect consumer interest, and mentioned examples of refrigerators, radios, and television receivers, which were temporarily suspended from prior approval of the Ministry of Commerce as from the beginning of the current Iranian year (March).

Regarding the "Declaration on Trade Measures", the Iranian authorities stated that they would study the matter carefully but it appeared that they were not particularly enthusiastic about the declaration.

3. Balance of Payments Developments and Reserve Management

As expected, the Iranian authorities emphasized their rapid progress in reducing overall balance of payments surplus. They envisage overall surplus of US$7 billion in 1974/75 (ending March) and US$4 billion in 1975/76 (see Table attached). Current account surpluses in both years would exceed US$10 billion. Key items for external adjustments were imports and the Government loan activities. Import payments include substantial amount of advance payments, which should be treated as capital transaction. For 1974/75, the mission recorded known advance payments for public sector imports (US$0.8 billion) as official capital outflow, but the magnitude of private advance payments is not clearly known. Government loans include contributions to the Fund oil facility (US$0.7 billion in 1974/75), which might be treated as monetary movement in the final report. It appeared to me that the Iranian authorities had been extremely cautious in selecting Government loans and investment opportunities. Priority has been given to the projects to assist the industrialization of Iran itself, notable example was the loans to France for joint venture work, and purchases of the Krupp stock to acquire technology from the company. The authorities envisage a larger loan and investment activities of this nature in 1975/76. Assistance to the developing countries has been limited in scope. The Iranian authorities did not want to discuss detailed individual terms and conditions of the loans to other developing countries, stating that these were politically sensitive.

Iran's external reserve rose by about $4 billion so far this year and stood at US$6 billion at the end of September. The Central Bank regards a level of reserves equivalent to about 6-8 months imports as being adequate, and the present level of reserves is considered as more or less adequate for the present. The general policy is to hold reserves in the form of maturities of one year or less, and the Central Bank expects that there would be a disposition to move increasingly into the medium-term category. Since the level of reserves had risen sharply in recent months, the Central

Bank set up a Foreign Reserve Committee within the Bank to guide operation of external reserve management. The Iranian authorities acknowledged a recent development that sometimes larger Eurodollar banks applied lower interest rates when funds were placed in excess of certain amounts, but there was not much difficulty redirecting that excess portion elsewhere.

4. Bilateral Payments Arrangements

Three bilateral payments agreements with mainland China, Eastern Germany, and North Korea were concluded and came into effect since the previous consultation discussions in June 1973. Currently Iran maintains nine bilateral payments agreements; the payment agreement with Romania is the only one with another Fund member. The mission reminded the Iranian authorities of the Fund's recommendation to Romania to terminate any remaining payments agreements with Fund members and requested early action by Iran to eliminate the arrangement with Romania. The special trade and payments arrangement between the Foreign Transactions Company of Iran and the State Trading Corporation of Pakistan was going to be terminated, and the Iranian authorities stated that small amounts of remaining balances would be cleared up within a few months. There had been no changes in the RCD clearing arrangements with Pakistan and Turkey.

Attachments

cc: Mr. Gerhard
Mr. de Looper
Mr. Williams
Mr. Dakolias
Mr. Nowzad

Summary of Foreign Exchange Receipts and Payments

(In billions of U.S. dollars)

	1973/74	Est. 1974/75	Forecast 1975/76
A. Current account	0.48	11.90	10.30
Net receipts from oil sector	5.16	20.40	21.50
Exports	0.64	0.80	1.00
Imports	-4.96	-8.30	-11.00
Private	(-2.70)	(-4.50)	(-5.50)
Public	(-2.26)	(-3.80)	(-5.50)
Services and private transfers (net)	-0.36	-0.80	-1.20
B. Nonmonetary official capital (net)	0.77	-5.00	-6.20
Drawings	1.31	0.40	0.20
Repayments and prepayments	-0.54	-1.40	-1.40
Advance payments for imports	--	-0.80	-0.50
Loans and investments	--	-3.20	-4.50
C. Errors and omissions (net)	-0.20	--	--
D. Balance of payments surplus	1.05	6.90	4.10

INTERNATIONAL MONETARY FUND

November 25, 1974

TO : Mr. de Looper

FROM: Ghulam Jewayni

SUBJECT: Recent Developments in Middle Eastern Countries

A summary of recent developments in selected Middle Eastern countries is attached.

MEMORANDUM FOR FILES November 25, 1974

SUBJECT: Recent Developments in Middle Eastern Countries

Some major developments in the second half of 1973 and early 1974 resulted in wide-ranging changes in trade and exchange policies of some of the Middle Eastern countries. Rising international prices and spot shortages of some agricultural commodities in 1973 led to significant relaxation in import policies of several of the Middle Eastern countries. To moderate internal inflation, some countries also resorted to prohibition of some exports to assure adequate local supplies of these commodities.

The sharp rise in oil prices and the resulting huge revenues enabled the Middle Eastern countries to further liberalize their trade and exchange policies in 1974. Oil producing countries, with the exception of Iran and Iraq, already had exchange and trade systems relatively free of restrictions, and all of the member states (Bahrain, Oman, Qatar, and U.A.E.) in the Gulf had opted for Article VIII. Iran and Iraq have liberalized their exchange policies, but they continue to maintain restrictive trade policies though to a much lesser degree than before 1974. Iranian imports are projected to double in 1974 as compared with 1973; total imports in 1973 amounted to $4000 million. Iraq has increased exchange allocations under the import program for 1974/75 by 81 per cent to ID 1.25 billion. Recent measures taken by four of the major Middle Eastern countries, namely, Iran, Pakistan, Egypt, and Iraq, are summarized below.

Iran

In Jyly 1973, the Iranian Government decided to liberalize imports of certain consumer goods and raw materials in order to bring down the internal price level of mass consumer goods. The Government also lifted the import registration fee of 5.5 per cent from certain commodities, including vegetable oils, some wool and iron products, antibiotics and some other pharmaceuticals. Import of some textiles was relaxed,1/ and import of radio receivers combined with tape recorders was authorized. Import deposit requirement for dried leguminous vegetables was abolished, and was reduced to 15 per cent on some other food products (butter, white cheese, wheat, barley, corn, eggs, and also on cement). Commercial benefit tax was eliminated from a number of commodities (unwashed wool, leather for shoe soles, butter, white cheese, potatoes, barley, plate glass), and was reduced on a number of other commodities.

In a further drive against inflation, the Iranian Government announced substantial reductions of import tariffs on a wide range of products on New Year's Eve (March 21, 1974). In an effort to increase the supply of raw materials and consumer goods, import taxes on 216 items were either reduced or eliminated; the ban on 18 other imports was lifted, and the import of 29 more items was allowed subject to prior approval of the Ministry of Economy. In a similar move, the commercial banks were allowed to increase advances for the import of commodities in short supply by 15 per cent during the six months from March 21 this year. The aim was to bring down prices and increase the supply of goods to absorb excess private liquidity arising from larger oil revenue.

In an unprecedented move, the Government also imposed a ban on certain exports. The ban was applied to cotton (raw and ginned), cotton textiles, beef, mutton, lamb, veal, poultry, butter, animal glue, cheese, vegetables, rice, all varieties of cement, tires and tubes of all kinds, leather and hides of all kinds, and some paper products.

1/ On June 10, 1974, all restrictions on imports of textiles made of mixed synthetic and natural yarn were lifted. The Central Bank instructed the commercial banks that import of such textiles would no longer require prior approval of the Ministry of Economy.

In January 1974, certain liberalization measures in the exchange system were also taken. Exporters were exempted from exporter's undertakings, and were permitted to sell their foreign exchange earnings to authorized banks at the official rate, or noncommercial free market. The commercial banks were allowed to purchase foreign exchange from exporters of commodities and services, and sell such foreign exchange in whatever manner they considered advisable; but it was required that the sale of noncommercial foreigh exchange by any bank should not exceed the amount purchased from customers by that bank.

While it appears that there are no restrictions on current international payments and transfers, it is not possible to make a definitive statement about the free flow of capital. Recent government announcements leave the impression that there are no restrictions on current as well as capital flows. Exporters may keep their proceeds abroad, and large amounts of foreign exchange may be taken out of the country with minimum of red tape, but there is no legal documentation whether residents can purchase foreign securities or invest freely in foreign companies.

No information is available on the magnitude of recent private capital flows to and from Iran; however, public capital flows from Iran, based on recent commitments, has been of enormous magnitude. During the first seven months of 1974, Iran has lent or has committed her to lend in future more than $13 billion. These loans will go to Asian, African and European countries, as well as to international organizations. The major recipients of these loans are England, France, Egypt, Afghanistan, Pakistan, Sudan, India, Senegal, the International Monetary Fund, and the World Bank. By purchasing 25 per cent of the Krupp's industrial empire, Iran has also taken the first step in investing directly in private enterprises of the industrial countries.

As indicated above, it seems that Iran at present does not maintain any restrictions on current international payments and transfers. Her balance of payments position is very strong and is likely to remain strong for the foreseeable future. It is, therefore, logical that Iran should opt for Article VIII, and eliminate all restrictions, if any, on current payments.

Egypt

Egypt has recently initiated some wide-ranging changes in its economic policies. The external sector has been given priority in the implementation of the "open door" policy. A number of specific measures have already been taken in the field of foreign investment, trade regulations, and exchange rate policy. The new investment law provides for greater incentives and improved guarantees for foreign investment. The new law provides for transfer of net profits abroad without limit, but in the same currency in which the capital was introduced. The investors are allowed to hold convertible currency accounts to meet import requirements. Foreign investment is guaranteed against expropriation or sequestration. New investments enjoy a tax holiday for five years from the date of establishment. Foreign companies are also freed from a rule requiring 51 per cent Egyptian ownership, and from taxes on machinery imports.

As a result, large inflows of foreign capital is expected into the country. It is too early to assess the reactions of private investors, but bilateral public investment (commitments) has risen sharply in recent months. Iran has pledged to invest about $1 billion over a five-year period; the U.S., Japan, and Germany have also made large investment commitments. The investment law also provides for free zone industrial parks.

The Government also took an extraordinary step in allowing branches of foreign banks to be established in the country.

In the exchange and trade field, some liberalization has taken place in recent months. In September 1973, a parallel foreign exchange market for certain convertible currency transactions was introduced. This market covers the convertible currency proceeds from most minor exports, most private current invisible receipts, virtually all import payments by the private sector and the tourist industry, some of those by the private sector and tourist industry, as well as some of those by the public sector.

Transactions in the parallel market are subject to 50 per cent premium on foreign exchange receipts, and a surcharge of 55 per cent on foreign exchange sales relative to the official rate.

Pakistan

In the second half of 1973, Pakistan imposed restrictions on some major exports, including cotton and cotton yarn. A ban was also imposed on beef, mutton, poultry, grain, flour, and dairy products. Export of sugar and vegetables was also prohibited. These actions were taken in anticipation of possible shortages due to floods. It was further believed that due to very strong demand for these commodities on world markets, sufficient quantities may not be available for domestic use.

To ease the domestic supply situation and reduce price pressures, the import of certain commodities which were previously banned were allowed. Import of inputs for the agricultural sector was liberalized; a number of consumer goods (i.e., refrigerators) were transferred under the Free List Imports on joint basis from any country, whether for reasons of convenience, economy, or because of suppliers' inability to furnish goods in small authorized consignments.

The ban on cotton exports was lifted in October 1973, but the export ban on most food products is still in effect. The export duty on cotton yarn was abolished in August 1974, but raw cotton is still subject to duty. Import liberalization policies undertaken in 1972 were followed in 1973 and 1974, though at a much slower pace.

Iraq

No substantial change had taken place in Iraq's commercial and exchange policies in 1973 and 1974. However, the amount of exchange made available for imports under the exchange budget was nearly double that envisaged in the original program for 1973/74. Exchange allocations under the import program for 1974/75 was raised to ID 1.25 billion, an increase of 81 per cent over the previous year. These larger foreign exchange allocations may indicate that although Iraq continues to maintain its complex import licensing procedures, she has allowed a far larger volume of imports as the balance of payments position has improved. But there is no economic justification for continued restrictive policies, as the balance of payments has improved considerably over the past two years, and the reserve position is very strong. Foreign exchange reserves at the end of August 1973 were about fourfold the amount allocated for imports in 1973/74, and about two and a half times the amount envisaged in the import program for 1974/75

Persian Gulf Countries

There are no restrictions on current international payments and transfers in the Gulf countries (Bahrain, Kuwait, Oman, Saudi Arabia, and United Arab Emirates). They follow liberal trade policies and all have opted for Article VIII under the Fund's Articles of Agreement. Oman, which had originally opted for Article XIV, switched to Article VIII in 1974.

Memorandum for files

Y. Iura
November 8, 1974

Meeting with Mr. Ashrafi, Deputy Minister, Ministry of Finance and Economy on External Finance information

I met briefly with Mr. Ashrafi to discuss the extent of external finance information which will be made available to the mission. Mr. Ashrafi's subordinate, Mr. Khalili, whom I had met earlier, strongly urged me to get clearance from Mr. Ashrafi before giving me information as regards existing external debt, prepayment of external public loans, and capital transfers.

Mr. Ashrafi mentioned that the Ministry of Economy and Finance is prepared to give information regarding external debt profile as of March 1974, the total amount of prepaid external loans up to present, and total amounts of capital transfer commitment and actual disbursements up to the present. He stated that the Ministry would not be in a position to discuss individual prepaid loans, and individual capital transfers because, in his view, the detailed revelation of these financial arrangements would cause delicate political consequences to the related parties. Also he would not be able to discuss prospects for the financial arrangements up to the end of current fiscal year, as negotiations are currently in progress and economic situation, including price of oil, is highly uncertain.

He mentioned that he himself does not know clearly the debt profile of Iran as of March 1974, and instructed Mr. Khalili to prepare necessary tables requested by the Fund.1/ As regards prepayment of external loans, total prepayment so far current fiscal year amounted to US$700 million,2/ and there may be some additional prepayment during the remainder of current fiscal year. The prepayment was instructed by the Minister of Finance at the end of 1973, and cautiously negotiated with the creditors taking account of terms of loans, and the past and future financial relations with creditors.3/ External financial assistance commitments to the other countries and international organizations so far this year amounted to US$7 billion including the Fund Oil Facility, "loans" to IBRD, and flows to UK, France and Pakistan. Disbursements amounted to US$2 billion, with UK and France approximately US$300-400 million each. Mr. Ashrafi mentioned that, since September, disbursements from these financial arrangements began to catch up with the oil revenue increases and the external reserves stabilized (in fact declined slightly) in October at around US$6 billion after increasing rapidly in the previous eight months; he estimated that this trend would continue at least in the few months ahead.

1/ Table 45. Maturity structure of External Debt of the Ministry of Economy and Finance as of March 1974. Table 46. Estimates of Debt Service Payments (1974/75-1979/80) on External Debt Outstanding as of March 1974. Table 63. External Debt by Creditor Countries and Institutions as of March 1974.

2/ Compared with outstanding debt as of March 1974 of US$3.5 billion, including some debt operations of Ministry of War.

3/ Mr. Khalili explained later that there was some confusions within the Government as regards the selection of loans to be negotiated for prepayment. Initially any loans with interest rates in excess of 7 per cent and with floating interest rates were selected; later loans with rates in excess of 9 per cent. Total number of prepaid loans is between 15 and 20.

OFFICIAL **OUTGOING MESSAGE** OFFICIAL

INTERNATIONAL MONETARY FUND

WASHINGTON D.C.

CC: MD
DMD
MR. AMUZEGAR
~~XXR~~
~~MED~~
LEG
~~RES~~
ETR
SEC TRE

FOR PREPARING OFFICER

- [ ] Night Letter
- [ ] Full Rate
- [ ] Code

SPECIAL INSTRUCTIONS

EBM/74/140 (11/6/74)

EBS/74/394 (11/1/74)

Cl... ed with:

Middle Eastern

TRE

LEGAL

DISPATCHED NOV 7 - 1974 IMF CABLE ROOM

To: Governor
Bank Markazi Iran
~~P.O. Box 3362~~
Teheran, Iran

I. Executive Directors took following decision November 6:

QUOTE

The Managing Director shall make arrangements for consultations to agree the means in which payment of interest will be made under the agreements to borrow entered into pursuant to Executive Board Decision No. 4242-(74/67), adopted June 13, 1974. Payment of interest shall be made in accordance with the policy and procedure set forth in EBS/74/394. The Executive Directors shall be informed promptly of the interest paid and the assets used.

UNQUOTE

II. ~~XXXXXXXXX~~ Fund will be in communication regarding implementation of decision.

Hebbard
Interfund

Drafted by JAKay/crw

...ment SEC

Date 11/6/74

AUTHORIZATION

Signature

W. Lawrence Hebbard

Second Signature When Required

FOR CODE ROOM

Time Received 2:00 PM NOV. 7

Time Dispatched 2:05 PM

Number of Words 3 mins

Log 238950

Route RCA

Operator HS

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SEC-17

Mr. Nowzad

Office Memorandum

File IRAN

TO : Mr. Mookerjee

DATE: October 17, 1974

FROM : Yukio Iura Y.I.

SUBJECT : Iran: 1974 Article XIV Consultation

The 1974 Article XIV Consultation discussions with the Iranian authorities are scheduled to be held in Teheran from November 16-23. Mr. Gunter will lead the Fund team. The following appear to be the major ETR policy issues to be covered during the consultation discussions. I would appreciate an opportunity to discuss them with you before my departure (November 1).

1. Balance of payments and reserve management

The quadruple increase in petroleum prices has changed the Iranian balance of payments prospects drastically. In 1974/75 (ending in March), net foreign exchange receipts from the oil sector may exceed SDR 17 billion and a current account surplus of SDR 9-10 billion is expected, compared with the SDR 0.5 billion current account surplus in 1973/74. The mission will discuss with the Iranian authorities the validity of these estimates for the current year, and prospects for 1975/76. The Iranian authorities have already made substantial adjustments in their balance of payments policies, intended external debt prepayments, curtailment of new official borrowings, contributions to international and regional organizations, and commitments in bilateral trade or aid agreements. Despite these adjustments, international reserves of the Central Bank increased from US$1.2 billion in December 1973 to US$6.3 billion in August 1974, and further sharp increases are in prospect. The mission will inquire, as far as possible, into Iran's monetary reserve management and investment policy, which is currently a major international concern. Sporadic information on this matter is now available including a new "Portfolio" Committee established in the Central Bank and its related activity to achieve diversification of Iran's monetary reserves, etc.

2. Exchange rate and exchange system

In February 1973, the par value of the Iranian rial was maintained in terms of SDRs and the rate for the U.S. dollar (the intervention currency) was changed from Rls 75.75 to Rls 68.17. In June 1973, the official buying and selling rates for the U.S. dollar were changed to Rls 67.50 and Rls 67.75, respectively, which remained within a narrrow margin of plus-minus one per cent based on the par value equivalent for the U.S. dollar. Iran availed itself of wider margins in October 1973.

In January 1974, the Central Bank announced that it would authorize a "noncommercial free market", in which banks were allowed to purchase foreign exchange earnings resulting from exports and services at current free market rates and to sell this foreign exchange in any manner and for any purpose. While the full implication of the January measure is not clearly known, the move appears to imply two major changes: (1) So long as any payments and transfers for current (or possibly capital) international transactions are made at the "noncommercial free market" rate, residents could get unlimited access to foreign exchanges; and (2) theoretically, the "noncommercial free market" rate could fluctuate to any level depending on the market situation. The Fund was alerted in January 1974 that this might constitute multiple currency practices (see Mr. Ray's memo of February 4, 1974) because the authorities were apparently endorsing this fluctuating rate structure and a substantial amount of transactions appeared to be carried on at the free rate. Available information suggests, however, that the "noncommercial free market" rate in fact has scarcely differed from the official buying or selling rates, well within the narrow margin of plus-minus one per cent. The Bank Melli, a leading commercial bank, initially posted the noncommercial rate per U.S. dollar (on January 15) at Rls 68.00 buying and Rls 68.50 selling. This noncommercial free rate (posted by the Bank Melli and followed by other commercial banks) later moved closer toward the official rate. In addition, available information suggests that Iran's traditional unofficial market outside the banking system may have almost disappeared since January 1974, and the unofficial exchange rates moved closer still to the official rates. The implication of unlimited access to foreign exchange when transactions are carried on at "free" rates, is far greater. The remaining current account restrictions1/ as mentioned in Mr. Ashiabor's memorandum of July 16, 1973, may have been entirely eliminated, which the mission is going to ascertain.

Iran has not shown its intention of assuming Article VIII obligations. Mr. Yaganeh, the Governor of the Central Bank is reportedly reluctant to any such move and Mr. Gunter has remained neutral on this matter. Before any move to Article VIII status Iran would have to commit itself to the earliest possible elimination of the bilateral payments agreements with Fund members (see below).

3. Commercial policy

Since the huge balance of payments surplus began to emerge, the Iranian authorities have progressively liberalized part of its trade restrictions mainly reducing import cost restrictions. The measures include: (1) A reduction in the registration fee on imports from 5.5 per cent to 1 per cent; (2) reduction in import taxation (mostly commercial benefit taxes) on a wide range of goods; (3) the elimination of import licensing for some goods; (4) substantial easing in the imports of transport equipment such as trucks, to encourage movement of goods from ports to population centers; and (5) easing of import credit facilities. The partial liberalization in import restrictions was facilitated to ease the tendency of rampant inflation in the economy. However, the authorities are generally firm on protecting Iran's domestic

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1/ The remaining current account restrictions at the time of the previous Article XIV Consultation discussions in June 1973 are: (1) Transfers of personal savings of foreign technical assistants and migrant workers; (2) transfers for the payment of life insurance premiums abroad; (3) transfers of profits, dividends and interest payments for unauthorized investments; and (4) transfers to meet the cost of maintenance and repair of private property abroad.

industry from foreign competition, on the grounds that most of their industries are still in the early stage of development. A substantial number of commodities, mainly consumer goods, remain on the "unauthorized" licensing list. This protective policy, in the view of the Iranian authorities, is compatible with the rapid industrialization and establishment of an economy free from total dependence on the oil sector. The mission will review the latest changes in Iran's commercial policies, and the existing level of trade restrictions, in the face of its growing balance of payment surplus.

4. Bilateral payments arrangements

Iran currently maintains bilateral payments agreements with 10 countries; these are Pakistan and nine CMEA countries: Bulgaria, Czechoslovakia, mainland China, Hungary, North Korea, Eastern Germany, Poland, Romania, and the U.S.S.R. Three bilateral payments agreements with mainland China, Eastern Germany, and North Korea came into effect in 1973. The bilateral payments agreement between Iran (the Foreign Transaction Company of Iran) and Pakistan (the Trading Corporation of Pakistan) was identified in Islamabad when a Fund mission visited there in September 1974 for a possible stand-by arrangement. The agreement was signed on June 30, 1969 with an original period of one year and to be extended repeatedly. The current agreement is effective until March 21, 1975. The agreement includes a provision providing for special nonconvertible accounts held in the respective designated banks. While the payments agreement between Pakistan and Iran was not recorded explicitly in the previous consultation report (the Fund reports covered the regional cooperation and development agreement with Pakistan which was different from the payments agreement mentioned above), we have to record the agreement clearly in our report, after confirming this matter with the Iranian authorities.

5. External debt and external assistance

In December 1973 Iran announced that it would pay off unsatisfactory loans starting March 21, 1974. The budget for the current year allocated US$1,700 million for external debt repayment; details of actual progress in this sphere is not known. The mission will collect, as usual, the necessary information regarding Iran's debt profile, and debt control procedures. In this regard, the traditional concern of the Fund over Iran's debt servicing capacity appears to be unwarranted. The debt profile of Iran is expected to improve substantially this year given possible repayments of the existing loans, reduction in the new official borrowings, and increased oil revenues.

The focus for the mission appears to have shifted to an intended external assistance by the Iranian Government. According to the Iranian authorities 1/ the total aid or investment commitments by Iran in bilateral and multilateral forms thus far have reached US$7.7 billion. This total includes lines of credit given to France

1/ The speech of Mr. Ansary, Minister of Economic Affairs and Finance on October 1, 1974 at the IMF/IBRD Annual Meeting.

and the United Kingdom, US$1.3 billion and US$1.2 billion respectively. We have thus far collected information on Iran's external assistance based on press reports. It will be important for the mission to discuss directly with the authorities the implication of Iran's future assistance policy particularly with the developing countries.

cc: Mr. Dakolias
Mr. de Looper
Mr. Gerhard
Mr. Nowzad
Mr. Williams

DRAFT 1
GJewayni:bjw
10/16/74

MEMORANDUM FOR THE FILES

Subject: Recent Trade and Exchange Policy Developments in Selected Middle Eastern Countries

Some major developments in the second half of 1973 and early 1974 resulted in wide-ranging changes in trade and exchange policies of some of the Middle Eastern countries. Rising international prices and spo~~r~~t shortages of some agricultural commodities in 1973 led to significant relaxation in import policies of several of the Middle Eastern countries. To moderate internal inflation, some countries also resorted to prohibition of some exports to assure adequate local supplies of these commodities.

The sharp rise in oil prices in late 1973 and early 1974, resulted in further liberalization of trade and exchange policies of most of the Middle Eastern countries. Oil producing countries, with the exception of Iran and Iraq, have exchange and trade systems free of restrictions, and all of the member states (Bahrain, Oman, Qatar, and U.A.E.) in the Gulf have opted for Article VIII. Iran and Iraq have liberalized their exchange policies, but they continue to maintain restrictive trade polic~~y~~ies, though to a lesser degree than before 1973. Recent measures taken by four of the major Middle Eastern countries, namely, Iran, Pakistan, Egypt, and Iraq, are summarized below.

Iran

In July 1973, the Iranian Government decided to liberalize imports of certain consumer goods and raw materials in order to bring down the internal price level of mass consumer goods. The Government also lifted the import registration fee of 5.5 per cent from certain commodities, including vegetable oils, some wool and iron products, antibiotics and some other pharmaceuticals. Import of some textiles was relaxed,[1/] and import of radio receivers combined with tape recorders was authorized. Import deposit requirement for dried leguminous vegetables was abolished, and was reduced to 15 per cent on some other food products (butter, white cheese, wheat, barley, corn, eggs, and also on cement). Commercial benefit tax was eliminated from a number of commodities (unwashed wool, leather for shoe soles, butter, white cheese, potatoes, barley, plate glass), and was reduced on a number of other commodities.

In a further drive against inflation, the Iranian Government announced substantial reductions of import tariffs on a wide range of products on New Year's Eve (March 21, 1974). In an effort to increase the supply of raw materials and consumer goods, import taxes on 216 items were either reduced or eliminated; the ban on 18 other imports was lifted, and the import of 29 more items was allowed subject to prior approval of the Ministry of Economy. In a similar move, the commercial banks were allowed to increase advances for the import of commodities in short supply by 15 per cent during the six months from March 21 this year. The aim was to bring down prices and increase the supply of goods to absorb excess private liquidity arising from larger oil revenue.

In an unprecedented move, the Government also imposed a ban on certain exports. The ban was applied to cotton (raw and ginned), cotton textiles, beef, mutton, lamb, veal, poultry, butter, animal glue, cheese, vegetables, rice, all varieties of cement, tires and tubes of all kinds, leather and hides of all kinds, and some paper products.

1/ On June 10, 1974, all restrictions on imports of textiles made of mixed synthetic and natural yarn were lifted. The Central Bank instructed the commercial banks that import of such textiles would no longer require prior approval of the Ministry of Economy.

In January 1974, certain liberalization measures in the exchange system were also taken. Exporters were exempted from exporter's undertakings, and were permitted to sell their foreign exchange earnings to authorized banks at the official rate, or noncommercial free market. The commercial banks were allowed to purchase foreign exchange from exporters of commodities and services, and sell such foreign exchange in whatever manner they considered advisable; but it was required that the sale of noncommercial foreign exchange by any bank should not exceed the amount purchased from customers by that bank.

While it appears that there are no restrictions on current international payments and transfers, it is not possible to make a definitive statement about the free flow of capital. Recent government announcements leave the impression that there are no restrictions on current as well as capital flows. However, there has not been any recent mission to Iran, and the Fund has not had the opportunity to make a detailed and thorough study of the exchange system.

No information is available on the magnitude of recent private capital flows to and from Iran; however, public capital flows from Iran, based on recent commitments, has been of enormous magnitude. During the first seven months of 1974, Iran has lent or has committed her to lend, more than $13 billion. These loans will go to Asian, African and European countries, as well as to international organizations. The major recipients of these loans are England, France, Egypt, Afghanistan, Pakistan, Sudan, India, Senegal, the International Monetary Fund, and the World Bank. By purchasing 25 per cent of the Krupp's industrial empire, Iran has also taken the first step in investing directly in private enterprises of the industrial countries.

As indicated above, it seems that Iran at present does not maintain any restrictions on current international payments and transfers. Her balance of payments position is very strong and is likely to remain strong for the foreseeable future. It is, therefore, logical that Iran should opt for Article VIII, and eliminate all restrictions, if any, on current payments.

Egypt

Egypt has recently initiated some wide-ranging changes in its economic policies. The external sector has been given priority in the implementation of the "open door" policy. A number of specific measures have already been taken in the field of foreign investment, trade regulations, and exchange rate policy. The new investment law provides for greater incentives and improved guarantees for foreign investment. The new law provides for transfer of net profits abroad without limit, but in the same currency in which the capital was introduced. The investors are allowed to hold convertible currency accounts to meet import requirements. Foreign investment is guaranteed against expropriation or sequestration. New investments enjoy a tax holiday for five years from the date of establishment. Foreign companies are also freed from a rule requiring 51 per cent Egyptian ownership, and from taxes on machinery imports.

As a result, large inflows of foreign capital is expected into the country. It is too early to assess the reactions of private investors, but bilateral public investment (commitments) has risen sharply in recent months. Iran has pledged to invest about $1 billion over a five-year period; the U.S., Japan, and Germany have also made large investment commitments. The investment law also provides for free zone industrial parks.

ORIG - Pakistan
C.C. - Iran Pakistan MR. McLenaghan
File

September 27, 1974

MEMORANDUM FOR FILES

Subject: Bilateral Payments Agreement between Pakistan and Iran

A previously unknown bilateral payments agreement between the Trading Corporation of Pakistan and the Foreign Transaction Company of Iran, Tehran, was discovered in the course of the recent consultation discussions with Pakistan.

The agreement was signed on June 30, 1969 with an original validity of one year, subject to further extension. On June 26, 1974 (State Bank of Pakistan: Foreign Exchange Circular No. 46) this agreement was extended until March 21, 1975; but only for exports from Pakistan to Iran. At the same time the number of exportable items from Pakistan under the agreement was expanded.

During the discussions in Islamabad in September 1974, the staff team noted that the provision for special nonconvertible accounts under the agreement indicated that the agreement probably would be regarded as a bilateral payments arrangement. At that time the Pakistan authorities explained that the extension of the agreement covered only exports from Pakistan to Iran and was for the purpose of the elimination of the remaining balance under the agreement.

Since the Pakistan authorities do not intend to renew the agreement, which initially was based on exports from the former Eastern Wing of Pakistan, and since the purpose of the renewal is clearly to eliminate the outstanding balance through trade rather than convertible currency settlement, the staff team took the position that the agreement is not operative any more. Consequently, the agreement is not mentioned in the draft letter of intent.

PE

Peter Engström
Economist

Attachment.

cc: Mr. Gunter
Mr. Mookerjee
Mr. de Looper
Mr. Hitti
Mr. McLenaghan ✓
Mr. Buira-Seira

Copy

AGREEMENT

Between the Trading Corporation of Pakistan Limited and the Foreign Transactions Company of Iran.

The Trading Corporation of Pakistan Ltd.(afterwards to be called TCP) and the Foreign Transactions Company of Iran, Tehran (afterwards to be called FTC) hereinafter known as - contracting parties, have agreed to enter into an agreement to implement, on a self-balancing basis, the exchange of commodities and goods between Pakistan and Iran.

For this aim, the following was agreed:

Article I

The TCP and FTC will organize the exports and imports of the goods and commodities listed in schedule A & B upto the value mentioned against each group of items. These schedules are an integral part of this agreement.

Article 2

The TCP and FTC will secure from their respective competent authorities the issuance of the necessary permits for the items listed in schedules 'A' and 'B' subject to - export and import laws and regulations in force in each - country.

Article 3

All transactions under this agreement shall be subject to internationally competitive prices of the goods and commodities and the quality and specifications shall be in - accordance with acceptable standards.

Article 4

The contracting parties shall take necessary measures to ensure that the goods imported from the country of one party shall not be re-exported to a third country without the prior approval of the other party.

Article 5

For the purpose of transactions under this agreement the TCP will secure authorisation of the State Bank of Pakistan for opening of a special non-convertible account in the name of the Bank Markazi of Iran, or any other Bank to be designated by them, with a scheduled Bank in Pakistan, and the FTC will secure the authorisation of the Bank - Markazi of Iran for opening of a similar account in the - name of the designated Bank in Pakistan.

All transactions under the agreement shall be routed through the said special non-convertible account and all-licences, permits and authorisations issued to cover the - trnasactions will be registered by the designated Bank in Pakistan and Iran and will bear clear reference to that - account. This account can also be utilised for payment to cover commissions and other similar charges connected with transactions within the framework of this agreement.

The said account will be a self-balancing account. To facilitate the transactions, the designated Bank in Pakistan and the designated Bank in Iran may grant to each other a credit upto such amounts as may be agreed between the two designated Banks in the special non-convertible account - during the period of validity of this agreement. The said - credit limit may be exceeded on such terms and conditions as may be agreed upon between the two designated Banks.

The details of the banking arrangements, will be settled mutually between the two designated Banks. The interest, if any, will be free of any charges and taxes.

The special non-convertible account mentioned above - will be expressed in U.S. Dollars. All contracts drawn under this agreement and the relative invoices will also be expressed in U.S. Dollars.

Article 6

In operating the said non-convertible account the - following procedure shall be observed:

a - Payments to be made under this agreement shall be effected by crediting or debiting, as the case may be, the above-mentioned account. The crediting or debiting will be done in accordance with the terms and conditions of the relevant contracts.

b - If at the expiry of the validity of this agreement there is a balance in favour of one of the Banks operating the account, the same shall be used during the ensuing six months for the purchase of the Pakistani or Iranian goods, as the case may be or shall be settled in such other way as may be agreed upon between the two contracting parties; provided - that if a small balance not exceeding U.S. $ 250 remains unadjusted for six months after the termination of this arrangement, the amount may be adjusted through the accounts under the R C D Union for multilateral payments arrangements.

<u>Article 7</u>

The commodities listed in schedules 'A' and 'B' and the values shown against each group may be amended or additional commodities added to them by mutual agreement between the - contracting parties.

<u>Article 8</u>

The provisions of this agreement shall remain in force in respect of the contracts concluded within its framework during the validity of the agreement and even after the expiry of the period of validity and all the contracts concluded under this agreement shall include reference to this stipulations . In order to facilitate the implementation of the agreement, the two contracting parties shall review the working of this agreement and any consequential problems arising therefore at the ~~expiry~~ expiry of one year from the date of its operation and compare debits and credits on [illegible] side with a view to designing such measures as may be mutually agreed upon to rectify the imbalance, if any, in favour of the one or other side.

<u>Article 9</u>

This agreement shall come into force on the date of its signing and will remain valid for one year. The validity of the agreement may be extended for such period as may be agreed upon mutually between the two contracting parties.

This agreement is signed on June 30th 1969 at Tehran in two originals in the English language, both of which are equally authentic.

For and on behalf of the Trading Corporation of Pakistan Limited	For and on behalf of the Foreign Transactions Company of Iran.
Sd/- Z.A. Shah	Sd/- GH. Homayoon

30th of June, 1969.

SCHEDULE 'A'

Exports from Iran.

	Value in US. $.
Group I	
Buses	300,000
Group II	
Lubricants (subject to confirmation by respective authorities)	200,000
Exposed cinematographic films.	20,000

SCHEDULE 'B'

Export from Pakistan

Group I	
Bananas) Pineapples) if required)	300,000
Group II	
Soda ash) DDT)	200,000
Exposed cinematographic films.	20,000

30th of June, 1969 at Tehran.

OFFICIAL **OUTGOING MESSAGE** **OFFICIAL**

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

CC: MD
DMD
MR. AMUZEGAR
MED
LEG
RES
~~ETR~~
SEC
TRE

FOR PREPARING OFFICER
- [ ] Night Letter
- [ ] Full Rate
- [ ] Code

SPECIAL INSTRUCTIONS

EBS/74/214 (7/18/74)

For despatch after 5.30 pm July 19.

To: Governor
Bank Markazi Iran
P.O. Box 3362
Teheran, Iran

Executive Board took following decision July 19:

QUOTE

The Fund finds after consultation with the Iranian authorities that the representative exchange rate for the Iranian rial under Rule O-3, paragraph (c)(i), against the U.S. dollar, is the middle rate between buying and selling rates established by the Bank Markazi, Iran. The Bank Markazi, Iran will immediately communicate to the Fund any changes in these rates when they occur.

UNQUOTE

Anderson
Acting Secretary

Cleared with:
MED
ETRD
LEG
TRE

Drafted by JKay:jmh

Department SEC

Date July 19, 1974

AUTHORIZATION

Roger V. Anderson
Signature
Roger V. Anderson

Second Signature When Required

DISPATCHED
JUL 22 1974
CABLE ROOM

FOR CODE ROOM

Time Received	11:00 A.M. 7/22
Time Dispatched	12:59 P.M.
Number of Words	3 mins.
Log	228214
Route	WUI TLX
Operator	HS

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021-2A

Mr. Jakubiak

Confidential

MEMORANDUM TO THE FILES

May 21, 1974

From: John W. Gunter JWG

Subject: Notes on Special Consultations Discussions in Teheran, April 27-28, 1974

I held special consultations discussions in Teheran and these have been reported on to the management in a memorandum dated May 9, 1974. The following sets out in more detail the discussions that took place and the information provided to me.

1. It was made clear but without specific statement that no serious thought is being given to an alteration of exchange rate policy at this time. It was also clear that no thought had been given as to what action would be taken if the spread between buying and selling rates in the free and official markets for any currency deviates by more than 2 per cent. At the present time this is regarded as a most unlikely development as the forces are strongly in the other direction and the present spread between rates in the two markets is nominal. (It will be necessary before the next Article XIV consultation to decide whether it is necessary to press Iran to take a formal position on this question.) For the time being no thought is being given to moving to Article VIII particularly since such a move is not considered necessary by the Fund to enable Iranian rials to be used in Fund transactions. There has been no clear decision on the use of rials by the Fund with Governor Yeganeh tending to be opposed.

2. A table is attached showing foreign exchange receipts and expenditures as estimated for 1973/74 by the Central Bank as well as projections for 1974/75. These data cover the official market only and the expectations with respect to the free market are discussed below. The current account surplus for 1974/75 is estimated at $6.7 billion while the inclusion of the free market would add approximately $0.4 billion.

Iranian policy is to stimulate imports in order to achieve a disinflationary effect and a number of specific steps have been taken. (a) The registration fee on imports has been reduced to 1 per cent from 5.5 per cent. (b) Import taxation (mostly commercial benefit taxes) has been reduced on a wide range of goods. (c) Import licensing has been eliminated for some goods. (d) The importation of trucks, particularly accompanying the importation of other goods is being encouraged with a view to facilitating the movement of goods from the port to population centers. The import taxation on trucks has been reduced and import restrictions eased. These actions are considered by the Iranians to be of major importance. (e) Credit facilities for imports have been eased (see comments on credit policy below).

Iran: Foreign Exchange Receipts and Payments (Official Market Only)

(In millions of $)

	1973/74 (Preliminary)		1974/75 (Projection)	
Total receipts	6,200	5140	17,300	
Oil sector	5,130	4253	16,180	
Sales of gas	100	83	120	
Other exports	470	390	200	(800 in free
Services	500	414	800	market)
Total payments	5,684	4712	10,600	
Private sector	3,220	2669	6,200	
Goods	(2,800)	(2321)	(5,600)	
Services	(420)	(348)	(600)	
Public sector	2,464	2043	4,400	
Current account	516	428	6,700	
Capital account	+635	526	-3,490	
Utilization of loans	1,065		350	IBRD only
Private sector loans and credits (net)	100		160	
Repayment of loans	-530	439	-1,700	
Government investments	--	SDR	-2,300 1/	
Basic balance	1,151	883	3,210	
Accelerated payments (oil cos.)	-236	-196		
Overall balance of payments	915	759	3,210	
Net change in foreign assets	-915		-3,210	
Repayment of Central Bank medium term loans	-120		--	
Additions to foreign assets	-795	659	-3,210	

1/ Includes $700 loan to IMF, $200 in IBRD bonds, $150 to special facility and various bilateral arrangements.

There was no disagreement as to the level of import demand or the desirability of achieving the import targets indicated for 1974/75. However, I pressed the point as to the adequacy of port facilities and domestic transportation availability in relation to the realism of import targets and my assertion that the import target was unlikely to be achieved was not seriously challenged. The Iranians do believe, however, that import performance will be considerably better than past performance would lead one to believe likely. I also learned confidentially that public sector payments include a substantial element of what might be called "prepayments"; these payments should, of course, be reflected in the capital accounts.

My general conclusion is that there is no need to adjust the Fund staff estimates of the current account surplus as our estimate is probably closer to actuality than the Central Bank estimates.

The oil income projections for 1973/74 are based on average production of 5.9 million b/d and for 1974/75 production of 6.2-6.3 million b/d and an average "take" of $7.43.

We did not discuss the trend in non-oil exports but it will be noted that the increase in 1974/75 is quite high.

3. With regard to the balance of payments implications of recent measures to eliminate exchange restrictions, the Iranians expect that receipts in the free market will tend to be larger than payments and this is borne out by the fact that the free market rate now differs only nominally from the official rate. The Iranians specifically expect that there would be net private capital inflow. They indicated that the commercial banks now hold $40-50 million in balances acquired in the free market and are using these funds in some cases to meet import payments rather than drawing on the Central Bank. The exchange market outside of the banking system has been greatly reduced and the commercial banks have been told that foreign exchange may be purchased without inquiring as to source.

For 1974/75 it is expected that export receipts in the free market will amount to about $800 million and payments required to be made through this market at about $400 million. The difference will be added to the holdings of commercial banks, used to finance imports, or sold to the Central Bank. It was noted that commercial banks do not normally take much of a position in foreign exchange and that they as a group are short of rials at the present time.

4. External debt policy: Some outstanding credits are being left untouched, i.e., neither early repayment nor discontinuance of use is being contemplated. These include lines of credit under some bilateral payments agreements (mainly with Eastern Europe), lines of credit for exports from Europe and the United States (Export-Import Bank) where terms are generally good, and IBRD loans. Other credits, however, are carefully considered for possible early repayment if this is legally possible under the terms of the loan. The Iranians noted that the practice of reducing some of these credits had already started last year before the big improvement in Iran's payments situation.

In some cases early repayments on external debts are requiring the substitution of domestic financing for the institution concerned (e.g., Iranair). In some cases it is necessary to assure that domestic credit is available for continuing a project and this may need legal or procedural changes before being made effective, thus slowing down acceleration of repayment of external debt. Domestic credit in some cases is taking the form of loans to agencies from the Treasury usually through the banking system. The budget allocates $1,700 million for external debt repayment and it is hoped to use the full amount. On the unutilized portion of existing external debt the same general procedure is followed in deciding whether to use or not to use, as with respect to repayment of the utilized portion.

Borrowing from the IBRD is being continued partly because of the related technical assistance or for "institutional building" (a domestic institution acquiring prestige as a result of obtaining a loan from the IBRD). The understanding with the IBRD is that Iran will lend at least as much to the Bank as it borrows. New debts other than from the IBRD are not excluded if the terms are good.

5. External aid and direct investments: In the projections for 1974/75 government investment has been put at $2,300 million (see comment below on reserve policy for related information). This figure includes $700 million for the Fund oil facility, at least $200 million for IBRD bonds and $150 million for loans on concessionary terms hopefully through a multinational arrangement. The balance of about $1,300 million includes some direct investments in LDCs and some prepayments under a bilateral arrangement with France (a similar arrangement with the U.K. made with the Heath Government is "inoperative" at least for the time being). India is receiving considerable help: contracts are being entered into for imports of iron ore and alumina with some advanced payments being made. Mention was made of direct investments in India other than the Madras refinery. This refinery is receiving oil from NIOC with credit being provided for two-thirds of the value to be repaid over five years at 5 per cent. I was not able to get a precise figure on the value of aid to India but there was a rather vague mention of a figure of $350-400 million although just what this covered was not clear.

In general, there seemed to be a reluctance to talk about what was being provided to specific countries. But there was mention of aid to at least 8-10 countries including the Sudan, Jordan, Tunisia and Pakistan. The reference to Jordan and Tunisia may have actually been two small loans made to these countries in 1973. I got the impression that aid to Pakistan was fairly substantial. In the case of Sudan I pressed for specific information and was told that credit for two-thirds of the value of oil imports of 100,000 tons per month was being provided. This credit was for nine years with three years grace, at five per cent. The value was put at $50-60 million which I took to mean the figure for one year.

6. Monetary reserves and investment policy: I was told that monetary reserves held by the Central Bank were generally at short term and that long term investments were generally made for government account. The Central Bank has a "portfolio" committee for its investment operations and the present policy was mainly to achieve considerable diversification.

The loan to the Fund will be for government account. I took the opportunity to point out that the asset being provided by the Fund was an appropriate one to be treated as a reserve asset.

The Iranians stated that an agency or committee will be established soon to screen long term and direct investments by the Government. The establishment of this agency had been held up, I was told confidentially, because of the struggle between Ansary and Amuzegar but now that this struggle had been settled, early action was to be expected. It is planned that all external investments by the Government will be screened by this agency and in each case the investment will be appraised by the Ministry considered most competent depending on the nature of the investment. The Iranians noted that the procedure was essentially the same one that was applied in reaching a determination for an internal investment.

It is also expected that an account in foreign exchange will be established for the Government. This account will be regarded as holding funds awaiting investment. One important purpose in establishing this account is to avoid large rial balances with the Central Bank which tends to encourage appropriations for domestic expenditure.

7. Domestic policy: The Iranians asserted that their balance of payments projections, their projections of the national accounts and their monetary projections were internally consistent. They agreed with me that the weak point in their projections is that imports may not be as great as projected so that the balance of payments surplus will be larger and inflationary pressures stronger. The Iranians expressed doubt that the payments plans for the Government could be adjusted but we did not have any discussion of how realistic the projections of government expenditure for the current year are. Following are the GNP projections as given to me although I had some trouble comprehending them and did not find time to pursue the subject: The non-oil sector is expected to grow in real terms by 16 per cent while the total increase including the oil sector would be 40 per cent. In this connection oil income has been deflated by import prices. In nominal terms GNP is projected to increase by 53 per cent; thus a price increase of 13 per cent is projected. I was told that under these projections the rise in oil income would amount to 110 per cent on the basis of the foreign exchange income being deflated by the rise in import prices.

For the monetary projections in billions of rials foreign assets would have a net increase of 200 private credit also about 200 and public credit minus 260. The increase in money plus quasi-money was put at about 200 of which about 110 would be quasi-money. The total increase in liquidity would be about 34 per cent (I can see that these figures don't add up but do not know what adjustment should be made).

In discussion of monetary analysis Dr. Kooros pressed strongly the point that our analysis using end of the year figures was misleading because of the seasonal factor. I agreed that we must check this point out carefully before and during the next consultations discussions.

It was noted that the liquidity of the commercial banks was quite low partly as a result of the measures last fall on reserve requirements. The Central Bank is using the rediscounting privilege as a tool to persuade banks to lend primarily in support of imports and productive purposes. But otherwise the credit policy of the Central Bank is not designed to restrain the commercial banks.

8. I discussed the timing of the next consultations discussions only with Dr. Kooros. He thought that the first two weeks in September would be quite agreeable but this would have to be checked out with the Governor and he suggested waiting until sometime in June to firm up a date.

cc: Mr. Ray
Mr. Selehdar
Mr. Mookerjee
Mr. Hitti
Mr. Jakubiak
Mr. Gerakis
Mr. Hassanein
Eastern Division
Western Division
Central Division
Coastal Division

cc: Mr. Kwolsyel

MEMORANDUM

Confidential IRAN

To: The Managing Director
The Deputy Managing Director

May 9, 1974

From: John W. Gunter

Subject: Change in Iranian Cabinet

When I was in Teheran for special consultation discussions, there was a Cabinet reshuffle in which Mr. Jamshid Amouzegar was shifted from Finance to Interior; I am sure that this shift was very far from his personal wishes. He is replaced by Mr. Hushang Ansary, who was Minister of Economy and now becomes Minister of Finance and Economy. The Ministry of Economy is split in two, with part of the Ministry going to a new Ministry of Industry. Presumably Mr. Ansary will take over from Mr. Amouzegar negotiations relating to petroleum matters, but there was no statement on this. It was clear that Mr. Ansary now becomes by far the dominant minister on economic affairs, in contrast to the strong rivalry existing previously between the two men.

I do not believe that Dr. Jahangir Amuzegar's position as Executive Director is threatened as a result of this shift, as Jahangir's strength relates to his close association with the Prime Minister. Governor Yeganeh's position has, however, become considerably more difficult because he is known for his close association with Mr. Jamshid Amouzegar, who was largely responsible for his appointment last year as Governor.

The Managing Director may recall that the original schedule of appointments for him in Teheran in February included Mr. Ansary and at the last minute this meeting was cancelled. I had insisted that the meeting be put on the schedule in the first place. I have now been told that cancellation of this appointment was at the direct intervention of Jamshid Amouzegar. The Managing Director did meet Mr. Ansary, I think, in the Prime Minister's office but as far as I am aware did not have extended conversation with him.

Mr. Ansary is favorably disposed to the Fund. I have known him fairly well for a number of years beginning with when he was Iranian Ambassador in Washington some years ago.

cc: Mr. Polak
Mr. Gold
Mr. Sturc
Mr. Ray
Mr. Selehdar

RECEIVED
MAY 13 1974
EXCHANGE & TRADE RELATIONS DEPARTMENT

Office Memorandum

021-2A

TO : Mr. Gunter

DATE: April 1, 1974

FROM : S. H. Hitti

SUBJECT : Iran - April 1974 Special Consultation

Attached please find:

1. Two copies of the memorandum on Iran's exchange system and possible move to Article VIII.

2. Draft of communication to the Fund should they decide to move to Article VIII. If they are not willing to commit themselves to a specific date for the termination of the bilateral arrangements, their communication may end with the word period. However, Fund approval will be for a limited period of time and the proposed decision in the staff paper will mention a specific date.

3. A summary table on Iran's Foreign Exchange Receipts and Payments (including current account projections for 1973/74 and 1974/75). No attempt has been made to forecast the expected movements on the capital account as these are expected to reflect mainly the changes in policy and could not be estimated on the basis of past trends.

4. A table on Factors Affecting Changes in Money and Quasi-Money. The rate of growth in private liquidity declined to 16 per cent in the first nine months of 1973/74 from 20 per cent in the corresponding period of 1972/73 as a result of the switch around in the movements of net foreign assets. This had probably resulted from the change in policy with respect to external borrowing in anticipation of increased oil revenues in 1974. It is likely that there was a switch to domestic borrowing by the Government and an acceleration in the repayment on the Government's external debt. Although the monetary data show a decline in net foreign assets, the balance of payments position recorded a small surplus (that is the change in net foreign assets of Bank Markazi and the commercial banks showed a small increase which was then offset by the rise in the foreign liabilities of the specialized banks). The commercial banks have been borrowing abroad presumably to circumvent the liquidity restraints imposed by Bank Markazi. Credit to the private sector was rising at a faster rate in 1973/74 than in the like period of the previous year. The success of their policy to restrain the expansion of credit to the private sector will be determined in the fourth quarter of the year.

5. Mr. Wittich has advised me that a special note on the use of currencies of Article XIV countries in Fund transactions has been prepared for the Managing Director and a copy has been sent to you.

120

February 4, 1974

Dear John:

We have agreed with the ETR and Legal Departments that the follow-up to the Board circular on Iran's new exchange policies (copy attached) can await the next Article XIV consultation report. However, I thought that you might like to have the following briefing in case you wish to discuss this matter with Governor Yeganeh.

Fund jurisdiction arises in terms of the requirements of paragraphs 1 and 5 of Executive Board Decision 3463 of December 18, 1971 as amended (copy attached). These requirements incorporated into Iranian law by Article 1,d of the Monetary and Banking Law, necessitate that Bank Markazi ensures, through appropriate intervention policies, that all spot exchange rates for private and public international transactions are maintained within the wider margin limits (Rls 69.7086 per U.S. dollar selling and Rls 66.6408 per U.S. dollar buying). That decision also states that "no member shall permit a difference in excess of 2 per cent between any two buying or any two selling rates for spot exchange transactions between its currency and the currencies of other members; or a spread in excess of 2 per cent between a buying and a selling rate for spot exchange transactions between its currency and the currency of another member."

The broad implications of these requirements are that Bank Markazi would have to intervene in one or both exchange markets at the wider margin points; and in order to meet the other requirements of the above mentioned decision.

The lawyers say that because of the introduction of a "free" exchange market we need to ascertain from the Iranian authorities whether it is their intention to manage the exchange markets in a manner consistent with Executive Board Decision 3463 of December 18, 1971 as amended. Such a statement could be addressed to you or to the Secretary. In the absence of such information we are unable to determine whether the new exchange markets arrangement gives rise to a multiple currency practice requiring Fund approval; such a determination could wait until the forthcoming consultation discussions.

Best regards.

Sincerely yours,

A.S. Ray

Mr. John W. Gunter

cc: Messrs. Mookerjee, Surr, Hitti

120

DRAFT MEMORANDUM

To: Members of the Executive Board

From: The Secretary

Subject: Iran - Exchange System

The Secretary has received the following communication dated January 21, 1974 from Mr. Amuzager.

(communication)

The exchange and trade system of Iran is described in "Iran: Recent Economic Developments," SM/73/220, Appendix V, pages 110-116.

Prior to the issuance of the above instructions, exporters were required to offer for surrender to authorized banks at official exchange rates the exchange proceeds from exports within eight months of export. The use of exchange holdings and acquisitions by authorized banks was regulated by the Central Bank. Broadly, the staff understands the implications of the new regulations to be that there will be a free exchange market based on exchange receipts from exports, services and certain capital inflow but that exchange for approved purposes will continue to be made available by the Central Bank at the official rate (the intervention currency is the dollar and the Central Bank buys U.S. dollars at Rls 67.50 per US$1 and sells U.S. dollars at Rls 67.75 per US$1. Iran has availed itself of wider margins). While the measures may be seen as part of a continuing process of liberalization of the exchange system (see "Iran: Staff Report and Proposed Decision for the 1973 Article XIV Consultation," SM/73/209, pages 10-11), the possible exchange rate implications of the measures are not immediately clear. On the initiation of the new arrangements, the U.S. dollar in the free market was quoted at a small premium against the Central Bank's official rates but the free market selling rate was within 2 per cent of the Central Bank's buying rate and all rates were within the wider margins. The staff will be in consultation with the Iranian authorities on this matter.

67.75
2
135.50

67.75
1.36
66.39

67.50
1.38
68.86

68.86
2
137.72

Iran: Rates per U.S. Dollar - January 15, 1974

	Central Bank Rates	Free Market Rate	Bazaar
Selling point of wider margin 1/	69.70		
		68.86 selling non-commercial	
Selling		68.50	68.50
Par Value 1/	68.17		
Buying		68.00	
Selling	67.75		
Buying	67.50		
		66.39 buying non-commercial	
Buying Point of wider margin 1/	66.64		

2 per cent

2 per cent

1/ Rates rounded to two decimal points.
2/ Kayhan International January 16, 1974.

Note: Under paragraph 5 (i) of Executive Board Decision No. 3463 (Central Rates and Wider Margins) a multiple currency practice would result from the free market selling rate rising above Rls 68.86 per U.S. dollar while the official buying rate remains at Rls 67.50 per U.S. dollar (i.e., Rls 67.50 + 2 per cent of Rls 68.17 (par value equivalency) = Rls 67.50 + Rls 1.36).

66.39
13
66.52

86
15
.71

65

68.50
15

Mr. Sturc

cc: Mr. Mookerjee
cc: Mr. Mohammed

MEMORANDUM

To: The Managing Director
The Deputy Managing Director

January 4, 1974

From: John W. Gunter

Subject: Press Conference of the Shah of Iran on December 23, 1973

We would like to call your attention to two questions put to the Shah and his answers. You will note that the Shah, in the second question, visualizes the need for discussions with the Fund.

Attachment

RECEIVED
JAN 7 1974
EXCHANGE & TRADE RELATIONS DEPARTMENT

cc: ~~Mr.~~ Sturc
Mr. Polak
Mr. Gold
Mr. Gurfinkel

Taken from the Middle East Economic Survey of December 28, 1973

Q: Your Majesty, in view of your hopes that the oil producing countries will now have extra money perhaps to invest in developing countries, what do you think the effect of this higher prices would be on the developing countries, particularly the non-Arab non-oil-producing world?

A: Very bad indeed. Very bad indeed. We can understand that. Just imagine Sweden with 8 million people is using 30 million tons of oil. I think that last year or the year before last Holland - which I think has 12 million people - was also incidentally using 30 million tons of oil. Two years ago, India with a population of more than 550 million was using only 13 million tons of oil. If India with its population of today which is very close to 600 million, if it wanted to have the same level as Holland or Sweden, and if you multiply the ratio of 8 to 30 million, that means almost four times the number of people, it should today be using 2,400 million tons of oil. Obviously that will not be the case. But India has coal; she has iron ore. I think that the suggestion that some kind of development bank be set up or financed by the very rich oil countries should help them finance the development of coal and iron. We might buy the Indian iron. We could help in so many other ways. We could expand our refinery in Madras. We could take in the Indians with us here in this country on a joint project or joint refinery. We could set up a petrochemical plant which would help them with their agriculture. But, comparatively, our country's oil revenue will be nothing compared to some others. I am not commenting, I am not even criticising at all - today Abu Dhabi has more than $40,000 per capita income, against less than $100 for Indians. Ours, comparatively, is nothing because we are 32 million people; we could spend up to the last dime of that money. But this gentleman asked me, what are you going to do with that revenue? Revise the Fifth Plan in order to absorb all these revenues? I said no, we cannot. We are going to revise the Fifth Plan. We are going to expand it a lot, maybe by one-third. But not more than that because we risk the creation of a terrible internal inflation. We are going to invest in the industrial countries. Investing there might help them with their balances of payment. We might help some of their industries. We might also invest in the developing countries, either in India - or we have projects, for instance, to go to the Sudan to raise sheep, raise cotton. We have projects to go to Australia. We could go to the Philippines. So it is not for holding money - at least we are not going to do it.

Q: Your Imperial Majesty, in addition to the balance of payments problem, there might also be a liquidity problem - namely how to find enough liquidity world-wide to actually pay for the oil. One way of tackling the problem might be for payment for the oil to be made partly in cash and partly in some other way, say in some sort of bonds. Would you care to comment on this monetary aspect of the problem?

A: Either you are a mind reader or you have a terribly good information channel. But I cannot speak for others. You see it is too soon. What we have got to do in addition to speaking to the OECD countries is to also speak with the IMF, because that also should be settled you know. Because there is really no guarantee of what is going to happen to the monetary system. They had a meeting in Kenya. No results. Now we shall see what happens at the next IMF meeting this Spring. That should be taken up there too.