

**FOR
AGENDA**

SM/10/7
Supplement 1

January 13, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **Islamic Republic of Iran—Staff Report for the 2009 Article IV
Consultation—Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2009 Article IV consultation with the Islamic Republic of Iran (SM/10/7, 1/13/10), which will be brought to the agenda for discussion on **a date to be announced**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of the Islamic Republic of Iran indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Guillaume (ext. 38520), Ms. Zermeño (ext. 37540), and Mr. Zyteck (ext. 38856) in MCD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the Islamic Development Bank, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being disseminated in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF IRAN

2009 Article IV Consultation

Informational Annex

Prepared by Middle East and Central Asia Department
(In consultation with other Departments)

January 11, 2010

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APPENDIX I. ISLAMIC REPUBLIC OF IRAN: RELATIONS WITH THE FUND
(As of November 30, 2009)

I. **Membership Status** Joined: 12/29/1945; Article VIII

II. **General Resources Account**

	<u>SDR Million</u>	<u>Percent of Quota</u>
Quota	1,497.20	100.00
Fund holdings of currency	1,497.20	100.00
Reserve position	0.01	0.00

III. **SDR Department**

	<u>SDR Million</u>	<u>Percent of Allocation</u>
Net cumulative allocation	1,426.06	100.00
Holdings	1,535.53	107.68

IV. **Outstanding Purchases and Loans** None

V. **Financial Arrangements** None

VI. **Projected Payments to Fund**

(SDR Million; based on existing use of resources and present holdings of SDRs)

	<u>Forthcoming</u>			
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Principal				
Charges/Interest	<u>0.11</u>	<u>0.11</u>	<u>0.11</u>	<u>0.11</u>
Total	0.11	0.11	0.11	0.11

Nonfinancial Relations

VII. **Exchange System**

The exchange rate is determined in the interbank foreign exchange market. The Islamic Republic of Iran maintains a de jure managed floating arrangement against a basket. The rial gradually depreciated against a composite of currencies, including the Euro, the U.S. dollar, and the Japanese yen. Effective January 4, 2008, the classification of the de facto exchange rate arrangement was changed from a conventional pegged arrangement to a crawling peg, and later in 2008, in view of further increase in exchange rate flexibility, the arrangement was reclassified to other managed arrangement. With effect from September 6, 2004, the Islamic Republic of Iran accepted the obligations under Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement. Iran maintains one exchange restriction and two multiple currency practices subject to Fund jurisdiction under Article VIII, Sections 2(a) and 3.

a. **The exchange restriction** arises from limitations on the transferability of rial profits from certain investments under the Foreign Investment Promotion and Protection Act and from limitations on other investment-related current international payments under this act.

b. **The multiple currency practices** arise from the following:

1. Budget subsidies for foreign exchange purchases in connection with payments of certain letters of credit opened prior to March 21, 2002 under the previous multiple exchange rate system; and

2. Obligations of entities that had received allocations of foreign exchange at subsidized “allocated rates” under the previous multiple exchange rate system to surrender unused allocations to the Central Bank of Iran at the allocation rate.

VIII. Last Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on July 14, 2008.

IX. Technical Assistance

Since FY 2006, Iran received the following technical assistance:

FAD

FY 2009 – Tax administration and VAT

FY 2010 -- Tax policy

LEG

FY 2007 – Anti-Money Laundering/Combating Financing of Terrorism regulations

FY 2009 – Anti-Money Laundering/Combating Financing of Terrorism regulations

MCM

FY 2007 – Banking regulation and supervision

FY 2008 – Technical assistance assessment visit

FY 2008 – Currency reform

FY 2008 – Macroeconomic and monetary modeling.

APPENDIX II. ISLAMIC REPUBLIC OF IRAN: RELATIONS WITH THE WORLD BANK

The Islamic Republic of Iran: JMAP Implementation

Area	Product	Delivery date
World Bank		
Fiscal sector	Public expenditure review	FY 2009
Labor market	Report on employment growth	FY 2009
Private sector development	Technical assistance report	FY 2009
Regional development	Technical assistance report	FY 2009
Energy Sector	Electricity Pricing and Power Sector Reform - report	FY 2010
Private sector development	Programmatic analytical and advisory work on investment climate -ongoing	FY 2010
IMF		
Financial sector	2009 Article IV consultation staff report	
	Technical assistance	
	Currency reform	FY 2008-10
	Monetary policy modeling	FY 2009-10
	AML/CFT	FY 2009-10
Fiscal sector	Bank restructuring and supervision	FY 2010
	2009 Article IV consultation staff report	
	Selected issues papers:	
	Energy sector reform	FY 2009-10
	Technical assistance:	
Trade and exchange restrictions	Major tax reforms	FY 2009-10
	2009 Article IV consultation staff report	
	Exchange rate assessment: CGER Methodologies	
	Technical assistance:	
	Implementing changes to the foreign investment regulatory framework	FY 2009-10
Shared responsibility		
Fiscal sector	Introduction of VAT	FY 2010
Financial sector	FSAP update	FY 2011–12

APPENDIX III. ISLAMIC REPUBLIC OF IRAN: STATISTICAL ISSUES

Data provision to the Fund is generally adequate for effective surveillance; however, the data are reported with significant delays. The Central Bank of Iran (CBI) disseminates key statistical aggregates in its quarterly *Economic Trends*, also available at <http://www.cbi.ir/e/>. Since 2002, the Fund's Statistics Department has assisted the authorities in their efforts to subscribe to the Special Data Dissemination Standard (SDDS). The progress, however, has been slow and gaps in meeting SDDS requirements for data coverage, periodicity, and timeliness remain.

Real sector statistics

- National accounts statistics are reasonably sound. Improvements have been made in the coverage of the informal economy. However, there is scope for further progress, especially in the coverage of small-scale industries and services. Also, the CBI and the Statistical Council of Iran (SCI) have undertaken to review and unify their respective GDP estimates.
- Price statistics are sound and released in a timely manner. The official labor market statistics are released by the SCI, and are based on the definitions recommended by the International Labor Organization (ILO). The data are based on an urban and rural population sample of about 100,000 households, and the threshold for considering a person employed is two days a week. Labor market statistics, however, could benefit from further improvement, particularly with regard to employment and wage data.

Government finance statistics

- The data are compiled in accordance with the *Government Finance Statistics Manual, 2001 (GFSM 2001)* for the core central government operations. Starting 2003/04, the fiscal data include implicit energy subsidies.
- Data on central government operations cover the general budget, the special purpose funds, and certain transactions with the Social Security Organization. These data are not consolidated. There is a need to expand the coverage of central government to include the complete transactions of the Social Security Organization, four pension funds, five procurement and distribution centers, and the OSF.
- The submission for the 2006 *Government Finance Statistics Yearbook* included for the first time data for general and local governments.
- The existing cash-based government accounting system should be upgraded to enable recording of expenditures at the pre-payment stage.
- Financing data in the GFS are not broken down by residency of debt holders or by type of debt instruments. The discrepancy between fiscal and monetary data on deficit financing has often been relatively large, partly due to foreign currency valuation

problems. There is a need to develop a comprehensive database on domestic public debt, with a breakdown by domestic creditor.

- The Bonyad-e-Mostazafan va Janbazan (BMJ, Foundation of the Oppressed and Injured) could be considered a holding company and classified in the nonfinancial public corporations sector.

Monetary statistics

- Monthly monetary data are reported to STA for publication in *IFS*, but periodicity has been lagging.
- Compilation of monetary statistics diverges from international standards in the application of the residency criterion and in sectorization and classification of accounts. The authorities are undertaking improvements in each of these areas, in line with the recommendations of STA missions.
- The measure of broad money employed by the CBI does not include deposits of public nonfinancial corporations, local governments, or foreign-currency deposits of residents.

External sector data

- The accounting system for foreign exchange receipts and payments of the CBI and banks is being implemented in line with the methodological guidelines of the Fund's *Balance of Payments Manual*, fifth edition (*BPM5*). This will allow compilation of balance of payments statistics on a quarterly basis. Annual balance of payments data up to 2000 have been reported to STA for publication in *BOPSY* and *IFS*.
- Data on the international investment position are compiled, but not disseminated. Only data on public and publicly guaranteed debt are disseminated, but classifications do not fully accord with the guidelines of the *External Debt Guide*. The data template on international reserves and foreign currency liquidity is not compiled.

**Islamic Republic of Iran: Table of Common Indicators Required for Surveillance
(As of December 16, 2009)**

	Date of latest Observation	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of Publication ⁶
Exchange Rates	Dec. 16, 2009	Dec. 16, 2009	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Sept. 2009	Dec. 2009	M	M	M
Reserve/Base Money	Sept. 2009	Dec. 2009	M	M	M
Broad Money	Sept. 2009	Dec. 2009	M	M	M
Central Bank Balance Sheet	Sept. 2009	Dec. 2009	M	M	M
Consolidated Balance Sheet of the Banking System	Sept. 2009	Dec. 2009	M	M	M
Interest Rates ²	Sept. 2009	Dec. 2009	M	M	M
Consumer Price Index	Oct. 2009	Dec. 2009	M	M	Q
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	June 2009	Dec. 2009	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	June 2009	Dec. 2009	A	A	A
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	June 2009	Dec. 2009	A	A	A
External Current Account Balance	Sept. 2009	Dec. 2009	M	Q	Q
Exports and Imports of Goods and Services	Sept. 2009	Dec. 2009	M	Q	Q
GDP/GNP	Q2 2008/09	March 2009	Q	Q	Q
Gross External Debt	Sept. 2009	Dec. 2009	M	Q	Q
International Investment Position 7/	Sept. 2009	Dec. 2009	A	I	NA

1/ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

2/ Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, and notes and bonds.

3/ Foreign, domestic bank, and domestic nonbank financing.

4/ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

5/ Including currency and maturity composition.

6/ Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I), and not available (NA).

7/ Includes the external financial assets and liabilities vis-à-vis nonresidents of the financial sector.