



BĀNK-E MARKAZĪ-E ĪRĀN

BĀNK-e MARKAZĪ-e ĪRĀN (Central Bank of Iran), a bank established under the Iranian Banking and Monetary Act of 7 Kordād 1339 Š./28 May 1960 to undertake the central banking activities in the country. Its functions and powers were expanded and consolidated by the Monetary and Banking Law of 18 Tīr 1351 Š./9 July 1972 and were further revised by the Usury-Free Banking Law of 8 Šahrivar 1362 Š./30 August 1983. The latter law also modified its name to the Bānk-e Markazī-e Jomhūrī-e Eslāmī-e Īrān.

Central banking activities in Iran grew gradually in line with the development of modern financial institutions and practices. The first major step taken by the government in this area was the granting of exclusive right of issuing bank notes, for sixty years, to the Bānk-e Šāhānšāhī-e Īrān (Imperial Bank of Persia, later Iran)—a British company—founded in 1889 (Issawi, *The Economic History*, p. 346). In addition, the Bank was used as banker for the government and delivered silver bars to the mint for coinage.

The Iranian Constitution of 1906 had provided for the creation of a state-owned bank. Such a bank, called Bānk-e Mellī-e Īrān (National Bank of Iran), was established on 8 September 1928, with an initial capital of 20 million rials, under an act of Parliament (Majles), passed on 4 May 1927. Bānk-e Mellī was to assume the role of both a commercial and a central bank and, under an agreement signed on 30 May 1930, took over the central banking functions of the Imperial Bank, including the right of note issue, in return for payment of 200,000 British pounds. Twenty-five years later, a board was set up within Bānk-e Mellī, under the first comprehensive banking act of 1955, in order to



supervise the activities of the growing banking system (Bānk-e Mellī-e Īrān, *Tārīkča*).

The dual banking function of Bānk-e Mellī, however, brought about a conflict within the Iranian banking system, and this in turn led to the splitting up of Bānk-e Mellī and the creation of Bānk-e Markazī-e Īrān in 1339 Š./1960, as an autonomous body, with an initial capital of 3.6 billion *rīāls* (Amuzegar, *Iran*, p. 131). Bānk-e Markazī's main objectives, which have changed very little under the successive banking acts, consist of maintaining the value of the currency and equilibrium in the balance of payments, facilitating commercial transactions, and assisting the attainment of economic goals, policies and programs of the government.

For the purpose of achieving these objectives, Bānk-e Markazī was charged with formulation and implementation of monetary and credit policies within the framework of overall economic policies of the government. The Bank's other functions included the issuance of currency for circulation, supervision of banks and credit institutions, formulation and administration of foreign exchange policies and regulations, and control of gold and capital flows. In addition, as banker to the government, Bānk-e Markazī became responsible for keeping the accounts of the public sector, handling its banking transactions, acting as the government's agent for sale of government bonds and treasury bills and their redemption, maintaining the country's foreign exchange and gold reserves, acting as custodian of the crown jewels, representing the country in the International Monetary Fund, and concluding payments agreements in implementation of economic agreements reached between Iran and other countries (Bānk-e Mellī-e Īrān; *Qānūn-e bānkī*, articles 31-32, pp. 12-13).

The powers granted to Bānk-e Markazī at its creation were expanded substantially under the law of 1972 to include inter alia: conducting open market operations; establishing rediscount rates; fixing interest rates and other charges and commissions paid and received by banks; determining reserve requirements, liquidity ratios, minimum capital requirements, reserve-deposit ratios, and interest payment on banks' legal reserves; setting up credit ceilings and terms and conditions governing bank loans; limiting bank activities to specific areas or sectors; and licensing new banks and bank branches (Bānk-e Markazī-e Īrān, *The Monetary and Banking Law of Iran*, article 14, pp. 8-9).



The functions and powers of Bānk-e Markazī were revised following the Islamic Revolution of February, 1979, which led to the nationalization of private banking, consolidation of existing banks, and elimination of usury (interest) in the banking system. In early 1979, there were 36 banks (excluding Bānk-e Markazī) operating in the country, with 8,189 branches at home and 86 branches abroad. Twenty-eight of these banks, including thirteen joint ventures with foreign banks, were privately owned and accounted for nearly one half of banking operations in the country. These private banks were nationalized according to a decision taken by the Islamic Revolutionary Council on 17 Kordād 1358 Š./7 June 1980 and subsequently were consolidated, together with eleven government-owned banks, into ten banks, of which six engaged in commercial and four in specialized banking (Bānk-e Markazī-e Jomhūrī-e Eslāmī-e Īrān, *Bānkdarī*, pp. 57-58). These measures were followed by the adoption of the Law of Usury (Interest)-Free Banking in August, 1983, in order to bring Iranian banking practices into line with the requirements of Islamic principles.

While the Law prohibited payment and receipt of interest in banking operations, it provided for payment of non-fixed bonuses and distribution of profits, arising from banking operations, to depositors. Banks were allowed to use their funds, with a view to earn profits, through such arrangements with their customers as: *mošāarakat* (equity-sharing), *možāraba* (capital-cum-labor contract), *ejāra be šarṭ-e tamlik* (lease-purchase contract), *moʾamalāt-e aqsātī* (installment contract), *mozāraʿa* and *mosāqāt* (agricultural contracts), direct investment, *salaf* (pre-purchase) dealings, and *joʾāla* (commission contracts). In addition, the banks were obliged to earmark a part of their resources for interest-free loans (*qarż al-ḥasana*) to their customers (Bānk-e Markazī-e Jomhūrī-e Eslāmī-e Īrān, *The Law for Usury-Free Banking*, articles 7-17, pp. 4-6).

Bānk-e Markazī's policy instruments were also changed. The short-term credit policies and facilities are now decided by the Council of Ministers upon the recommendations by the Bank's General Assembly, and long-term credit policies and facilities are decided by the Majles. In order to implement the monetary and banking policies of the country, Bānk-e Markazī is now empowered to fix the minimum and maximum rates of return and banks' fees and other charges for different types of transaction arrangements, to identify areas for direct investment and *mošāarakat* by banks, to determine limits of banks' participation in various transactions as well as maximum facility to each customer, and to determine types, amounts, and minimum/maximum



bonuses given to depositors (*ibid.*, article 20, pp. 6-7; see also *idem*, *Āʾīn-nāmahā*).

Institutionally, Bānk-e Markazī is an autonomous agency of the government, managed by a governor who is appointed for five years by the Council of Ministers, upon the recommendation of the Minister of Economic Affairs and Finance. The report and accounts of the Bank's activities are submitted annually for approval to a general meeting of its shareholders, composed of three ministers representing the government as the sole shareholder, and chaired by the Minister of Economic Affairs and Finance. The general meeting also receives the report of an independent supervisory board which is charged with overseeing the accounts and the balance sheet of the Bank and with ensuring their conformity to the laws (Bānk-e Markazī-e Īrān, *ibid.*, articles 16-23, pp. 9-16).

The Currency and Credit Council, which is composed of eleven members from various sectors and headed by the Bank's governor, provides advice to the Bank on general policy matters and decides on a number of issues pertaining to its supervisory role on monetary and banking regulations, under the banking laws. The governor is also assisted, in the day-to-day operational and administrative issues of the Bank, by an Executive Board comprising, in addition to himself as the chairman, the deputy governor, vice-governors, and the secretary-general of the Currency and Credit Council. Furthermore, the Note Reserve Control Board has the task of controlling the issue of currency and its withdrawal from circulation (*ibid.*).

The assets and liabilities of Bānk-e Markazī amounted to 5,984 billion *rīāls* (\$70.8 billion) on 20 March 1983, and it had earned a gross income of 144.2 billion *rīāls* (\$1.7 billion) during the year ending on the foregoing date (Bānk-e Markazī-e Jomhūrī-e Eslāmī-e Īrān, *Economic Report*, pt. 2, the Balance-sheet).

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