

INTERNATIONAL MONETARY FUND

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
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INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

Press Release No. 57

September 29, 2002

Statement by the Hon. **TAHMASEB MAZAHERI-KHORZANI**,
Governor of the Bank for the **ISLAMIC REPUBLIC OF IRAN**,
at the Joint Annual Discussion

**Statement by the Hon. Tahmaseb Mazaheri,
Governor of the Bank for the Islamic Republic of Iran,
at the Joint Annual Discussion**

**Mr. Chairman,
Mr. Köhler, Mr. Wolfensohn,
Distinguished Governors,
Ladies and Gentlemen,**

It gives me great pleasure to be here at this Fifty-Seventh Joint Annual Meetings of the World Bank and the IMF. In view of the limited time, I shall first concentrate on the economy of Iran and its prospects.

Iran is implementing its Third Five-Year Development Plan, which serves as a framework for current economic reforms and restructuring as well as further development of social welfare; it aims at achieving: (i) greater transparency in macroeconomy and regulatory frameworks; (ii) budget reform; (iii) tax reform; (iv) reduction of the government's role in the economy; (v) promoting competitive structures; (vi) encouraging foreign investment; (vii) unifying the foreign exchange rate system and achieving a floating rate regime; and (viii) removing non-tariff barriers.

We have already achieved many of these objectives: a comprehensive tax reform package was approved last February. The new tax code provides changes in the interest of most taxpayers, comprising: (i) reduction in the direct income tax to a flat rate of 25 percent, including corporate and shareholder tax; (ii) introduction of tax incentive to promote private investment in the under-developed areas; (iii) creation of a Central Tax Authority; (iv) adoption of value added tax by the Council of Ministers; (v) elimination of tax exemption for public enterprises; and, (vi) leveling the playing field for the private sector. Important

advances were made in trade reform: nearly all non-tariff barriers on imports have been removed, and the tariff system has been rationalized. Many state-owned enterprises have already been privatized through the Tehran Stock Exchange and others are in train. I am pleased to report that last March, after a long period of preparation, we were able to introduce a unified managed-floating exchange rate system.

The Law for Promotion and Protection of Foreign Investment has been promoted and approved, and has laid the foundation for more transparency, in line with the best international practices, to attract and protect foreign investment. Additionally, most recent capital market instruments have been introduced, foreign investors' fields of activity have been broadened, and more incentives and facilities for foreign investment have been created. Additionally, all matters related to foreign investors are being organized in a one-stop shop within an investors relation office. These are among the recent developments envisaged in the new law. While we have learned from experiences of other countries, the reforms have been optimally sequenced corresponding to the societal and cultural context of the Iranian society. The consequences of these efforts have been analyzed and policies to minimize the negative impact of reforms have been contemplated.

These reforms have had positive pay offs in terms of achieving high economic growth rates and acceleration of growth of non-oil exports during the last two years. We expect that this performance will continue in the period ahead. The international capital and financial markets have reacted positively to these developments, as the recent over-subscribed Euro bond issue demonstrated.

Turning to global economic prospects, there is growing uncertainty regarding recovery of the world economy. We are concerned that, while there has been some

improvement in poverty reduction, the number of people living in poverty has increased. The World Bank and the IMF face a great challenge in addressing poverty and its social consequences. We strongly support the focus on the process contained in the Poverty Reduction Strategy Papers. We also continue to support the enhanced HIPC Initiative.

The opening of markets of industrial countries to the developing countries exports could allow globalization to ensure positive benefits for all members of the international community. An important issue for the membership of Bretton Woods Institutions is the promotion of transparency and strengthened accountability of these organizations in order to ensure sound decisions and policies based only on economic considerations and in the best interest of their member states. Finally, I stress the role of the international organizations and donor assistance in reconstruction of Afghanistan, to which the Islamic Republic of Iran is contributing significantly.