



**CENTRAL BANK OF  
THE ISLAMIC REPUBLIC OF IRAN**

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# ***The Law for Usury (Interest)***

## ***Free Banking***

### ***Chapter I. Objectives and Duties of The Banking System in The Islamic Republic of Iran***

#### ***ARTICLE 1:***

##### ***The Objectives of Banking System:***

- (1) The establishment of a monetary and credit system based on rightness and justice (as delineated by Islamic jurisprudence) for the purpose of regulating the sound circulation of money and credit to enhance the health and growth of the country's economy.***
- (2) Availing itself of monetary and credit mechanisms, to engage in activities conducive to the attainment of the economic goals, policies and plans of the Government of the Islamic Republic.***
- (3) Creation of necessary facilities for the extension of cooperation and Gharz-al-hasaneh among the general public through the attraction and absorption of surplus funds, reserves, savings and deposits, and the mobilization thereof in provision of conditions and opportunities for gainful employment and investments, as stipulated in Clauses (2) and (9), Article (43) of the Constitution.***
- (4) Maintenance of the currency value and equilibrium in the balance of payments and facilitating the commercial exchanges.***
- (5) Facilitating payments and receipts, exchanges, transactions and other services to be performed by the banks, as determined by the Law.***

#### ***ARTICLE 2:***

##### ***Duties of the Banking System:***

- (1) Issuance of notes and coins as legal tender, in conformity with the Law and regulations.***

- (2) *Regulating, controlling and guidance of the circulation of money and credit, in accordance with the Law and regulations.*
- (3) *Performance of all banking operations in foreign exchange and local currency, and undertaking or guaranteeing the foreign exchange payments of the Government, according to the Law and regulations.*
- (4) *Supervision of transactions in gold and foreign exchange and the inflow or outflow of Iranian currency and foreign exchange, and the formulation of regulations governing thereof, in accordance with the Law.*
- (5) *Performance of operations relating to valuable papers and documents according to the Law and regulations.*
- (6) *Carrying out the monetary and credit policies, in accordance with the Law and regulations.*
- (7) *Banking operations related to those parts of the approved economic plans which are to be conducted through the monetary and credit system.*
- (8) *Opening of various Gharz-al-hasaneh (current and savings) accounts and accepting term investment deposits and issuance of relevant certificates, as required by the Law and regulations.*
- (9) *Granting of loans and credits free of interest charges in accordance with the Law and regulations.*
- (10) *Granting of loans and credits and provision of other banking services to the legally-established cooperatives, for the realization of the provisions of Clause (2), Article (43) of the Constitution.*
- (11) *Conducting transactions in gold and silver and holding and management of foreign exchange and gold reserves, with due observance of the relevant Law and regulations.*

- (12) *Holding the Rial balances of international monetary and financial institutions or similar organizations and/or their affiliates, according to the Law and regulations.*
- (13) *Entering into payments arrangements in order to effect monetary, trade and transit agreements concluded between the Government and other countries in accordance with the Law and regulations.*
- (14) *Accepting and holding in trust of gold, silver, valuables securities and official documents for real or legal persons and leasing of safe-deposit boxes.*
- (15) *Issuance, confirmation and acceptance of Rial or foreign exchange guarantees for customers.*
- (16) *Performance of the services of attorney or guardian, in accordance with the Law and regulations.*

## ***Chapter II. Mobilization of Monetary Resources***

### **ARTICLE 3:**

*Banks are authorized to accept deposits under each of the following titles:*

(A) *Gharz-al-hasaneh Deposits:*

*1- Current*

*2- Saving*

(B) *Term Investment Deposits.*

**NOTE:**

*Term investment deposits, for the utilization of which the bank enjoys the power of attorney, shall be used in joint venture, Mozarebeh, hire-purchase, installment transaction, Mozara-ah, Mosaqat, direct investment, forward dealings and Joalah transactions.*

**ARTICLE 4:**

*Banks are obliged to repay the principals of gharz-al-hasaneh (saving and current) deposits and may undertake and/or insure the principals of the term investment deposits.*

**ARTICLE 5:**

*Based on signed agreement, proceeds derived from activities stipulated in Note of Article (3) of this Law shall, in proportion to the term and the amounts of investment deposits and the banks resources as a proportion to the aggregate resources used in such activities, be apportioned.*

**ARTICLE 6:**

*In order to attract and mobilize deposits, the banks may, through promotional methods, give the following rewards to the depositors:*

- (A) Non-fixed bonuses in cash or in kind to gharz-al-hasaneh deposits.*
- (B) Exempting the depositors from, or granting discounts thereto, in payment of commissions and/or fees.*
- (C) According priority to depositors in the use of banking facilities as specified in Chapter III.*

**Chapter III. Banking Facilities.**

**ARTICLE 7:**

*In order to bring about the necessary conditions for the expansion of the activities of various productive, commercial and services sectors, the banks may, on the basis of partnership, provide a portion of the capital and/or resources required by these sectors.*

**ARTICLE 8:**

*The banks may directly invest in productive and development projects or activities. Plans for such investments should be included in the State Annual Budget Bill to be approved by Majlis Shoaraye Eslami and evaluation of the project should be indicative of no loss.*

**NOTE:**

*The banks are by no means entitled to invest in the production of luxury and non-essential consumer goods.*

**ARTICLE 9:**

*In order to provide facilities required for the expansion of commercial activities, the banks may, within the framework of the commercial policies of the government, put the necessary financial resources at the disposal of the customers on the basis of Mozarebeh, according priority to the legally-established cooperatives.*

**NOTE:**

*The banks shall not enter into Mozarebeh with the private sector for imports.*

**ARTICLE 10:**

*For the purpose of providing facilities necessary for the expansion of housing activities, the banks may in coordination with the Ministry of Housing and Town Planning, construct low-priced residential units for sale on installment or hire-purchase.*

**NOTE:**

*The banks are authorized to acquire land for the construction of low-priced residential units subject of Article (10), provided that they duly observe the Law Governing Lands Within City Limits.*

**ARTICLE 11:**

*In order to create conditions necessary for the expansion of activities in industry, mining, agriculture and services, the banks are empowered, upon the request of the customer and his undertaking for the purchase, consumption and/ or direct use of goods or commodity thus requested, to purchase movable property, and to sell them to the customer, on secured bases, on installment.*

**ARTICLE 12:**

*In order to create the necessary facilities for the expansion of services, agriculture, industrial and mining activities, banks may purchase movable and immovable properties, at the request of the client and his undertaking to hire-purchase the same for his own use, and place them at the disposal of the client in accordance with hire-purchase arrangements.*

**ARTICLE 13:**

*In order to create the conditions required for the provision of working capital needed by the productive units, the banks may engage in any of the following operations:*

- (A) Upon the request of the productive units and their undertaking for the purchase and utilization of the raw materials and the spare parts thus requested, to purchase raw materials and spare parts needed by productive units and to resell them to the said units on credit.*
- (B) Upon the request of the productive units, to purchase, on a forward basis, the easy-to-sell products of the said units.*

**ARTICLE 14:**

*For the realization of the aims contained in Clauses (2) and (9) of Article (43) of the Constitution, the banks are obliged to earmark a portion of their resources, as gharz-al-hasaneh, to the applicants. The procedures for enforcement of this Article shall be drawn up by the Central Bank and approved by the Council of Ministers.*

**ARTICLE 15:**

*All agreements concluded in pursuance of Article (9), (11), (12), (13), and (14) of the present Law, shall, under the contract to be signed between the parties concerned, be considered binding documents and shall be subject to the Rules governing Legal Documents.*

**ARTICLE 16:**

*In order to provide the necessary conditions for the expansion of productive, commercial and services activities, banks may engage in Joalah.*

**ARTICLE 17:**

*The banks may assign on Mozara-ah or Mosaqat agricultural lands and/ or orchards which are at their disposal or in their possession.*

**Chapter IV**

**Bank Markazi Jomhuri Islami Iran (BMJII) and Monetary policy.**

**ARTICLE 18:**

*Bank Markazi Iran which shall be called Bank Markazi Jomhuri Islami Iran shall with respect to the state owned corporations the*



*shares of which are not fully owned by the Government, conduct only those operations sanctioned by this law.*

**ARTICLE 19:**

*Policy for credit and short-term (one year) facilities shall be adopted upon recommendation by the General Assembly and approval by the Council of Ministers, and policy for credit and five-year and long-term facilities shall be incorporated in bills for five-year and long-term development plans and submitted to The Islamic Consultative Assembly for ratification.*

**ARTICLE 20:**

*For the proper functioning of the monetary and credit system, BMJII, under Rules to be approved by the Council of Ministers, is empowered on the strength of Article 19, to intervene in, and supervise, the monetary and banking activities through the following instruments:*

- (A) Fixing a minimum and/ or maximum ratio of profit for banks in their joint venture and Mozarebeh activities; these ratios may vary for different fields of activity.*
- (B) Designation of various fields for investment and partnership within the framework of the approved economic policies, and the fixing of a minimum prospective rate of profit for the various investment and partnership projects; the minimum prospective rate of profit may vary with respect to different branches of activity.*

- (C) *Fixing a minimum and maximum margin of profit, as a proportion to the cost price of the goods transacted, for banks in installment and hire-purchase transactions.*
- (D) *Determination of types and the minimum and maximum amounts of commissions for banking services (provided that they do not exceed the expense of service rendered) and the fees charged for putting to use the deposits received by the banks.*
- (E) *Determination of the types, amounts, minimum and maximum bonuses subject of Article (6) and the establishment of guidelines for advertisement by banks in the cases referred to.*
- (F) *Determination of the minimum and maximum ratio in joint venture, Mozarebeh, investment, hire-purchase, installment transactions, buying or selling on credit, forward deals, Mozara-ah, Mosaqat, Joalah and Gharz-al-hasaneh for banks or any thereof with respect to various fields of activity; also fixing the maximum facility that can be granted to each customer.*

## ***Chapter V. Miscellanea***

### ***ARTICLE 21:***

***In its dealing with other banks, BMJII is not authorized to engage in banking operations which involve usury; nor are the banks among themselves.***

**ARTICLE 22:**

*upon authorization by BMJII, banks may engage in authorized banking operations with state-owned institutions, government-affiliated organization and public corporations.*

**ARTICLE 23:**

*The funds received as commissions and fees shall constitute the banks income and cannot be divided among the depositors.*

**ARTICLE 24:**

*Exemption from commercial tax and/ or tax exemptions granted by law to factories and productive enterprises shall also apply to banks when replacing them in matters of imports or ownership.*

**ARTICLE 25:**

*The units in which the banks have made investments and/ or hold a share shall be governed by the Commercial Code, unless they are subject to another law.*

**ARTICLE 26:**

*Consequent to the ratification of this Act, all contravening laws and regulations shall be null and void and all the powers and duties stipulated in the Monetary and Banking Law and the Bill for the Administration of the Banks and the amendments thereto, but under the present Law have been delegated to other authorized entities, shall be divested from the previous authorities.*

**ARTICLE 27:**

*With the recommendations by the Bank Markazi Jomhuri Islami Iran, the Ministry of Economic Affairs and Finance shall draw up the By-Law under this Law and put it into effect following its approval by the Council of Ministers. The drafting and approval of the By-Law shall not exceed a four-month period.*

*This Law, containing twenty-seven Articles and four Notes, was ratified by Majlis Shoaraye Eslami (The Islamic Consultative Assembly) in its session held on Tuesday, Eight Sharivar 1362 and approved by the Council of Protectors on 10/6/1362.*

*Akbar Hashemi  
Speaker  
Majlis Shoaraye Eslami*

*This is an unofficial translation of the original Farsi text which, in case of any dispute, shall be controlling.*

## ***Glossary***

### ***1- Gharz-al-hasaneh Loan:***

*An interest-free loan extended by a bank to a real or legal person for a definite period of time.*

### ***2- Joaalah:***

*The undertaking by one party (the Jael, Bank or employer) to pay a specified amount of money (the Joal) to another party in return for rendering a specified service in accordance with the terms of the contract. The party rendering the service shall be called "Amel" (the Agent or Contractor).*

### ***3- Mosaqat:***

*A contract between the owner of an orchard or garden with another party (the Amel or Agent) for the purpose of gathering the harvest of the orchard or garden and dividing it, in a specified ratio, between the two parties. The harvest can be fruit, leaves, flowers, etc. of the plants in the orchard or garden.*

### ***4- Mozaraah:***

*A contract wherein the bank (the Mozare) turns over a specified plot of land for a specified period of time to another party (the Amel or Agent) for the purpose of farming the land and dividing the harvest between the two parties at a specified ratio.*

### ***5- Mozarebeh:***

*A contract wherein the bank undertakes to provide the cash capital and other party (the Amel or Agent) undertakes to use the capital for commercial purposes and divide the profit at a specified ratio between the two parties at the end of the term of the contract.*

