CHAPTER 14

MONETARY AND BANKING POLICY AND PERFORMANCE

Objectives Stipulated in the 4th FYDP

The year 1388 corresponds to the last year of the 4th Five-Year Development Plan, and the first Plan formulated in the context of the Twenty-Year Vision Plan. In accordance with the 4th FYDP Law, allocation of banking facilities in the form of sectoral or regional, as well as priorities concerning sectors and regions shall be carried out through granting incentives to banks by cash subsidies and administered funds, based on the Cabinet approval. Obligations of banks to provide facilities at lower rates, in the form of Islamic contracts, are permissible provided that they are financed by the government subsidy or administered funds. According to the 4th Plan, at least 25 percent of the facilities extended by all banks shall be allocated to water and agriculture sector, and the rise in outstanding scheduled facilities shall be reduced by 20 percent per annum, on average, during this Plan, when compared with the approved figure for 1383. Furthermore, the government is obliged to decrease its indebtedness to Central Bank and banks through inclusion of the repayment amounts in annual budgets. Based on the quantitative targets of the 4th FYDP, the average rate of inflation and liquidity growth are determined at 9.9 and 20.0 percent, respectively, during this Plan. Thus, inflation rate and liquidity growth for the fifth year of the 4th Plan are set at 6.8 and 16.2 percent, respectively.

Key Monetary Policies Approved in 1388

In 1388, the Supervisory-Policy Guidelines of the Banking System were declared to banks and credit institutions by the CBI. The key monetary and credit policies are as follows:

In this year, lending rate on the facilities extended for participatory contracts was determined based on the ratios set in these contracts, and for transaction contracts at 12 percent, the same as in the previous year. Moreover, for productive units (up to Rls. 500 million), housing purchase, household consumer durables (up to Rls. 20 million) and purchase of vehicles, banks should extend loans under fixed rate transaction contracts.

Provisional profit rate of term investment deposits of banks and credit institutions was adjusted with the inflation rate and set within a range of 9 percent for ordinary short-term to 17.5 percent for five-year term deposits. Moreover, ceiling for the provisional profit rate of special short-term deposits (four-month to less than one-year deposits) was determined at 12 percent[1]. The provisional profit rate of special investment

[1] The provisional profit rates of term deposits according to the type of deposits are mentioned in the respective table.

deposits and the certificates of deposit (CDs) with a maturity date of at least one year, was payable up to 15 percent upon the presentation of the pertinent feasibility reports and CBI confirmation. The deposit rates under Islamic contracts were to be finalized based on banks' profit and audited financial statements as well as CBI approval. The banking commission for term deposits was set at 3 percent.

Regarding the launching of Rial Interbank Market in 1387, short-term financial borrowing/lending between the banks themselves will be conducted through interbank money market in observance of the relevant guideline. Of note, this financial borrowing/lending should aim at establishing monetary discipline in the money market, and lowering banks' debts to CBI.

In order to increase share of banks' long-term deposits and strengthen sustainability of these deposits, the reserve requirement ratios of commercial banks were set on the basis of their maturity dates as follows: sight and other deposits 17 percent, Gharz-al-hasaneh savings deposits 10 percent, short-term deposits 16 percent, one-year deposits 15 percent, two- and three-year deposits 13 percent, four-year deposits 12 percent, and five-year deposits 10 percent. It should be noted that the reserve requirement ratio of specialized banks remained unchanged in 1388 at 10 percent[1]. Moreover, the excess reserves of banks, after lowering the different reserve requirement ratios of banks, will be used in priority order for the purpose of banks' debt payment to CBI, loan for working capital of productive units and incomplete projects, investment in productive units, and interbank loans.

In pursuance of Article 10 of the 4th FYDP Law, banks were obliged to allocate at least 25 percent of their facilities to water and agriculture sector. For better allocation of credits and attaining a balanced growth, the extending of facilities to other economic sectors is set according to MCC approval as follows: manufacturing and mining 35 percent, construction and housing 20 percent, trade and services 12 percent, and exports 8 percent.

A comparison of credit sectoral allocations with those of previous year indicates rises in the shares of manufacturing and mining sectors (2 percentage points), and exports (one percentage point) at the cost of decline in the share of trade and services sector (3 percentage points). As to regional distribution of banks' credit, more priority was given to deprived and less developed regions to lessen regional disparities.

In order to balance supply and demand in the housing market and facilitate financing of the housing sector, banks are not authorized to extend facilities and commit loans for the purchase of housing units, or involve in leasing operations of housing units. The maximum loan facility and commitment for projects is set at Rls. 250 million (up to 80 percent of the estimated price) per residential unit for the duration of project execution.

In order to reduce non-current claims, overdue and non-performing loans, banks and credit institutions shall submit the timetable on the settlement of overdue and non-performing loans to the CBI, and issue checkbooks for clients upon controlling their records respecting such claims. Moreover, the by-law on the receipt of overdue and non-performing loans (in foreign exchange and rial) was approved by the Cabinet at the joint recommendation of Central Bank and Ministry of Economic Affairs and Finance[2].

[1] With the exception of the reserve requirement ratio of Bank Maskan Savings Fund at 2 percent

[2] Cabinet Approval No. E41498V/153965 dated Aban 3, 1388

This by-law replaces the one already approved by the Cabinet[1].

To monitor banks' concentration of credit risk, ceilings were set for any single productive connected unit's obligations to banks at 15 percent of the banks' base capital and that of non-productive units at 10 percent of banks' capital. The guidelines on banks' facilities in 1387 clearly state that if banks have no liability to CBI, the two ratios could be raised to 20 percent of banks' base capital. Furthermore, to resolve any constraints in financing large projects, banks may provide credits for such projects through partnership (syndicated arrangements) for the facilities and obligations further than the stipulated amount. Thus, to define banks' duties and responsibilities, the Guidelines on the Syndicated Loans and Arrangements were declared to banks by the CBI[2].

It was also stipulated that banks should monitor the sources and uses of their funds without reliance on CBI overdraft facilities and repay their debt to settle the balance of their account with CBI in 1388. The penalty of banks' overdraft from the CBI would be 34 percent.

Banks were authorized to utilize Gharz-al-hasaneh deposits only for extending Gharz-al-hasaneh loan facilities; therefore, allocation of such deposits for investment purposes should be prohibited. The commission received by banks for Gharz-al-hasaneh deposits and loans should be a maximum of 4 percent per annum to finance the costs incurred by rendering services and rewarding depositors.

Central Bank was authorized to issue participation papers upon the issuance of the pertinent license. Moreover, banks' purchase of CBI participation papers in the primary market was permissible.

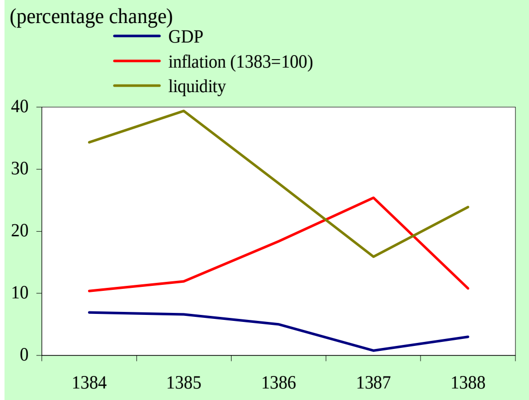
[1] Cabinet Approval No. E437V/175051 dated Dey 30, 1386

[2] Banking Studies and Regulations Department of CBI, Circular No. 88/57370 dated Khordad 17, 1388

Banking System[3] Performance

Banking system assets and liabilities picked up by 12.8 percent to Rls. 5,171,237.5 billion. On the assets side, 14.5 percent increase in non-public sector indebtedness (Rls. 270,812.9 billion) and 10.7 percent rise in other assets (Rls. 129,855.3 billion) were the main contributing factors. On the liabilities side, 23.9 percent liquidity growth (Rls. 454,523.1 billion) was the major contributing factor to banks' liabilities.

Figure 14.1. Major economic variables



Banking System and External Sector

In the review year, net foreign assets of the banking system went up by 20.0 percent (worth Rls. 120,966.9 billion) to Rls. 725,217.8 billion. This increase was due to rise in net foreign assets of the Central Bank, and those of banks and credit institutions by respectively Rls. 92,636.4 billion and Rls. 28,330.5 billion. Surge in net foreign assets of the Central Bank largely resulted from reduction of foreign exchange deposits of the government. Rise in net foreign assets of banks and credit institutions was related to Rls. 129,111.4 billion rise in their foreign assets.

[3] Including Central Bank, public commercial and specialized banks, private banks, and credit institutions

Major Items in Assets and Liabilities of the Banking System

(billion rials)

	Year-end balance			Percentage change	
	1386	1387	1388	1387	1388
Assets	**4,081,175.5**	**4,582,488.0**	**5,171,237.5**	**12.3**	**12.8**
Foreign assets	1,184,385.1	1,216,237.0	1,331,223.8	2.7	9.5
Central Bank	747,284.2	778,560.1	764,435.5	4.2	-1.8
Public banks [1]	413,931.9	409,829.8	204,908.9	-1.0	-50.0
Private banks and credit institutions	23,169.0	27,847.1	361,879.4	20.2	▣
Newly privatized banks [2]	..	..	323,641.7	θ	θ
Claims on public sector	280,636.7	291,539.4	364,633.9	3.9	25.1
Claims on non-public sector	1,663,725.7	1,866,550.9	2,137,363.8	12.2	14.5
Others [3]	952,428.0	1,208,160.7	1,338,016.0	26.9	10.7
Liabilities	**4,081,175.5**	**4,582,488.0**	**5,171,237.5**	**12.3**	**12.8**
Liquidity (M2)	1,640,293.0	1,901,366.0	2,355,889.1	15.9	23.9
Deposits and funds of public sector	265,256.0	335,620.6	300,025.1	26.5	-10.6
Foreign liabilities	713,605.6	611,986.1	606,006.0	-14.2	-1.0
Central Bank	308,654.0	215,896.4	109,135.4	-30.1	-49.5
Public banks [1]	372,893.5	352,091.6	137,539.6	-5.6	-60.9
Private banks and credit institutions	32,058.1	43,998.1	359,331.0	37.2	▣
Newly privatized banks [2]	..	..	316,311.7	θ	θ
Others [3]	1,462,020.9	1,733,515.3	1,909,317.3	18.6	10.1

[1] Including Gharz-al-hasaneh Mehr Iran Bank as of Esfand 1387

[2] As of Esfand 1388, Bank Saderat Iran, Bank Mellat, Tejarat Bank, and Refah Kargaran Bank have been classified as private banks.

[3] Includes capital account of the banking system, advance payments on public sector LCs, and import order registration deposits of non-public sector.

Banking System and Public Sector

Banking system net claims on the public sector reached Rls. 64,608.8 billion, up by Rls. 108,690.0 billion compared with previous year. In 1388, Central Bank's claims on public sector increased by 3.6 percent, which was largely due to 10.0 percent growth of CBI's claims on public corporations and institutions. Moreover, Central Bank's claims on the government rose by 0.9 percent in this year.

Of total Central Bank claims on the government, Rls. 37,509.9 billion (40.7 percent) was due to deficit in foreign exchange obligations account, up by Rls. 1,383.1 billion compared with the year before. Public sector deposits with the CBI went down by 23.7 percent, mainly owing to 25.7 percent reduction in government deposits with the Central Bank. Notably, public corporations and institutions' deposits with CBI rose by 5.1 percent.

Government indebtedness to banks and credit institutions grew by 66.8 percent (Rls. 77,176.4 billion) to Rls. 192,678.9 billion. This resulted from an increase in claims on the government (principal and profit of matured and overdue budgetary facilities) worth Rls. 73,081.3 billion, as well as the rise in public sector participation papers held with banks and credit institutions valued at Rls. 4,095.1 billion.

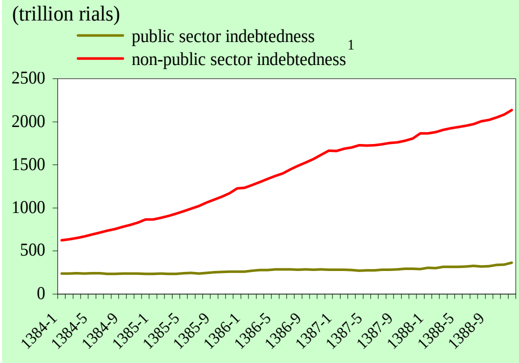
Change in Net Claims of the Banking System on Public Sector

(billion rials)

	1387	1388
Public sector	**-59,461.9**	**108,690.0**
Central Bank	-65,036.6	61,549.1
Commercial and specialized banks	2,121.8	-24,293.3
Private banks and credit institutions	3,452.9	71,434.2
Newly privatized banks	..	55,334.9
Government	**-53,565.2**	**114,392.5**
Central Bank [1]	-71,357.5	58,470.0
Commercial and specialized banks	14,339.4	1,187.0
Private banks and credit institutions [2]	3,452.9	54,735.5
Newly privatized banks	..	38,636.2
Public corporations and institutions	**-5,896.7**	**-5,702.5**
Central Bank	6,320.9	3,079.1
Commercial and specialized banks [3]	-12,217.6	-25,480.3
Private banks and credit institutions	0.0	16,698.7
Newly privatized banks	..	16,698.7

[1] Includes deficit in foreign exchange obligations account.
[2] In 1387, it includes public sector participation papers only.
[3] Includes indebtedness for exchange rate differential.

Figure 14.2. Outstanding facilities extended by banking system to public & non-public sectors



[1] Includes profit and revenue receivables.

Banks and Non-public Sector

Banking system credit performance reveals the rise in facilities[1] extended by banks and credit institutions to non-public sector (excluding profit and revenue receivables) by 15.9 percent, worth Rls. 264,367.3 billion. These facilities were partly extended within the framework of the executive by-law on the expansion of Small and Medium Enterprises (SMEs). Notably, Bank Melli Iran, Bank Keshavarzi, and Bank of Industry and Mine were required to extend 50 percent of their credit allocations for non-public sector to SMEs[2]. Moreover, the unused budgetary facilities (as of 1384 to 1387) proposed by the concerned authorities for SMEs projects will be extended out of domestic resources of agent banks. Share of facilities extended by banks and credit institutions to non-public sector reached 89.7 percent, representing the significant share of this sector in allocated credits[3].

Outstanding facilities extended by public commercial banks to non-public sector (excluding profit and revenue receivables) were reduced by 53.7 percent (Rls. 546,074.5 billion) to Rls. 471,538.0 billion as a result of privatization of Bank Saderat Iran, Tejarat Bank, Bank Mellat, and Refah Kargaran Bank. Furthermore, outstanding facilities extended by specialized banks to non-public sector increased by 29.0 percent (Rls. 91,708.0 billion) to Rls. 408,316.9 billion. Outstanding facilities allocated by private banks and credit institutions (including the newly privatized banks) surged by 217.2 percent (Rls. 718,733.8 billion) to Rls. 1,049,702.0 billion. Thus, share of private banks and credit institutions in total facilities extended to non-public sector rose remarkably from 19.9 percent at end-1387 to 54.4 percent in 1388 year-end, while share of public commercial banks declined from 61.1 percent to 24.4 percent. Share of specialized banks rose slightly from 19.0 percent in 1387 year-end to 21.2 percent at end-1388. Growth in facilities extended to non-public sector increased from 13.4 percent in 1387 to 15.9 percent in 1388. Of special note is that measures adopted by the Central Bank within the framework of the Supervisory-Policy Guidelines of the Banking System to balance sources and uses of banks' funds, as well as prohibition of banks'

[1] Includes overdue and non-performing loans.
[2] CBI Circular No. 88/85929 dated Tir 24, 1388
[3] Facilities extended to public and non-public sectors exclude profit and revenue receivables.

overdraft from the CBI helped curb excess growth of facilities extended by banks and credit institutions.

According to Article 10 of the 4th FYDP Law, at least 25 percent of banking facilities shall be allocated to water and agriculture sector. The largest amount of facilities extended to non-public sector belonged to "construction and housing", "domestic trade, services, and miscellaneous", "manufacturing and mining", "agriculture" and "exports" sectors.

Composition of outstanding facilities extended by banks and credit institutions to non-public sector according to Islamic contracts in 1388 reveals that installment sale and civil partnership contracts accounted for the highest shares by 36.7 and 27.5 percent, respectively.

Composition of Outstanding Facilities Extended by Banks & Credit Institutions to Non-public Sector by Contracts

(percent)

	Banking system	
	1387	1388
Installment sale	45.1	36.7
Mozarebeh	6.8	5.1
Civil partnership	16.9	27.5
Gharz-al-hasaneh	3.5	4.4
Hire purchase	1.4	1.0
Forward transactions	3.1	1.3
Legal partnership	1.5	1.5
Direct investment	0.7	0.7
Joaleh	4.3	3.6
Others [1]	16.7	18.2
Total	**100.0**	**100.0**

[1] Includes debt purchase, overdue and non-performing loans, and machinery and housing units transacted under Islamic contracts.

Outstanding Facilities Extended by Banks and Credit Institutions to Non-public Sector [1]

(billion rials)

	Year-end balance			Percentage change		Share (percent)	
	1386	1387	1388	1387	1388	1387	1388
Commercial banks	957,826.6	1,017,612.5	471,538.0	6.2	-53.7	61.1	24.4
Specialized banks	273,629.8	316,608.9	408,316.9	15.7	29.0	19.0	21.2
Private banks & credit institutions	236,841.6	330,968.2	1,049,702.0	39.7	217.2	19.9	54.4
Newly privatized banks [2]	..	..	665,502.5	θ	θ	θ	34.5
Total	**1,468,298.0**	**1,665,189.6**	**1,929,556.9**	**13.4**	**15.9**	**100.0**	**100.0**

[1] Excludes profit and revenue receivables.

[2] As of Esfand 1388, Bank Saderat Iran, Tejarat Bank, Bank Mellat, and Refah Kargaran Bank have been classified as private banks.

Shares of Economic Sectors in Increase in Outstanding Facilities Extended by Banks and Credit Institutions to Non-public Sector [1]

(percent)

	1387			1388			
	Public banks	Private banks and credit institutions	Banking system	Public banks	Newly privatized banks [2]	Private banks and credit institutions	Banking system
Agriculture	13.9	2.3	11.0	13.5	13.2	10.9	12.2
Manufacturing and mining	22.0	21.7	21.9	25.0	11.4	22.4	23.7
Construction and housing	49.5	2.9	37.8	45.0	24.5	21.8	33.4
Exports	6.2	0.0	4.6	-1.2	1.4	1.3	0.1
Domestic trade, services, and miscellaneous	8.4	73.1	24.7	17.7	49.5	43.6	30.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

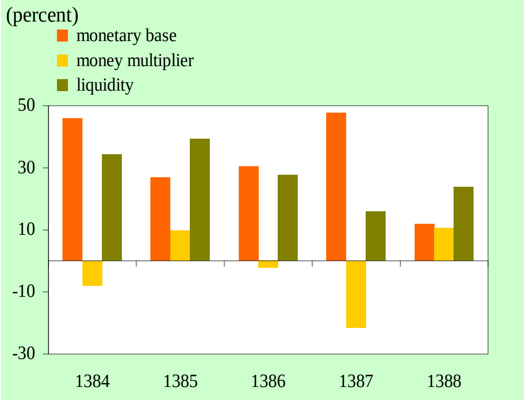
[1] Excludes profit and revenue receivables. However, it includes the rise in outstanding facilities extended to non-public sector.

[2] As of Esfand 1388, Bank Saderat Iran, Tejarat Bank, Bank Mellat, and Refah Kargaran Bank have been classified as private banks. Moreover, the new classification of banks has been applied to the year 1387 as well.

Liquidity

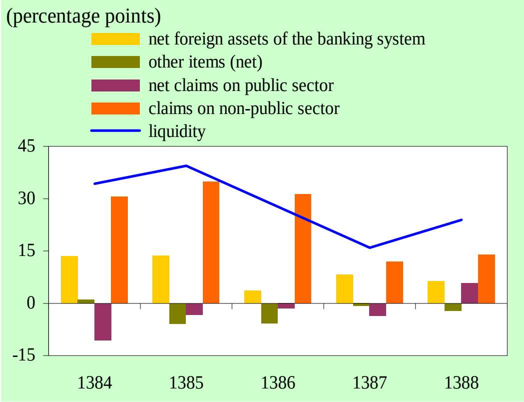
Liquidity grew by 23.9 percent to Rls. 2,355,889.1 billion, up by 8.0 percentage points compared with the liquidity growth of the preceding year (15.9 percent). It should be noted that the average rate of liquidity growth was projected at 20 percent over the 4th Plan, and 16.2 percent for 1388. Therefore, liquidity growth was 7.7 percentage points higher than the target in 1388. Moreover, monetary base rose by 11.9 percent, indicating a sharp reduction compared with the growth of the previous year (47.6 percent). This was largely due to increase in net foreign assets of the Central Bank and net claims of the CBI on public sector. Money multiplier went up by 10.7 percent to reach 3.902, compared with the year before.

Figure 14.3. Liquidity growth and its determinants



Among the factors affecting liquidity growth in 1388, net domestic and foreign assets of the banking system, with increasing shares of 17.5 and 6.4 percentage points on raising liquidity, grew by respectively 25.7 and 20.0 percent compared with preceding year. Among net domestic assets, non-public sector indebtedness to banks and credit institutions, with 15.9 percent growth and an increasing share of 13.9 percentage points, was the main factor contributing to liquidity growth. Moreover, net claims of the banking system on public sector had an increasing share of 5.8 percentage points in liquidity growth.

Figure 14.4. Factors affecting liquidity growth



Liquidity and its Determinants

	Year-end balance		Percentage change	
	1387	1388	1387	1388
Monetary base (billion rials)	539,405.9	603,784.2	47.6	11.9
Money multiplier	3.525	3.902	-21.5	10.7
Liquidity (billion rials)	1,901,366.0	2,355,889.1	15.9	23.9

Contribution of Factors Affecting Liquidity Growth

(percentage points)

	1387	1388
Net foreign assets of the banking system	**8.2**	**6.4**
Net domestic assets of the banking system	**7.7**	**17.5**
Banks' claims on public sector (net)	-3.5	5.8
Government	-3.3	6.0
Public corporations	-0.2	-0.2
Banks' and credit institutions' claims on non-public sector [1]	12.0	13.9
Others (net)	-0.8	-2.2
Liquidity (percent)	**15.9**	**23.9**

[1] Excludes profit and revenue receivables.

Monetary Base

Monetary base grew by 11.9 percent in 1388, representing 35.7 percentage points reduction compared with 47.6 percent increase in 1387. In the review year, "CBI net foreign assets", with a share of 17.2 percentage points, was the major factor contributing to monetary base growth, down by 16.7 percentage points compared with previous year figure of 33.9 percentage points. Moreover, "net CBI's claims on public sector", with a share of 11.4 percentage points, was the other major factor raising monetary base. CBI's claims on banks, with a high decreasing share of 13.1 percentage points in monetary base growth, fell by 41.0 percentage points compared with the increasing share of 27.9 percentage points in preceding year. Net other items had a share of -3.6 percentage points in monetary base growth.

Contribution of Factors Affecting Monetary Base Growth

(percentage points)

	1387	1388
CBI net foreign assets	33.9	17.2
CBI net claims on public sector	-17.8	11.4
CBI claims on banks	27.9	-13.1
Other items (net)	3.6	-3.6
Monetary base (percent)	**47.6**	**11.9**

Composition of Liquidity

Share of money in liquidity decreased from 27.6 percent at end-1387 to 25.6 percent in 1388 year-end. Meanwhile, share of quasi-money rose by 2.0 percentage points to 74.4 percent compared with the year before.

In the review year, non-public sector deposits with banks and credit institutions increased by 24.1 percent to Rls. 2,163,575.2 billion. Of this figure, Rls. 1,754,192.1 billion was in the form of non-sight deposits.

Composition of Liquidity

(billion rials)

	Year-end balance			Percentage change		Share (percent)	
	1386	1387	1388	1387	1388	1387	1388
Money	**535,707.3**	**525,482.5**	**601,697.0**	**-1.9**	**14.5**	**27.6**	**25.6**
Notes and coins with the public	79,909.2	157,764.2	192,313.9	97.4	21.9	8.3	8.2
Sight deposits	455,798.1	367,718.3	409,383.1	-19.3	11.3	19.3	17.4
Quasi-money	**1,104,585.7**	**1,375,883.5**	**1,754,192.1**	**24.6**	**27.5**	**72.4**	**74.4**
Gharz-al-hasaneh savings deposits	152,305.0	153,946.7	180,114.3	1.1	17.0	8.1	7.6
Term deposits	915,984.5	1,177,644.1	1,522,321.8	28.6	29.3	62.0	64.6
Miscellaneous deposits	36,296.2	44,292.7	51,756.0	22.0	16.8	2.3	2.2
Liquidity (M2)	**1,640,293.0**	**1,901,366.0**	**2,355,889.1**	**15.9**	**23.9**	**100.0**	**100.0**

In 1388, provisional profit rate of term deposits with banks and credit institutions changed compared with last year and was set within a range of 9.0 percent (for short-term deposits of more than one month and less than four months) and 17.5 percent (for five-year term deposits).

Provisional Profit Rate of Term Deposits [1]

(percent per annum)

	Year-end			
		1387		
	1386	Public banks	Private banks	1388 [2]
Short-term	**7**	**9 (max.)**	**9**	**9**
Short-term (special)	**7-16**	[3]	**16**	**12**
Long-term				
One-year	7-16	15 (max.)	17.25	14.5
Two-year	7-16	16 (max.)	17.5	15.5
Three-year	7-16	17 (max.)	18	16
Four-year	7-16	18 (max.)	18.5	17
Five-year	16	19 (max.)	19	17.5

[1] Profit rates of short-term, short-term (special) and one-year deposits with Bank Maskan are higher than other public banks by one percentage point.

[2] Effective as of Ordibehesht 1, 1388. Based on the Supervisory-Policy Guidelines of the Banking System in 1388, short-term deposits refer to deposits with maturity of more than one month and less than four months and the special short-term deposits cover the deposits with maturity of four months to one year.

[3] Based on bank's recommendation and CBI's confirmation

In this year, the share of five-year deposits in total term deposits enjoyed a remarkable rise from 41.1 percent in 1387 to 57.6 percent. However, share of one-year short-term deposits in total term deposits declined sharply from 51.2 percent in previous year to 34.9 percent in 1388. This reduction was mainly due to setting the provisional profit rate of certificates of deposit at 15 percent while in 1387, the provisional profit rate of one-year general certificates of deposit issued by banks was 19 percent.

Composition of Long-term Deposits [1]

(percent)

	Year-end		
	1386	1387	1388
One-year	36.3	51.2	34.9
Two-year	9.8	4.5	4.0
Three-year	3.8	2.3	2.2
Four-year	1.1	0.9	1.3
Five-year	49.0	41.1	57.6

[1] Includes Credit Institution for Development (CID).

Sources and Uses of Funds of Public Commercial Banks

Upon privatization of Bank Saderat Iran, Tejarat Bank, Bank Mellat, and Refah Kargaran Bank, the amount of non-public sector deposits with commercial banks decreased by 51.9 percent, Rls. 580,457.4 billion. Of this figure, Rls. 183,641.0 billion was related to sight deposits, and Rls. 396,816.4 billion to non-sight deposits. Moreover, during the review year, the amount of non-usable resources of public commercial banks went down by Rls. 110,020.9 billion. This was due to fall in reserve requirement by Rls. 88,419.8 billion, and decrease in notes and coins held with these banks by Rls. 21,601.1 billion. Furthermore, balance of capital account of public commercial banks declined by Rls. 56,005.5 billion, and public sector deposits and funds by Rls. 30,745.9 billion. As a result of the reduction in the sources of public commercial banks, non-public sector debts to these banks declined by Rls. 542,539.4 billion, and that of public sector by Rls. 26,274.2 billion. Reduction of public commercial banks deficit by Rls. 11,625.7 billion brought about a surplus of Rls. 85,527.2 billion.

Sources and Uses of Funds of Specialized Banks

In 1388, non-public sector deposits with specialized banks increased by Rls. 64,334.8 billion of which, Rls. 1,779.4 billion was related to sight deposits, and Rls. 62,555.4 billion to non-sight deposits. Due to the increase in the reserve requirement of specialized banks by Rls. 6,265.7 billion, non-usable resources of these banks rose by Rls. 6,653.3 billion. In the review year, total free resources out of non-public sector deposits increased by Rls. 57,681.5 billion. With the inclusion of other sources (CBI's claims on specialized banks, foreign exchange obligations, indebtedness to other banks, and other funds), total free resources of specialized banks picked up by Rls. 95,152.9 billion. Of this figure, Rls. 91,708.0 billion and Rls. 3,444.9 billion were related to non-public and public sector debts, respectively. It should be noted that CBI's claims on specialized banks went up by 13.1 percent (Rls. 9,775.2 billion) to Rls. 84,585.7 billion at end-1388, compared with the previous year.

Sources and Uses of Funds of Private Banks and Credit Institutions

In the review year, Bank Saderat Iran, Tejarat Bank, Bank Mellat, and Refah Kargaran Bank were privatized, and classified under the category of private banks. Therefore, non-public sector deposits with private banks and credit institutions surged by 225.9 percent (Rls. 936,096.0 billion). Of this amount, Rls. 223,526.4 billion was related to sight deposits and Rls. 712,569.6 billion to non-sight deposits. In 1388, non-usable resources of private banks and credit institutions rose by Rls. 111,432.9 billion, due to Rls. 100,067.6 billion increase in their reserve requirement, and Rls. 11,365.3 billion rise in notes and coins held with these banks. Moreover, balance of capital account of private banks and credit institutions picked up by Rls. 54,844.0 billion, mainly attributable to the classification of the four above-mentioned banks under private banks. Public sector's deposits and funds with private banks surged by Rls. 48,790.6 billion. Therefore, non-public sector debt to these banks rose by Rls. 715,079.8 billion, and public sector debt picked up by Rls. 87,129.0 billion. Excess funds of private banks and credit institutions increased by Rls. 126,088.9 billion to Rls. 190,916.7 billion in 1388, compared with the year before.

Sources and Uses of Funds of Newly Privatized Banks[1]

In 1388, non-public sector deposits with the newly privatized banks went up by 28.8 percent, Rls. 192,069.2 billion. Of this amount, Rls. 42,047.1 billion was related to sight deposits and Rls. 150,022.1 billion to non-sight deposits. The amount of non-usable resources of these banks rose by Rls. 9,412.5 billion, owing to rise in the reserve requirement of these banks by Rls. 10,067.5 billion, and reduction of the notes and coins held with them by Rls. 655.0 billion. Moreover, balance of capital account of the newly privatized banks increased by Rls. 3,143.9 billion, and public sector's deposits and funds held with these banks by Rls. 11,352.4 billion. On this basis, non-public sector debt to these banks rose by Rls. 91,924.2 billion, and public sector debts picked up by Rls. 28,355.0 billion. Thus, excess reserves of the newly privatized banks reached Rls. 96,461.2 billion, up by Rls. 76,873.8 billion compared with preceding year.

Banking Sector Developments

The major developments in the banking sector in 1388 were as follows:

Section One- Major regulations, by-laws, guidelines, circulars, and amendments approved in the review year:

- The circular concerning the applicable profit rates for the conversion of banks'

[1] Including Bank Saderat Iran, Tejarat Bank, Bank Mellat, and Refah Kargaran Bank, privatized in Esfand 1388

partnership contracts into a type of credit facility;

- The circular obliging banks to announce or pronounce measures adopted to enforce provisions of Article 5 of the Law on Implementation of General Policies of Article 44 of the Constitution;

- The circular concerning declaration of the Supervisory-Policy Guidelines of the Banking System in 1388;

- The circular on the declaration of Cabinet approval pertaining to the method of collecting utility bills commission;

- The circular requiring banks' declaration of the timetable for the sale of non-essential assets recorded in their trading books and the sale of their subsidiaries' stocks;

- The circular concerning method of calculating deposit rates of term investment accounts, which are closed prior to the maturity date;

- The circular amending the guidelines on the issuance, purchase, and sale of check-notes;

- The circular reiterating the implementation of the banking sector related statutes, including implementation of the bill on banks' administration by public banks, and the necessity for provincial managers' attention to their significant role in decision making regarding sources and uses of banks' funds;

- The circular stressing implementation of the legal obligation on check receipts and the issuance of certificate of refusal for dishonored checks, if the issuer does not have sufficient balance in his/her account;

- The circular amending the executive by-law on the issuance of back-to-back letters of credit (LCs), and the discounting of export LCs;

- The circular concerning declaration of the executive by-law on Anti-Money Laundering (AML) Law, and declaration of this circular as well as the Central Bank's guideline to banks;

- The circular concerning the method of collecting Gharz-al-hasaneh loans, and the commission thereof;

- The circular on the required measures and mechanisms for the facilitation of implementation of Article 44, executive by-law of AML Law;

- The circular on the extension of credits on a per case basis at the discretion of banks, provided banks receive sufficient collaterals from credit applicants, and credit recipients implement the concerned contracts;

- The by-law on the receipt of credit institutions' overdue and non-performing loans in rial and foreign exchange;

- The executive regulations on Note 1, Article 186 of the Direct Taxation Act;

- The circular concerning declaration of the method of receiving installments of overdue loans from banks' clients;

- The circular on classifying those matured participation papers whose principal amount has not been settled by the issuer at the maturity date.

Section Two- Major activities concerning issuance of license for banks, supervisory methods and systems, and banking operations in free trade-industrial zones:

- Review of the requests submitted by the applicants for the establishment of banks and credit institutions resulting in issuance of six agreements-in-principle and four banking operation licenses;

- Issuance of license for over 1,000 credit cooperatives, and 11 leasing companies;

- Reorganization of Kowsar Credit Union;

- Reorganization of unlicensed credit unions and institutions;

- Declaration of agreement with legal partnership of the banking system in the establishment of Gharz-al-hasaneh Mehr Iran Bank;

- Formulation of by-laws regarding establishment, operation, supervision, and dissolution of Iranian banks' subsidiaries and representative offices, as well as the Iranian banks' branches abroad;

- Completion of the process of reviewing Iran – Syria Joint Investment Bank by the grant of the agreement-in-principle, as well as the final agreement;

- Review of the request of a Tajik bank for the establishment of "Tajik Saderat Bank" in Kish Free Trade Zone;

- Review of the implementation of the "United Nations Convention Against Corruption (UNCAC)" in Iran, and adoption of the required legislative measures;

- Review of the requests of Bank of Industry and Mine and Tejarat Bank for the establishment of a Joint Investment Bank in Ukrain;

- Preparation of an agreement-in-principle for the cross border Arian Bank to be opened in Kish Free Trade-Industrial Zone;

- Preparation of an agreement-in-principle for Tejarat Bank to establish a branch in Turkey;

- Conduct of a field research on unification of lending rates of banks located at free trade, and special economic zones, with lending rates in the mainland;

- Issuance of an establishment license for the branch of Credit Institution for Development (CID) in Kish Free Trade-Industrial Zone;

- Formulation of the guidelines governing syndicated loans and commitments;

- Amendment of paragraph 3-1 (definition of connected lending (the sole beneficiary)) stipulated in Circular No. MB/1968 dated Bahman 29, 1382, concerning large borrowers;

- Formulation of the minimum requirements for the effective management of the compliance risk within a set of guidelines.

Banking Units and Bank Employees

In 1388, the number of banking units, including branches, counters, and representative offices in Iran and abroad, declined by 1.7 percent to 18,544. Among Iranian banks, Bank Saderat Iran and Bank Melli Iran accounted for the highest shares in the number of domestic units by respectively 17.7 and 16.8 percent.

In the review year, the number of banking system employees rose by 4.0 percent to 196,369. In 1388, the number of employees in public commercial banks decreased by 57.2 percent. This reduction resulted from privatization of Bank Saderat Iran, Tejarat Bank, Bank Mellat, and Refah Kargaran Bank, raising the number of employees of private banks by 717.2 percent to 100,162. The number of employees of specialized banks increased by 14.0 percent. In this year, the number of employees in the Iranian banking system was 10.6 persons in each banking unit, on average, up from 10.0 in previous year. Moreover, ratio of population to each domestic banking unit went up from 3,856 in previous year to 3,981 in 1388.

Banking Units

	1387	1388
Domestic branches	**18,824**	**18,502**
Commercial banks [1]	14,877	5,529
Specialized banks [2]	3,081	3,769
All private banks [3]	866	9,204
Newly privatized banks	..	7,966
Foreign branches	**50**	**42**
Total	**18,874**	**18,544**

[1] As of Esfand 1388, Bank Saderat Iran, Tejarat Bank, Bank Mellat, and Refah Kargaran Bank have been classified as private banks.

[2] Figure for 1388 includes Gharz-al-hasaneh Mehr Iran Bank, and Cooperative Development Bank.

[3] Figure for 1388 includes Sina Bank, Bank Saderat Iran, Tejarat Bank, Bank Mellat, and Refah Kargaran Bank.

4th Five-Year Development Plan

The 4th Plan Law elaborates on monetary and credit policies, and sets targets for money aggregates. Thus, a review of monetary policy during the 4th Plan, and a comparison of monetary and credit performance with the set targets are carried out in this section.

Monetary and Credit Policies

Pursuant to policies adopted during the 3rd FYDP, the 4th Plan Law provisions pertaining to monetary and banking policies were drawn up to achieve greater liberalization of monetary and banking sector, expand electronic banking, develop payment system, reform Money and Credit Council structure, and improve banks' financial structure. Key measures adopted during the 4th FYDP included:

- Prohibition of sectoral and regional allocation of banking facilities, with the exception of the minimum 25 percent new credit allocation appropriated for water and agriculture sector;

- Follow-up of sectoral and regional priorities by government providing supports to banks through grant of loan subsidies, and administered accounts facilities;

- Provision of interest subsidies to banks for scheduled facilities through government budget (profit subsidies), or administered accounts facilities;

- Prohibition of financing government budget deficit through borrowing from the Central Bank and the banking system;

- Reduction of government debt to banks and to the Central Bank during the 4th Plan through appropriation of the repayment amounts for banks' claims in annual budget laws;

- Reduction of the outstanding scheduled facilities extended by banks by 20 percent, on average, per annum, compared with the approved figure for 1383;

- Obligating the government to set up the electronic banking and payment system, and put electronic money transaction and banking services into operation for all banks and the public at national and international levels;

- Grant of more freedom to governmental organizations and institutions, other public institutions, and municipalities in the selection of their agent bank for the creation of a sound competitive environment, free from monopolies, and for the economization of enterprises' operations;

- Appointment of the Central Bank Governor as the Head of Money and Credit Council[1];

- Raising the banks' capital adequacy ratio (CAR).

[1] Minister of Economic Affairs and Finance presided over Money and Credit Council during the 3rd FYDP.

Banks' Deposit and Lending Rates

In 1384, based on the 4th Plan Law, minimum expected lending rate of banking facilities was unified at 16 percent for all economic sectors. Moreover, the decision was made that a proportion of banks profit (interest) on lending operations to priority sectors be financed directly through government subsidies. Thus, lending rate of facilities extended to agriculture sector was set at 13.5 percent, exports sector 14 percent, and manufacturing and mining sector 15 percent. Moreover, the margin between the specified sectoral lending rates and the expected unified lending rate (16 percent) was approved to be financed through budgetary allocation of government subsidies[1].

With the enactment of the Law on Rationalization of Banks' Lending Rates by the Parliament, the government and CBI were obligated to revise the resource mobilization and credit allocation of banks in a way that would lead to gradual lowering of banks expected lending rates of transaction (non-PLS) contracts in all economic sectors during the 4th Plan. According to the said Law, this revision was to be implemented in a way that banks lending rates become single-digit by the end of the 4th Plan. Thus, lending rates for facilities extended by public banks under transaction contracts were set at 14 percent in 1385, and 12 percent during 1386-1388.

Executive By-law on the Expansion of Small and Medium-sized Enterprises (SMEs)

The executive by-law on the expansion of SMEs, approved in 1384, was aimed at creating a level playing field for a better distribution of financial resources in different regions (in particular deprived regions) and amongst different social groups and the improvement of non-oil production and exports. The strengthening of economic activities, streamlining of banks' facilities, and enhancement of entrepreneurialship and job creation opportunities were among other objectives of the said executive by-law[2].

Based on Article 3 of the mentioned executive by-law, Central Bank should adopt the required measures for minimum allocation of credits to SMEs projects by 20.0 percent of new loans in 1384, 35.0 percent in 1385, and 50.0 percent during 1386-1388. Therefore, commercial and specialized banks were obliged to extend respectively Rls. 67.7 trillion, Rls. 180.0 trillion, Rls. 150.0 trillion, and Rls. 70.0 trillion to SMEs during 1384-1387 (a total of Rls. 467.7 trillion). In 1388, Bank Melli Iran, Bank Keshavarzi, and Bank of Industry and Mine were required to extend 50 percent of their new facilities to SMEs projects[3].

CBI Supervisory-Policy Package

Record high liquidity growth in 1385 since the Islamic Revolution as well as the sharp rise in banks' indebtedness to CBI in 1386, due to extension of facilities without due regard to banks' available funds, led to the formulation and declaration of the CBI supervisory-policy packages in 1387-1388 for the regulation of banking system[4].

Reserve Requirement Ratio

Regarding the unification of reserve requirement ratios in 1383, reserve requirement

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[1] Banking Studies and Regulations Department of CBI, Circular No. MB/694 dated Tir 13, 1384

[2] Cabinet Approval No. E34055V/46468 dated Azar 5, 1384

[3] CBI Circular No. 88/85929 dated Tir 24, 1388

[4] CBI declared "Supervisory-Policy Package of the Banking System" to banks and credit institutions in 1387, and "Supervisory-Policy Guidelines of the Banking System" in 1388.

ratio of all deposits was set at 17 percent for commercial and 10 percent for specialized banks, during 1384-1386[1]. The reserve requirement ratios were subsequently changed during 1387-1388 in order to reflect maturity structure of banks' deposits. Based on these revisions, stronger incentives were created for banks to strengthen sustainability of longer-term deposits through lowering reserve requirements for longer maturity deposits in Supervisory-Policy Packages of the CBI. During the 4th Plan, the reserve requirement ratio of different deposits held with specialized banks (excluding Bank Maskan Savings Fund) remained unchanged at 10 percent. In order to encourage banks and credit institutions to extend more credit to the public, they were authorized to hold up to 2 percentage points of their reserve requirement with the CBI in the form of cash (including notes, coins, and CBI Iran-Checks).

Allocation of Banking Facilities

The 4th Plan stipulates that except for water and agriculture sector for which banks should allocate 25 percent of their new loans and facilities, all other priorities by banks to other sectors and regions would be annulled. Hence, banks' facilities and credit at preferential rates to other sectors and regions should only be carried out through provision of government cash subsidies and administrative accounts facilities.

Moreover, change in outstanding facilities extended by banks to domestic trade, services and miscellaneous sector surged during the first three years of the 4th Plan, reaching 46.0 percent in 1386. Therefore, to curb high growth of banking facilities, shares of different economic sectors in banks' credit allocation were stipulated in the Supervisory-Policy Packages of 1387 and 1388, and banks were required to observe these shares in extension of facilities.

Allocation of Banking Facilities based on CBI Supervisory-Policy Packages

(percent)

	Year-end	
	1387	1388
Water and agriculture[1]	25	25
Manufacturing and mining	33	35
Construction and housing	20	20
Services (including trade)	15	12
Exports	7	8

[1] Including agricultural products processing industries according to Article 2 of the Supervisory-Policy Package of the Banking System in 1387

Reduction of Government Indebtedness to CBI and Banks

Based on Article 10 of the 4th FYDP Law, the government is obligated to reduce its debt to CBI and banks through inclusion of the repayment amounts in annual budget laws. Public sector performance regarding

Reserve Requirement Ratio of Commercial Banks

(percent)

	Year-end				
	1384	1385	1386	1387	1388
Gharz-al-hasaneh savings deposits	17	17	17	10	10
Sight deposits and other deposits	17	17	17	20	17
Short-term investment deposits	17	17	17	17	16
One-year investment deposits	17	17	17	17	15
Two- and three-year investment deposits	17	17	17	15	13
Four-year investment deposits	17	17	17	13	12
Five-year investment deposits	17	17	17	11	10

[1] With the exception of the reserve requirement ratio of Bank Maskan Savings Fund at 2 percent

Shares of Economic Sectors in Increase in Outstanding Facilities Extended by Banks and Credit Institutions to Non-public Sector

(percent)

	Year-end									
	1384		1385		1386		1387		1388	
	Public banks	Banking system	Public banks	Banking system	Public banks	Banking system	Public banks	Banking system	Public banks[1]	Banking system
Agriculture	18.0	14.3	19.1	15.9	17.0	14.1	13.9	11.0	13.5	12.2
Manufacturing and mining	25.5	27.0	22.1	21.0	23.6	22.3	22.0	21.9	25.0	23.7
Construction and housing	22.9	23.1	23.7	23.4	17.4	16.1	49.5	37.8	45.0	33.4
Exports	1.8	1.4	0.7	0.5	1.9	1.5	6.2	4.6	-1.2	0.1
Trade, services, and miscellaneous	31.8	34.2	34.4	39.2	40.1	46.0	8.4	24.7	17.7	30.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[1]As of Esfand 1388, Bank Saderat Iran, Tejarat Bank, Bank Mellat, and Refah Kargaran Bank have been classified as private banks.

changes in indebtedness to Central Bank and banks during the 4th Plan was as follows:

Public Sector Indebtedness to CBI and Banks

(billion rials)

	1383	1388	Changes
CBI's claims on public sector	**132,361.5**	**134,959.0**	**2,597.5**
Government	111,930.0	92,227.5	-19,702.5
Public corporations and institutions	20,431.5	42,731.5	22,300.0
Banks' claims on public sector	**103,579.4**	**229,674.9**	**126,095.5**
Government	36,793.7	192,678.9	155,885.2
Public corporations and institutions	66,785.7	36,996.0	-29,789.7

During 1383-1388, CBI's claims on government were reduced by Rls. 19,702.5 billion while CBI's claims on public corporations and institutions increased by Rls. 22,300.0 billion, raising CBI's claims on public sector by Rls. 2,597.5 billion. Moreover, banks' claims on government surged by Rls. 155,885.2 billion, which was largely due to increase in banks' claims on government for the principal and profit of overdue budgetary facilities extended by banks. Banks' claims on public corporations and institutions declined by Rls. 29,789.7 billion. This brought about Rls. 126,095.5 billion rise in banks' claims on public sector.

Issuance of CBI Iran-Checks

Over the years, issuance of high denomination money substitutes by banks (the so-called money checks) and the widespread circulation of these instruments for notes in the public's daily transactions created a lot of difficulty for CBI in monitoring banks' issuance of money checks. These were major difficulties with banks' money substitutes notwithstanding the counterfeiting measures, the exchange and settlement of money substitutes in banks' clearing houses, and the loosening of CBI control on money expansion. Therefore, as of Ordibehesht 1387, the decision was made that CBI would exclusively issue Iran-Checks as money substitutes to replace the original money-checks and that banks should purchase Iran-Checks with 100 percent cash payments. Rise in the supply of Iran-Checks by banks as well as the extensive use of such checks by the public as a substitute for cash raised liquidity, and infringed Central Bank exclusive right in printing and issuance of bank notes. Moreover, CBI was in charge of design and issuance of Iran-Checks[1]. As money checks are treated as part of banks' financial resources and categorized under sight deposits, and CBI Iran-Checks are classified under notes and coins, implementation of the mentioned process raised the volume of notes and coins with the public, sharply reducing money multiplier. Thus, in order to facilitate the stated process, Central Bank extended a credit line to banks, authorizing banks to hold up to 2 percentage points of their reserve requirement in the form of cash.

CBI Participation Papers

According to Article 10 of the 4th FYDP Law, for implementation of monetary policy, the Central Bank is authorized to issue participation papers, and utilize other similar financial instruments within the framework of the Law for Usury Free Banking enacted in 1362, upon the Parliament approval. However, the CBI regular practice in issuance of participation papers during 1384-1386 was abandoned in the period of 1387-1388, due to hectic required formalities of parliament approval. This was also due to reduction in liquidity growth and its expected downtrend.

CBI Participation Papers

(billion rials)

	Year-end balance				
	1384	1385	1386	1387	1388
CBI Participation papers	10,769.1	21,565.5	16,371.7	0.0	0.0

[1] Cabinet Approval No. 39305V/201712 dated Esfand 21, 1386, stipulated in the Supervisory-Policy Package of 1387

Banks' Recapitalization

In order to raise banks' capital, and expand banks' presence in the international banking arena, specific measures were stipulated in Article 10 of the 4th Plan Law, leading to the capital increase of public banks[2] by Rls. 98,003.0 billion during the 4th Plan period.

Private Banks

In order to raise banks' competitiveness, expand financial markets, and encourage domestic savings, the Law Authorizing the Establishment of Private Banks was approved by the Parliament in 1379. Thus, EN Bank, Karafarin Bank, Saman Bank, Parsian Bank, Bank Pasargad, Sarmayeh Bank, and Sina Bank as well as Credit Institution for Development, were created and came into operation before 1387 year-end. Moreover, four public commercial banks namely, Bank Saderat Iran, Tejarat Bank, Bank Mellat, and Refah Kargaran Bank were privatized in 1388. During the 4th Plan period, share of deposits held with private banks, including the newly privatized banks, rose from 12.0 percent in 1384 to 62.4 percent in 1388. Share of facilities allocated by private banks in total facilities extended by banks and credit institutions increased from 10.8 percent in 1384 to 54.4 percent in 1388. Share of private banks' and credit institutions' assets in total assets of the banking system went up from 9.6 percent in 1384 to 55.7 percent in 1388.

Money and Credit Aggregates

Based on the 4th FYDP Law, the targets set for money and credit aggregates, liquidity and inflation rates are as in the respective table.

[2] Including Bank Saderat Iran, Tejarat Bank, Bank Mellat, and Refah Kargaran Bank in 1388

Share of Private Banks in Outstanding Deposits, Facilities, and Assets of the Banking System

(percent)

	Year-end						
	1384	1385	1386	1387	1388 [1]	1388 [2]	1388 [3]
Deposits	12.0	15.7	19.0	23.8	62.4	22.7	39.7
Facilities	10.8	13.4	16.1	19.9	54.4	19.9	34.5
Assets	9.6	11.8	13.5	17.1	55.7	16.6	39.1

[1] Includes the newly privatized Bank Saderat Iran, Tejarat Bank, Bank Mellat, and Refah Kargaran Bank.
[2] Excludes the newly privatized banks stated above.
[3] Includes only the newly privatized banks stated above.

Liquidity and Inflation Targets

(percent)

	1384	1385	1386	1387	1388	Annual average growth
Liquidity	24.0	22.0	20.0	18.0	16.2	20.0
Inflation	14.6	11.5	9.1	7.9	6.8	9.9

Over the 4th Plan period, the liquidity required for productive sectors and investment activities was provided, precluding incongruous monetary expansion as compared with the set targets. Most money and credit aggregates enjoyed a considerable growth during this Plan. Liquidity grew sharply by 28.3 percent, per annum on average, compared with the annual average growth target of 20.0 percent stipulated in the 4th Plan. In 1385, liquidity growth reached 39.4 percent, the highest since the Islamic Revolution of 1979. The year 1387 was the only year registering a less than targeted liquidity growth by 15.9 percent. This largely resulted from reduction of non-public sector indebtedness. Central Bank measures and policies as stipulated in the Supervisory-Policy Package of the Banking System in 1387, which were aimed at monitoring overdrafts from the Central Bank, helped curb irregular growth of facilities extended by banks and credit institutions.

Factors Affecting Monetary Base Growth

In 1384 and 1387, monetary base was the main factor affecting liquidity growth, experiencing its highest expansion. This was mainly due to rise in net foreign assets of the Central Bank. Sharp rise in banks' overdraft from the CBI during 1386-1387 raised the share of Central Bank's claims on banks in monetary base growth. In 1388, monetary base growth reached the lowest over the 4th Plan period, largely owing to decline of CBI's claims on banks, and reduction of net foreign assets of the Central Bank. Net CBI's claims on public sector had a negative effect on monetary base growth during the 4th Plan, except for a positive effect of 11.4 percent in 1388.

Money and Credit Aggregates

(billion rials-percent)

	1384		1385		1386		1387		1388		Performance (average growth rate)
	Amount	Growth	Amount	Growth	Amount	Growth	Amount	Growth	Amount	Growth	
Banking system claims on government	**135,794.5**	**-8.7**	**160,269.3**	**18.0**	**188,723.6**	**17.8**	**206,925.9**	**9.6**	**284,906.4**	**37.7**	**14.9**
CBI's claims	101,254.9	-9.5	104,094.8	2.8	97,842.0	-6.0	91,423.4	-6.6	92,227.5	0.9	-3.7
Banks' & credit institutions' claims	34,539.6	-6.1	56,174.5	62.6	90,881.6	61.8	115,502.5	27.1	192,678.9	66.8	42.4
Banking system claims on public corporations & institutions	**99,813.2**	**14.4**	**95,950.5**	**-3.9**	**91,913.1**	**-4.2**	**84,613.5**	**-7.9**	**79,727.5**	**-5.8**	**-1.5**
CBI's claims	21,957.4	7.5	27,337.4	24.5	33,917.9	24.1	38,835.9	14.5	42,731.5	10.0	16.1
Banks' & credit institutions' claims	77,855.8	16.6	68,613.1	-11.9	57,995.2	-15.5	45,777.6	-21.1	36,996.0	-19.2	-10.2
Banking system claims on public sector	**235,607.7**	**-0.1**	**256,219.8**	**8.7**	**280,636.7**	**9.5**	**291,539.4**	**3.9**	**364,633.9**	**25.1**	**9.4**
Claims on non-public sector [1]	**745,028.2**	**39.0**	**1,066,548.5**	**43.2**	**1,468,298.0**	**37.7**	**1,665,189.6**	**13.4**	**1,929,556.9**	**15.9**	**29.8**
Monetary base	**220,541.4**	**45.9**	**279,975.1**	**26.9**	**365,499.0**	**30.5**	**539,405.9**	**47.6**	**603,784.2**	**11.9**	**32.6**
Liquidity	**921,019.4**	**34.3**	**1,284,199.4**	**39.4**	**1,640,293.0**	**27.7**	**1,901,366.0**	**15.9**	**2,355,889.1**	**23.9**	**28.3**
CPI (1383=100)	**110.4**	**10.4**	**123.5**	**11.9**	**146.2**	**18.4**	**183.3**	**25.4**	**203.0**	**10.8**	**15.2**

[1] Excluding profit and revenue receivables

Factors Affecting Monetary Base Growth

(percent-percentage points)

	1384	1385	1386	1387	1388	4th Plan performance on average
Sources	**45.9**	**26.9**	**30.5**	**47.6**	**11.9**	**32.6**
CBI foreign assets (net)	49.1	51.5	24.1	33.9	17.2	35.2
CBI claims on public sector (net)	-37.9	-12.3	-9.5	-17.8	11.4	-13.2
CBI claims on banks	9.5	8.6	29.6	27.9	-13.1	12.5
CBI other items (net)	25.2	-20.9	-13.7	3.6	-3.6	-1.9
Uses	**45.9**	**26.9**	**30.5**	**47.6**	**11.9**	**32.6**
Notes and coins in circulation	4.8	5.4	7.3	32.4	4.6	10.9
Banks' and credit institutions' deposits held with CBI	41.1	21.5	23.2	15.2	7.3	21.7