CHAPTER 14

MONETARY AND BANKING POLICY AND PERFORMANCE

Key Monetary Policies Approved in 1389

In 1389, for the third consecutive year, the "Supervisory-Policy Package of the Banking System", specifying the monetary policy, was declared to banks and credit institutions by the CBI. This Package, upon review by the banking experts as well as economic, supervision, credit, foreign exchange and payment system sections of the Central Bank, was drawn up with regard to current economic developments, strong points of the supervisory-policy packages of 1387 and 1388, and the expected upcoming events, in compliance with the Law for Usury (Interest) Free Banking and the 4th FYDP Law. The key approaches in formulation of the "Supervisory-Policy Package of the Banking System" in the review year were as follows:

- Perfect implementation of Islamic banking and contracts;
- Compliance with the 4th Five-Year Development Plan;
- Setting of the lending rates for transaction contracts with regard to other economic variables;
- Reduction in banks' deposit rates, in line with the decline in inflation;
- Financing of productive units;
- Qualitative and quantitative development of electronic banking;
- Transparency in banking operations;
- Balancing of banks' sources and uses, and lowering the use of CBI overdraft facility;
- Reduction and management of banks' non-performing loans;
- Supply-oriented housing credits to reach market equilibrium, preventing price rise.

Moreover, for provision of banks' required resources and financing of productive units and new investments, banks were authorized to issue general and special certificates of deposit (CDs) upon CBI consent. Provisional profit rate of general certificates of deposit of at least one year maturity is payable at a maximum of one percentage point higher than the provisional profit rate of deposits with the same maturity upon presentation of feasibility reports and approval of the Central Bank. The rate of repurchase prior to maturity by the issuing bank will be at the usual provisional deposit rate.

Provisional profit rate of special certificates of deposit is payable at a maximum of 2.5 percentage points higher than the provisional profit rate of deposits with the same maturity upon presentation of feasibility reports and approval of the Central Bank. The repurchase of special purpose CDs before the maturity date is not allowed by credit institutions.

The profit rate of transaction contracts with a maturity of two years and less is determined at 12 percent and for more than two years, at 14 percent[1]. Furthermore, for the perfect implementation of the Law for Usury (Interest) Free Banking, the provisional profit rate of PLS contracts was set on the basis of project profitability and profit ratios set in the contract.

In implementation of the credit policy, the credit ceiling for the purchase of essential goods and services such as first-hand consumer durables from local producers as well as educational and health expenditures was raised to Rls. 30 million, for housing repair Rls. 50 million, and for the purchase of new pick-ups and taxis replacing the obsolete ones Rls. 100 million. Debt purchase contracts with any productive unit are restricted to a maximum of 35 percent of the unit's total sales for the year before the contract, based on the unit's approved financial statements, with a maximum profit rate of 16 percent.

For attaining a balanced growth as well as granting more freedom to banks in their credit management, credit institutions were allowed to allocate up to 20 percent of the increase in the outstanding deposits (after deduction of legal obligations) to different economic sectors without observing the sectoral allocation ratios. However, the remaining 80 percent of the increase should be lent out according to the respective table.

In order to strengthen sustainability of deposits, increase the share of banks' long-term deposits, and raise banks' liquidity, the reserve requirement ratios[2] of banks were set as in the respective table.

[1] The lending rate on transaction contracts was -13.4 percent in 1387. However, considering 10.8 percent inflation rate and 12 percent profit rate of transaction contracts in 1388, the real lending rate on transaction contracts increased to 1.2 percent in 1388.

[2] During 1387-1389, the reserve requirement ratio of specialized banks remained unchanged at 10 percent.

Table 14.1. Share in Change in Outstanding Facilities (percent)

Sectors	1387	1388 [1]	1389
Water and agriculture	25	25	25
Manufacturing and mining	33	35	37
Construction and housing	20	20	20
Trade and services	15	12	10
Exports	7	8	8

[1] In 1388, it was determined that the mentioned ratios be allocated to change in outstanding extended facilities.

Table 14.2. Reserve Requirement Ratios of Deposits with Commercial Banks (percent)

Deposits	1387	1388	1389
Gharz-al-hasaneh savings	10	10	10
Sight deposits, and others	20	17	17
Short-term	17	16	15.5
One-year	17	15	15
Two- and three-year	15	13	11
Four-year	13	12	10
Five-year	11	10	10

The excess reserve of banks, after the decline of banks' reserve requirements, will be used in priority order for the purpose of banks' debt payment to the CBI, loan for "working capital of productive units and incomplete projects", "investments", "interbank loans", and "Mehr Housing Program".

According to the Supervisory-Policy Package of the Banking System in 1389, the following measures should be adopted in order to reduce non-performing loans of banks and credit institutions:

- The Board of Directors of credit institutions is authorized to waive the 6 percent penalties of customers with overdue loan payments, at once and over the duration of the loan of the customers if they paid and settled their total overdue loans.

- The CBI should set up a database for banks' customers in arrears who are deprived from banking services, list the specific restrictions imposed on them, and share this information with other credit institutions.

Banking System[1] Performance

In the review year, banking system assets and liabilities went up by 34.6 percent to Rls. 6,961,236.3 billion. On the assets side, 37 percent growth in non-public sector indebtedness (Rls. 791,860.7 billion increase) and 34.2 percent growth in other assets (Rls. 458,036.2 billion increase) were the main contributing factors. On the liabilities side, 38.9 percent surge in other liabilities (Rls. 743,335.4 billion rise) and 25.2 percent liquidity growth (Rls. 592,985.1 billion rise) were the major factors contributing to banks' liabilities.

Figure 14.1. Major economic variables

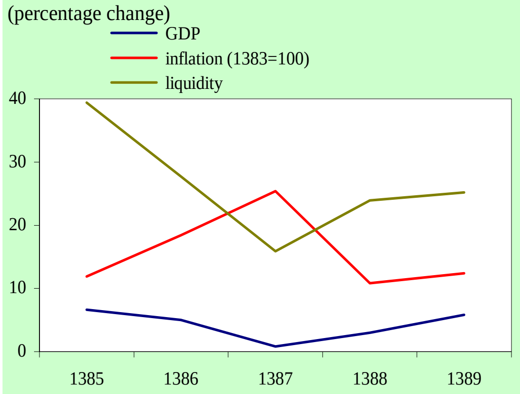


Table 14.3. Major Items in Assets and Liabilities of the Banking System (billion rials)

	Year-end balance			Percentage change	
	1387	1388	1389	1388	1389
Assets	**4,582,488.0**	**5,171,237.5**	**6,961,236.3**	**12.8**	**34.6**
Foreign assets	1,216,237.0	1,331,223.8	1,682,556.1	9.5	26.4
Central Bank	778,560.1	764,435.5	842,977.5	-1.8	10.3
Public banks[1]	409,829.8	204,908.9	297,360.1	-50.0	45.1
Private banks and credit institutions[2]	27,847.1	361,879.4	542,218.5	▣	49.8
Newly privatized banks[3]	..	323,641.7	436,842.3	θ	35.0
Claims on public sector	291,539.4	364,633.9	553,403.5	25.1	51.8
Claims on non-public sector	1,866,550.9	2,137,363.8	2,929,224.5	14.5	37.0
Others	1,208,160.7	1,338,016.0	1,796,052.2	10.7	34.2
Liabilities	**4,582,488.0**	**5,171,237.5**	**6,961,236.3**	**12.8**	**34.6**
Liquidity	1,901,366.0	2,355,889.1	2,948,874.2	23.9	25.2
Deposits and funds of public sector	335,620.6	300,025.1	362,870.4	-10.6	20.9
Foreign liabilities	611,986.1	606,006.0	996,839.0	-1.0	64.5
Central Bank	215,896.4	109,135.4	227,494.0	-49.5	108.5
Public banks[1]	352,091.6	137,539.6	230,813.1	-60.9	67.8
Private banks and credit institutions[2]	43,998.1	359,331.0	538,531.9	▣	49.9
Newly privatized banks[3]	..	316,311.7	438,697.6	θ	38.7
Others[4]	1,733,515.3	1,909,317.3	2,652,652.7	10.1	38.9

[1] Includes Gharz-al-hasaneh Mehr Iran Bank as of Esfand 1387, and Tose'e Ta'avon Bank since Khordad 1389.

[2] Includes Bank Day as of Shahrivar 1389, Tat Bank since Mehr 1389, and Ansar Bank as of Dey 1389.

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

[4] Includes capital account of the banking system, advance payments on public sector LCs, and imports order registration deposit by non-public sector.

[1] Includes Central Bank, public commercial and specialized banks, private banks, and credit institutions.

Banking System and External Sector

In 1389, net foreign assets of the banking system declined by 5.4 percent (Rls. 39,500.7 billion) to Rls. 685,717.1 billion. This was due to decrease in net foreign assets of the Central Bank by Rls. 39,816.6 billion, and increase in net foreign assets of banks and credit institutions by Rls. 315.9 billion. Reduction in net foreign assets of the CBI mainly resulted from CBI's net seller status as sales of foreign exchange by the CBI outpaced purchases. Rise in net foreign assets of banks and credit institutions was related to Rls. 272,790.3 billion growth of their foreign assets.

Banking System and Public Sector

Banking system net claims on the public sector increased by Rls. 125,924.3 billion compared with 1388 and reached Rls. 190,533.1 billion. In the review year, Central Bank's claims on public sector surged by 65 percent, which was mostly due to 87.6 percent growth of CBI's claims on the government. Of total Central Bank's claims on the government, Rls. 39,166.2 billion (22.6 percent) was due to deficit in foreign exchange obligations account, up by Rls. 1,656.3 billion compared with last year. Moreover, public corporations' and institutions' indebtedness to Central Bank picked up by 16.1 percent. Public sector deposits with the CBI grew by 29 percent, mainly due to 33.8 percent increase in government deposits with the CBI. Public corporations' and institutions' deposits with the Central Bank declined by 18.2 percent, however.

Public sector indebtedness to banks and credit institutions surged by 44 percent (Rls. 101,084.4 billion). This was mainly attributable to 53.6 percent rise (Rls. 103,217.7 billion growth) of banks' and credit institutions' claims on the government. Government indebtedness to banks and credit institutions reached Rls. 295,896.6 billion.

Table 14.4. Change in Net Claims of Banking System on Public Sector (billion rials)

	1388	1389
Public sector	**108,690.0**	**125,924.3**
Central Bank	61,549.1	34,528.4
Commercial and specialized banks	-24,293.3	38,716.8
Private banks and credit institutions	71,434.2	52,679.1
Newly privatized banks	55,334.9	55,758.7
Government	**114,392.5**	**118,110.4**
Central Bank [1]	58,470.0	24,581.2
Commercial and specialized banks	1,187.0	39,349.7
Private banks and credit institutions	54,735.5	54,179.5
Newly privatized banks	38,636.2	57,259.1
Public corporations and institutions	**-5,702.5**	**7,813.9**
Central Bank	3,079.1	9,947.2
Commercial and specialized banks [2]	-25,480.3	-632.9
Private banks and credit institutions	16,698.7	-1,500.4
Newly privatized banks	16,698.7	-1,500.4

[1] Includes deficit in foreign exchange obligations account.
[2] Includes indebtedness for exchange rate difference.

Banks and Non-public Sector

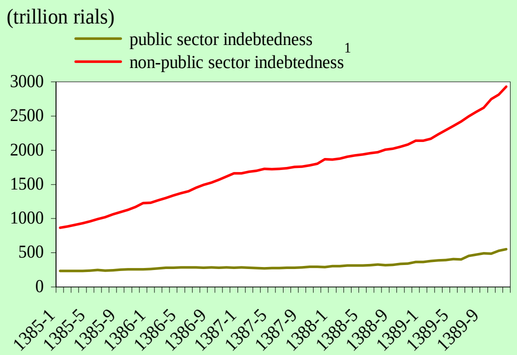
Banking system credit performance represents an increase in facilities[1] extended by banks and credit institutions to non-public sector (excluding profit and revenue receivables) by Rls. 730,100.1 billion (37.8 percent). This shows 21.9 percentage points increase as compared with 15.9 percent growth of the preceding year. Share of facilities extended by banks and credit institutions to non-public sector reached 89.2 percent, showing the significant share of the non-public sector in allocated credits[2].

Outstanding facilities extended by public commercial banks to non-public sector (excluding profit and revenue receivables) went up by 20.2 percent (Rls. 95,359.1 billion) to Rls. 566,897.1 billion. Moreover, outstanding facilities extended by specialized banks to

[1] Includes overdue and non-performing loans.
[2] Facilities extended to public and non-public sectors exclude profit and revenue receivables.

non-public sector increased by 79.6 percent (Rls. 325,142.5 billion) to Rls. 733,459.4 billion. Outstanding facilities allocated by private banks and credit institutions (including the newly privatized banks) rose by 29.5 percent (Rls. 309,598.5 billion) to Rls. 1,359,300.5 billion. Therefore, share of private banks and credit institutions in total facilities extended to non-public sector decreased from 54.4 percent at the end of 1388 to 51.1 percent at end-1389.

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



[1] Includes profit and revenue receivables.

In 1389, the highest share in the rise in outstanding facilities extended by banks and credit institutions to the non-public sector belonged to "construction and housing" sector, followed by "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 1389 indicates that partnership and installment sale contracts held the highest shares by 37.7 and 31.1 percent, respectively.

Table 14.6. Composition of Outstanding Facilities Extended by Banks & Credit Institutions to Non-public Sector by Contracts (percent)

	Banking system	
	1388	1389
Installment sale	36.7	31.1
Mudarabah	5.1	4.4
Partnership	27.5	37.7
Gharz-al-hasaneh	4.4	4.1
Hire purchase	1.0	0.8
Forward transactions	1.3	0.7
Legal partnership	1.5	1.5
Direct investment	0.7	0.7
Jualah	3.6	4.5
Others [1]	18.2	14.5
Total	**100.0**	**100.0**

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

Table 14.5. Outstanding Facilities Extended by Banks and Credit Institutions to Non-public Sector [1] (billion rials)

	Year-end balance			Percentage change		Share (percent)	
	1387	1388	1389	1388	1389	1388	1389
Commercial banks	1,017,612.5	471,538.0	566,897.1	-53.7	20.2	24.4	21.3
Specialized banks	316,608.9	408,316.9	733,459.4	29.0	79.6	21.2	27.6
Private banks & credit institutions	330,968.2	1,049,702.0	1,359,300.5	217.2	29.5	54.4	51.1
Newly privatized banks [2]	..	665,502.5	828,958.5	θ	24.6	34.5	31.2
Total	**1,665,189.6**	**1,929,556.9**	**2,659,657.0**	**15.9**	**37.8**	**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.

Table 14.7. Shares of Economic Sectors in Increase in Outstanding Facilities Extended by Banks and Credit Institutions to Non-public Sector[1] (percent)

	1388				1389			
	Public banks	Newly privatized banks[2]	Private banks and credit institutions	Banking system	Public banks	Newly privatized banks[2]	Private banks and credit institutions	Banking system
Agriculture	13.5	13.2	10.9	12.2	9.1	8.8	3.9	6.2
Manufacturing and mining	25.0	11.4	22.4	23.7	14.0	34.9	27.9	21.6
Construction and housing	45.0	24.5	21.8	33.4	65.6	20.4	14.3	37.5
Exports	-1.2	1.4	1.3	0.1	0.5	-0.1	-0.1	0.2
Domestic trade, services, and miscellaneous	17.7	49.5	43.6	30.6	10.8	36.0	54.0	34.5
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**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.

In the review year, the ratio of overdue, non-performing, and doubtful claims to total facilities extended by banks and credit institutions (in rial) to public and non-public sectors went down by 4.4 percentage points to 13.9 percent, compared with the previous year-end. This variable declined by 3.5 percentage points for public commercial banks, 4.0 percentage points for specialized banks, and 3.8 percentage points for private banks and credit institutions, compared with 1388 year-end.

Table 14.8. Ratio of Overdue, Non-performing, and Doubtful (Non-current) Claims to Total Facilities Extended by Banks and Credit Institutions[1] (in Rial) (percent)

	1388	1389	Change (percentage points)
Commercial banks	21.7	18.2	-3.5
Specialized banks	11.3	7.3	-4.0
Private banks and credit institutions	19.3	15.5	-3.8
Newly privatized banks[2]	15.4	12.1	-3.3
Banking system	**18.3**	**13.9**	**-4.4**

[1] Including overdue, non-performing, and doubtful (non-current) claims of public and non-public sectors
[2] As of Esfand 1388, Bank Saderat Iran, Tejarat Bank, Bank Mellat, and Refah Kargaran Bank have been classified as private banks.

In 1389, banks also extended facilities within the framework of the executive by-law on the expansion of Small and Medium Enterprises (SMEs). According to the approvals of the High Council of Employment, all agent banks were required to review and approve new projects referred to them by provinces' Employment and Investment Working Group. These banks were obliged to conclude contracts for new projects, as well as incomplete projects and extend facilities to them, not exceeding the ceiling of credits remaining from years 1384-1388. Public banks credit performance in pursuance of SMEs executive by-law reveals that total facilities extended as of the beginning of the project till end-1389 amounted to Rls. 250,771.4 billion, up by Rls. 22,197.8 billion compared with 1388 year-end.

In this year, the government approved that facilities should be extended by banks as follows:

Facilities Extended to the Housing Sector

Based on the Cabinet (Housing Working Group) approvals, agent banks extended Rls. 128,115.8 billion for the renovation and reconstruction of rural housing, development of Mehr Housing Program, reinforcement of old buildings in urban areas, and extension of housing facilities to war veterans, artists, elites, judges and the academic staff.

Gharz-al-hasaneh Facilities

Despite a non-binding budget law regarding extension of Gharz-al-hasaneh facilities as well as the shortage of Gharz-al-hasaneh resources for the implementation of Cabinet and High Employment Council's approvals, agent banks extended Rls. 37,407 billion Gharz-al-hasaneh facilities for housing deposit, marriage, Cabinet approvals for provincial trips, and other exigencies.

Liquidity

In 1389, liquidity grew by 25.2 percent to Rls. 2,948,874.2 billion, up by 1.3 percentage points compared with the liquidity growth of the previous year (23.9 percent). Monetary base increased by 13.7 percent, mainly owing to rise in CBI's claims on banks as well as net CBI's claims on public sector. Money multiplier picked up by 10.1 percent to reach 4.296, compared with the previous year.

Among the factors affecting liquidity growth in 1389, net domestic assets of the banking system, with 38.8 percent growth compared with the previous year, had an increasing share of 26.9 percentage points in raising liquidity. Among net domestic assets, non-public sector indebtedness to banks and credit institutions, with 37.8 percent growth and an increasing share of 31 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 5.3 percentage points in liquidity growth. Other items (net) of the banking system had a remarkably decreasing share of 9.4 percentage points in liquidity growth. Net foreign assets of the banking system decreased by 5.4 percent and reduced liquidity growth by 1.7 percentage points.

Figure 14.3. Liquidity growth and its determinants

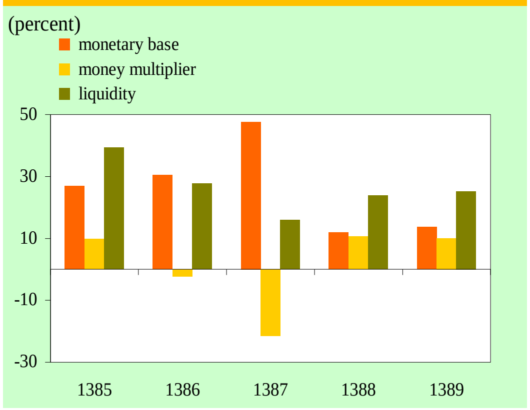


Figure 14.4. Factors affecting liquidity growth

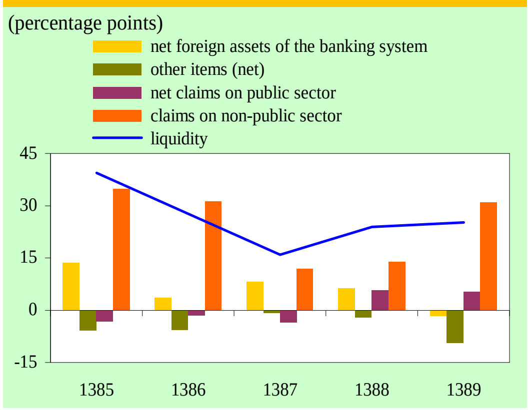


Table 14.9. **Liquidity and its Determinants**

	Year-end balance		Percentage change	
	1388	1389	1388	1389
Monetary base (billion rials)	603,784.2	686,398.1	11.9	13.7
Money multiplier	3.902	4.296	10.7	10.1
Liquidity (billion rials)	2,355,889.1	2,948,874.2	23.9	25.2

Table 14.10. Contribution of Factors Affecting Liquidity Growth (percentage points)

	1388	1389
Net foreign assets of the banking system	**6.4**	**-1.7**
Net domestic assets of the banking system	**17.5**	**26.9**
Banks' claims on public sector (net)	5.8	5.3
Government	6.0	5.0
Public corporations	-0.2	0.3
Banks' and credit institutions' claims on non-public sector [1]	13.9	31.0
Other items (net)	-2.2	-9.4
Liquidity (percent)	**23.9**	**25.2**

[1] Excludes profit and revenue receivables.

Monetary Base

Monetary base grew by 13.7 percent in 1389, showing 1.8 percentage points increase as compared with 11.9 percent growth of the previous year. Central Bank's claims on banks, with 95.2 percent growth and a share of 26.6 percentage points, largely contributed to monetary base growth. This shows 39.7 percentage points increase compared with the respective figure of the previous year (a decreasing share of 13.1 percentage points in the 11.9 percent monetary base growth). The main factor behind the rise in banks' indebtedness to the CBI at end-1389 compared with 1388 year-end was an increase of Rls. 131,921.5 billion in the use of CBI overdraft facility by banks and a rise of Rls. 50,328.6 billion in the extension of a credit line in the form of Mehr Housing Program. It is of special note that banks using the CBI overdraft facility included public commercial and specialized banks, and the credit line extended in the framework of Mehr Housing Program was related to specialized banks.

CBI's net claims on public sector, with 71.3 percent growth (Rls. 34,528.4 billion increase) compared with end-1388 and a share of 5.7 percentage points, were the other major factor raising monetary base. Compared with the share of CBI's net claims on public sector (11.4 percentage points) in the previous year, 5.7 percentage points share of this year is indicative of 5.7 percentage points decrease. Despite 29 percent rise in public sector deposits and funds with the CBI, 65 percent growth of public sector indebtedness to the CBI highly raised net CBI's claims on public sector. Other items (net) of the CBI, with a decreasing share of 12 percentage points in monetary base growth, was the main factor behind the decline in the monetary base growth. The decreasing share of other items was mainly attributable to the increase in CBI's foreign exchange assets and liabilities revaluation reserve. Net foreign assets of the Central Bank, with a decreasing share of 6.6 percentage points, was the other factor negatively affecting monetary base growth. This shows 23.8 percentage points decrease when compared with the share of this variable in monetary base growth of 1388 (an increasing share of 17.2 percentage points).

Table 14.11. Contribution of Factors Affecting Monetary Base Growth (percentage points)

	1388	1389
CBI net foreign assets	17.2	-6.6
CBI net claims on public sector	11.4	5.7
CBI claims on banks	-13.1	26.6
Other items (net)	-3.6	-12.0
Monetary base (percent)	**11.9**	**13.7**

Composition of Liquidity

Share of money in liquidity rose slightly from 25.6 percent in 1388 year-end to 25.7 percent at end-1389. Share of quasi-money, however, decreased by 0.1 percentage point to 74.3 percent compared with the year before.

In 1389, provisional profit rate of term deposits with banks and credit institutions changed as compared with 1388, and was set within a range of 6 percent (for short-term deposits of one month to less than three months), and 17 percent (for five-year term deposits).

Table 14.12. Provisional Profit Rate of Term Deposits[1] (percent per annum)

	Year-end			
	1387		1388[2]	1389
	Public banks	Private banks		
Short-term	**9 (max.)**	**9**	**9**	**6**
Short-term (special)	**See footnote 3**	**16**	**12**	**8,11**
Long-term				
One-year	15 (max.)	17.25	14.5	14
Two-year	16 (max.)	17.5	15.5	14.5
Three-year	17 (max.)	18	16	15
Four-year	18 (max.)	18.5	17	16
Five-year	19 (max.)	19	17.5	17

[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 a maturity of more than one month and less than four months and the special short-term deposits cover the deposits with a maturity of four months to less than one year.

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

In the review year, the share of five-year deposits in total long-term deposits increased significantly from 57.6 percent in 1388 to 66.7 percent. Conversely, the share of one-year deposits in total long-term deposits decreased sharply from 34.9 percent in the previous year to 25.6 percent in 1389.

Table 14.14. Composition of Long-term Deposits[1] (percent)

	Year-end		
	1387	1388	1389
One-year	51.2	34.9	25.6
Two-year	4.5	4.0	3.4
Three-year	2.3	2.2	3.0
Four-year	0.9	1.3	1.3
Five-year	41.1	57.6	66.7

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

Sources and Uses of Funds of Public Commercial Banks

In the review year, the amount of non-public sector deposits with public commercial banks grew by 20.1 percent (Rls. 108,000.9 billion). Of this figure, Rls. 27,401.6 billion belonged to sight deposits, and Rls. 80,599.3 billion to non-sight deposits. In 1389, the amount of non-usable resources of public commercial banks went up by Rls. 23,736.1 billion. This was mainly owing to Rls. 13,102.8 billion rise in reserve requirement and Rls. 10,633.3 billion increase in notes and coins kept with commercial banks. Moreover,

Table 14.13. Composition of Liquidity (billion rials)

	Year-end balance			Percentage change		Share (percent)	
	1387	1388	1389	1388	1389	1388	1389
Money	**525,482.5**	**601,697.0**	**758,716.6**	**14.5**	**26.1**	**25.6**	**25.7**
Notes and coins with the public	157,764.2	192,313.9	225,155.3	21.9	17.1	8.2	7.6
Sight deposits	367,718.3	409,383.1	533,561.3	11.3	30.3	17.4	18.1
Quasi-money	**1,375,883.5**	**1,754,192.1**	**2,190,157.6**	**27.5**	**24.9**	**74.4**	**74.3**
Gharz-al-hasaneh savings deposits	153,946.7	180,114.3	239,075.4	17.0	32.7	7.6	8.1
Term deposits	1,177,644.1	1,522,321.8	1,886,708.3	29.3	23.9	64.6	64.0
Miscellaneous deposits	44,292.7	51,756.0	64,373.9	16.8	24.4	2.2	2.2
Liquidity	**1,901,366.0**	**2,355,889.1**	**2,948,874.2**	**23.9**	**25.2**	**100.0**	**100.0**

balance of capital account of public commercial banks went down by Rls. 4,103.8 billion, and public sector's deposits and funds picked up by Rls. 6,350.1 billion. As a result of the increase in the sources of public commercial banks, non-public sector debt to these banks increased by Rls. 95,426.2 billion, and that of public sector by Rls. 18,737.1 billion.

Sources and Uses of Funds of Specialized Banks

In 1389, non-public sector deposits with specialized banks rose by Rls. 65,274.9 billion. Of this figure, Rls. 26,188.0 billion was related to sight deposits and Rls. 39,086.9 billion to non-sight deposits. In this year, the amount of non-usable resources of specialized banks increased by Rls. 6,018.9 billion. This was mostly due to Rls. 3,821.1 billion rise in reserve requirement and Rls. 2,197.8 billion increase in notes and coins kept with specialized banks. Free resources out of non-public sector deposits with specialized banks went up by Rls. 59,256.0 billion. Total free resources of specialized banks, including other sources (indebtedness to CBI and other banks, external debt, and other funds), surged by Rls. 340,507.6 billion. Of this amount, specialized banks' claims on non-public and public sectors increased by Rls. 325,142.5 billion and Rls. 15,365.1 billion, respectively. Central Bank's claims on specialized banks grew by 155.6 percent (Rls. 131,636.3 billion) to Rls. 216,222.0 billion at end-1389, compared with the previous year.

Sources and Uses of Funds of Private Banks and Credit Institutions

In the review year, non-public sector deposits with private banks and credit institutions increased by 28.6 percent (Rls. 386,867.9 billion). Of this figure, Rls. 70,588.6 billion belonged to sight deposits and Rls. 316,279.3 billion to non-sight deposits. In 1389, non-usable resources of private banks and credit institutions rose by Rls. 38,970.9 billion, due to Rls. 29,099.3 billion rise in reserve requirement and Rls. 9,871.6 billion increase in notes and coins held with these banks. Furthermore, balance of capital account of private banks and credit institutions went up by Rls. 55,460.7 billion. Public sector's deposits and funds with private banks decreased by Rls. 1,737.3 billion. Therefore, non-public and public sector indebtedness to these banks grew by Rls. 307,744.4 billion and Rls. 42,649.6 billion, respectively.

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

In 1389, non-public sector deposits with the newly privatized banks rose by 24.3 percent (Rls. 208,555.7 billion). Of this figure, Rls. 58,836.3 billion was related to sight deposits and Rls. 149,719.4 billion to non-sight deposits. The amount of non-usable resources of these banks increased by Rls. 24,010.1 billion, due to growth of the reserve requirement of these banks by Rls. 17,438.4 billion, and notes and coins held with them by Rls. 6,571.7 billion. Moreover, balance of capital account of the newly privatized banks picked up by Rls. 5,257.1 billion, and public sector's deposits and funds kept with these banks went down by Rls. 1,759.7 billion. On this basis, non-public and public sectors' debt to these banks went up by Rls. 161,718.0 billion and Rls. 42,649.6 billion, respectively.

Banking Units and Bank Employees

In the review year, the number of banking units, including branches, counters, and representative offices in Iran and abroad grew by 12.6 percent to 20,874. Among Iranian banks, Bank Saderat Iran and Bank Melli

[1] Includes Bank Saderat Iran, Tejarat Bank, Bank Mellat, and Refah Kargaran Bank, which were privatized in Esfand 1388.

Iran held the highest shares in the number of domestic units by 16.6 and 16.2 percent, respectively.

In 1389, the number of banking system employees grew by 3.7 percent to 203,603 persons. In this year, the number of employees in public commercial banks decreased by 1.8 percent while that of specialized banks increased by 2.2 percent. The number of employees in private banks and credit institutions, comprising the newly privatized banks, went up by 7.6 percent to 107,822 persons. The number of employees in the Iranian banking system was 9.8 persons in each banking unit, on average, down from 10.6 persons in the preceding year. Furthermore, the ratio of total population to each domestic banking unit declined from 3,981 persons in 1388 to 3,588 persons in the review year.

Table 14.15. Banking Units

	1388	1389
Domestic branches	**18,502**	**20,828**
Commercial banks [1]	5,529	5,817
Specialized banks [2]	3,769	4,016
All private banks [3]	9,204	10,995
Newly privatized banks	7,966	8,705
Foreign branches	**42**	**46**
Total	**18,544**	**20,874**

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

[2] Includes Gharz-al-hasaneh Mehr Iran Bank, and Tose'e Ta'avon Bank.

[3] Includes Sina Bank, Bank Saderat Iran, Tejarat Bank, Bank Mellat, and Refah Kargaran Bank.

Banking Sector Developments

The major developments in the banking sector in 1389 were as follows:

Section One- Major regulations, by-laws, guidelines, circulars, and amendments

- Design and formulation of the regulation on connected lending and undertakings, MCC approval of this regulation, and its declaration to the banking system;

- Design and formulation of the regulation on the methods and duration of keeping commercial papers, documents and books by banks, MCC approval of this regulation, and its declaration to the banking system;

- Design and formulation of the regulation on the ratio of banks' and credit institutions' fixed assets to their shareholders' equity, MCC approval of this regulation, and its declaration to the banking system;

- Design and formulation of the regulation on the opening of current accounts without issuing checkbooks and withdrawal from this account through bank cards, MCC approval of this regulation, and its declaration to the banking system;

- Design and formulation of the guidelines on the financial and operational oversight of credit institutions as well as information gathering from these institutions, MCC approval of this guideline, and its declaration to the banking system;

- Design and formulation of the regulation on the establishment, operation, supervision, and dissolution of Iranian banks' branches abroad, and MCC approval of this regulation;

- Design and formulation of the regulation on banks' open position on US dollar, euro and other currencies in 1389 and 1390, CBI Credit Commission approval of this regulation, and its declaration to the banking system;

- Design and formulation of the executive mechanism, approved by CBI Credit Commission, for Note 6 of Article 2, the Supervisory-Policy Package of the Banking System in 1389, which reads as follows: Central Bank can penalize credit institutions that violate CBI approved provisional deposit rates. The penalty would be one to five percentage points increase on legal reserve requirements for one or a number of deposits for a maximum of one year;

• Design and formulation of rules governing establishment of Deposits Guarantee Fund, and CBI Credit Commission approval of these rules;

• Design and formulation of the Guideline on CBI Iran-Checks, and its declaration to the banking system;

• Declaration of guidelines prohibiting opening of floating rate term investment accounts by banks and credit institutions;

• Declaration of the Circular on banks' and credit institutions' obligation for design and disclosure of the methods for lowering lending rates on Islamic contracts for compliant customers;

• Declaration of guidelines prohibiting transfer of banks' and credit institutions' loan approvals to third parties.

Section Two- Bank Licensing

Number of licenses issued for foundations active in the Unorganized Money Market as well as the establishment permits issued by the CBI for banks and credit institutions in 1389 were as follows:

Table 14.16. Number of Licenses Issued and Extended for Foundations Active in Unorganized Money Market in 1389

Monetary foundation	Primary licenses: Establishment of new foundations	Primary licenses: Compliance of foundations upon re-organization	Extended licenses	Total
Credit cooperative	6	71	0	**77**
Gharz-al-hasaneh	12	9	0	**21**
Leasing	3	5	13	**21**
Currency exchange	97	0	114	**211**
Total	**118**	**85**	**127**	**330**

Table 14.17. Banks and Credit Institutions License Issuance in 1389 (number)

	Agreement-in-principle	Operation license
Mainland	–	4 ("Tourism Bank", "Bank Hekmat Iranian", "Ansar Bank" and "Bank Day")
Free trade zones	2 ("Shargh Bank" and "IFB [1]")	–

[1] International Free Zone Bank in Kish

Section Three- Major Anti-money Laundering (AML) Measures

The Central Bank major AML measures in 1389 included:

• Creation of Anti-money Laundering Department in CBI, and approval of the by-laws thereof;

• Receipt of banks' reports concerning pyramid corporations and suspicious operations by the Financial Intelligence Unit;

• Response to inquiries from banks regarding the AML Law and the pertinent executive guidelines as the case arises;

• Oversight of banks' and credit institutions' AML units to become informed of the measures adopted by them in pursuance of the AML Law and the pertinent executive by-law, and the guidance of AML units.

Major guidelines and circulars formulated by the CBI in pursuance of the AML executive by-law, to be declared to banks and credit institutions upon approval by the competent authorities, included:

• Guidelines on methods of identifying Iranian customers of credit institutions;

- Guidelines on methods of monitoring and controlling individuals suspicious for money laundering;

- Guidelines on methods of sending notifications to the postal addresses of credit customers;

- Guidelines on methods of reporting excessive cash deposits and filling information summary forms;

- Guidelines on methods for identification of customers of currency exchanges and sending the related information to the CBI;

- Guidelines and measures on AML compliance by foreign branches of Iranian banks and credit institutions;

- Guidelines on ranking the level of banking services rendered by credit institutions to customers;

- Guidelines for ensuring observance of AML regulations in electronic payment systems and electronic banking;

- Guidelines on observance of AML measures in correspondence banking of Iranian banks and identification of shell banks abroad;

- Guidelines for supervision and ensuring precision of basic banking services rendered by credit institutions to diplomats;

- Guidelines on methods of identifying suspicious transactions and reporting thereof;

- Guidelines on methods of identifying foreign customers of credit institutions, both natural and legal persons.