CHAPTER 13

MONETARY AND BANKING POLICY AND PERFORMANCE

Key Aspects of Monetary Policy in 1391

As the "Monetary, Credit, and Supervisory Policy of the Banking System" approved on Dey 20, 1390 did not specify a timeframe for the implementation of its Articles and it was not revised in 1391, the regulations governing the money and credit markets of the country in 1391 followed the rules stipulated in the mentioned guideline. The new monetary approach, compared to the previous one, indicated more readiness on the part of authorities to use money market instruments and raise banks' lending rates more effectively for market stability. Of important features of the mentioned guideline were to authorize banks and credit institutions to determine the deposit rates, raise provisional profit rate of participation papers, and permit the agent banks to purchase participation papers before maturity date. Through this guideline, the monetary authority was mainly aiming at:

- Creating more attractiveness in the money market for investors;

- Stabilizing the asset market, especially foreign exchange and gold markets;

- Encouraging the public to open savings accounts;

- Increasing banks' and credit institutions' intermediation aimed at protecting investment and production.

The key approaches in the formulation of the "Monetary, Credit, and Supervisory Policy of the Banking System" approved on Dey 20, 1390, which was also in effect in 1391, were as follows:

- The decision allowing banks and credit institutions to set annual provisional rates for term deposits and general/special Certificates of Deposit (CDs) was aiming at liberalization of banks and promotion of competitiveness in the banking sector. It is important to note that former Central Bank's policy packages set ceilings on banks' deposit rates. Following the declaration of the new policies, the "Coordination Council of the State-owned Banks" and the "Association of Private Banks and Non-bank Credit Institutions" jointly determined certain ceilings on the provisional profit rate of different banking deposits, with the aim of encouraging sound competitiveness in the banking sector, which was welcomed by the Central Bank.

Table 13.1. Provisional Profit Rate of Term Deposits Approved by Banks

Deposits	Provisional profit rate (percent)
Ordinary short-term	7
Special 3-month	10
Special 6-month	12
Special 9-month	15
One-year	17
Two- to four-year	17-20
Five-year	20

- The lending rate on non-PLS contracts was set at 14 percent for loans with a maturity of up to 2 years, and 15 percent for loans with a maturity of more than 2 years. Corresponding figures in the "Monetary, Credit, and Supervisory Policy of the Banking System" for 1390[1] were 11 and 14 percent, respectively. Moreover, non-bank credit institutions were required to allocate a minimum of 20 percent of their non-Gharz-al-hasaneh resources to facilities under non-PLS contracts.

- The range of expected profit rates in PLS contracts between credit institutions and their clients is set within a range of 18 to 21 percent. In the previous package, the mentioned range was from 14 to 17 percent.

Furthermore, the new policy contained more attractive conditions for investment in participation papers compared to the "Monetary, Credit, and Supervisory Policy of the Banking System" for 1390. Issuance of Certificates of Deposit (CDs) and Sukuk papers was also given due consideration in the new guideline based on which, repurchase of CDs and Sukuk papers before maturity date was permitted. According to Article 4 in the new policy, the CBI was authorized to issue participation papers and different types of Islamic Sukuk for monetary policy purposes up to the ceiling approved by the Governor. The amount of the issue, maturity, and provisional profit rates of these papers were to be decided by the Governor of the CBI.

In line with the mentioned Article, the MCC approved the issuance of Rls. 100 trillion worth of participation papers by the CBI on 27.04.1391. Therefore, in order to control liquidity growth and inflationary pressures, in the second half of 1391, the CBI issued Rls. 100,000 billion participation papers of which a sum of Rls. 41,476.6 billion was sold and the funds thereby received were deposited with the Central Bank. The maximum provisional profit rate on these papers was set at 20 percent per annum, payable on a quarterly basis. These papers were tax-exempt and could be repurchased by agent banks prior to maturity. As a result, the Central Bank managed to reduce the growth rate of monetary base and liquidity by 5.4 and 5.5 percentage points, respectively.

Based on Article 5 of the new policy, the maximum provisional profit rate on participation papers issued by public and private companies as well as municipalities was set at 20 percent per annum. These papers could be repurchased by agent banks prior to maturity. The rate applied for the repurchase of these papers was 18 percent up to one year after the issuance date. Thereafter (repurchase at more than one year after issuance date), 0.5 percentage point penalty rate was applied to the provisional rate for repurchase by agent banks.

Based on Article 8, the reserve requirement ratio of credit institutions (excluding specialized banks) was determined as illustrated in the following table. The reserve requirement ratio of specialized banks remained the same as before.

Table 13.2. Reserve Requirement Ratio for Deposits

Deposits	Reserve requirement ratio (percent)
Gharz-al-hasaneh savings	10.0
Sight deposits, cash deposits for letters of credit (L/Cs), bank guarantees, and others	17.0
Short-term	15.5
One-year	15.0
Two- and three-year	11.0
Four-year	10.0
Five-year	10.0

[1] It refers to the guideline approved in Esfand 1389 which stipulated the monetary and credit policies and was binding up until the approval of the new guideline on Dey 20, 1390.

Based on Article 10, credit institutions were required to give the priority to employment generation and productive activities in their lending operations. Moreover, it was advised that commercial banks, in sectoral allocation of their loans and facilities, observe the ratios as in the following table. Moreover, it was advised that at least 90 percent of specialized banks' loans and facilities be allocated to the respective sectors of specialized banks. Based on Note 2, banks and credit institutions observing the sectoral allocation quotas would benefit from reduced reserve requirement and other incentives of CBI in tandem with the observance of sectoral targets, based on CBI recognizance. However, no bank and credit institution was eligible for the mentioned incentive.

Table 13.3. Share of Economic Sectors in Outstanding Facilities based on CBI Recommendation (percent)

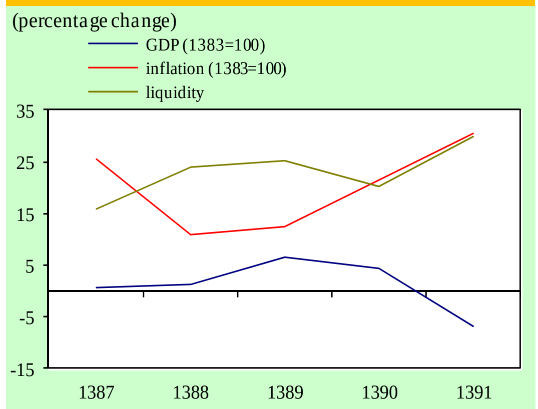
Sectors	1390 and 1391
Water and agriculture	20
Manufacturing and mining	37
Construction and housing	25
Exports and trade infrastructures	10
Trade, services, and miscellaneous	8
Total	**100**

Banking System[1] Performance

Banking system assets and liabilities grew by 22.1 percent to Rls. 10,314,961.9 billion in 1391. On the assets side, 39.4 percent growth in "other assets" (Rls. 845,130.3 billion increase) and 17.7 percent growth (Rls. 622,128.7 billion increase) in "claims on non-public sector" (including profit and revenue receivables) were the main contributing factors. On the liabilities side, 30.0 percent surge in "liquidity" (Rls. 1,064,384.0 billion rise) and 22.8 percent growth (Rls. 729,402.5 billion rise) of "other liabilities" (including capital account of the banking system, advance payments on public sector's L/Cs, and imports order registration deposit by non-public sector) were the major factors contributing to banks' liabilities.

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

Figure 13.1. Major economic variables



Banking System and External Sector

In 1391, net foreign assets of the banking system grew by 7.5 percent (Rls. 62,891.9 billion) to Rls. 899,706.1 billion. This was due to increase in net foreign assets of the Central Bank by Rls. 20,588.0 billion, and rise in net foreign assets of banks and non-bank credit institutions by Rls. 42,303.9 billion. Rise in net foreign assets of the Central Bank was due to the increase in CBI foreign assets by Rls. 109,583.4 billion and growth in CBI foreign liabilities by Rls. 88,995.4 billion. Moreover, increase in net foreign assets of banks and non-bank credit institutions was attributable to the fall in their foreign liabilities by Rls. 24,004.4 billion and rise in their foreign assets by Rls. 18,299.5 billion.

Banking System and Public Sector

Banking system net claims on the public sector increased by Rls. 263,635.6 billion compared with 1390 and reached Rls. 502,575.1 billion. In 1391, Central Bank's claims on public sector increased by 43.6 percent, due to 46.1 percent rise in public corporations' and institutions' indebtedness and 40.2 percent growth in CBI claims on the government. Of total Central Bank's claims on the government, Rls. 39,157.9 billion (29.8 percent) was due to deficit in foreign exchange obligations account. Moreover, in 1391, public sector's deposits with the Central Bank declined by 8.1 percent, mainly attributable to the fall in government's deposits with the Central Bank by 8.0 percent. Public corporations' and institutions' deposits with the Central Bank decreased by 10.4 percent as well.

Table 13.4. Major Items in Assets and Liabilities of the Banking System (billion rials)

	Year-end balance			Percentage change	
	1389	1390	1391	1390	1391
Assets	**6,961,236.3**	**8,447,941.7**	**10,314,961.9**	**21.4**	**22.1**
Foreign assets	1,682,556.1	2,145,687.7	2,273,570.6	27.5	6.0
Central Bank	842,977.5	1,176,641.5	1,286,224.9	39.6	9.3
Public banks [1]	297,360.1	362,188.2	395,974.9	21.8	9.3
Private banks and non-bank credit institutions [2]	542,218.5	606,858.0	591,370.8	11.9	-2.6
Newly privatized banks	436,842.3	470,398.4	426,616.5	7.7	-9.3
Claims on public sector	553,403.5	638,476.1	910,354.4	15.4	42.6
Claims on non-public sector	2,929,224.5	3,516,846.0	4,138,974.7	20.1	17.7
Others	1,796,052.2	2,146,931.9	2,992,062.2	19.5	39.4
Liabilities	**6,961,236.3**	**8,447,941.7**	**10,314,961.9**	**21.4**	**22.1**
Liquidity	2,948,874.2	3,542,551.9	4,606,935.9	20.1	30.0
Loans and deposits of public sector	362,870.4	399,536.6	407,779.3	10.1	2.1
Foreign liabilities	996,839.0	1,308,873.5	1,373,864.5	31.3	5.0
Central Bank	227,494.0	428,023.3	517,018.7	88.1	20.8
Public banks [1]	230,813.1	276,436.9	323,318.6	19.8	17.0
Private banks and non-bank credit institutions [2]	538,531.9	604,413.3	533,527.2	12.2	-11.7
Newly privatized banks	438,697.6	455,282.3	383,805.2	3.8	-15.7
Others [3]	2,652,652.7	3,196,979.7	3,926,382.2	20.5	22.8

[1] Includes Tose'e Ta'avon Bank since Khordad 1389.

[2] Includes Bank Day as of Shahrivar 1389, Tat Bank since Mehr 1389, Ansar Bank as of Dey 1389, Bank Shahr since Shahrivar 1390, Tourism Bank as of Shahrivar 1390, and Bank Hekmat Iranian as of Shahrivar 1391. It is important to note that based on the MCC Approval in Esfand 1390, the operation license of Tat Bank was revoked and upon merging with Salehin Finance and Credit Institution and Pishgaman Finance and Credit Institution (ATI), it started operating under the title "Ayandeh Bank".

[3] Includes capital account of the banking system, advance payments on public sector's L/Cs, and imports order registration deposit by non-public sector as well.

Public sector indebtedness to banks and non-bank credit institutions surged by 42.1 percent (Rls. 176,514.9 billion). This was mainly attributable to 43.8 percent rise (Rls. 172,776.7 billion growth) of banks' and non-bank credit institutions' claims on the government. Government indebtedness to banks and non-bank credit institutions reached Rls. 567,375.0 billion.

Table 13.5. Change in Net Claims of Banking System on Public Sector (billion rials)

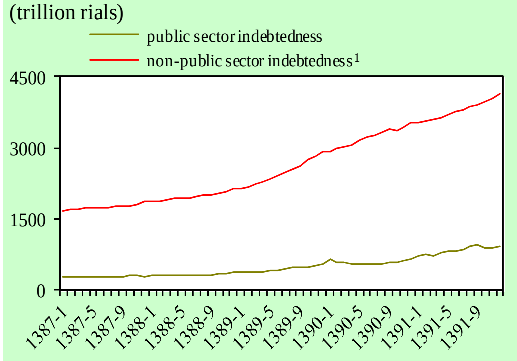
	1390	1391
Public sector	**48,406.4**	**263,635.6**
Central Bank	-59,245.3	119,116.3
Commercial and specialized banks (public)	69,377.2	49,546.6
Private banks and non-bank credit institutions	38,274.5	94,972.7
Newly privatized banks	41,437.0	89,767.5
Government	**-10,705.8**	**200,173.3**
Central Bank [1]	-128,251.1	59,392.2
Commercial and specialized banks (public)	72,214.7	47,624.1
Private banks and non-bank credit institutions	45,330.6	93,157.0
Newly privatized banks	48,493.1	87,951.8
Public corporations and institutions	**59,112.2**	**63,462.3**
Central Bank	69,005.8	59,724.1
Commercial and specialized banks (public) [2]	-2,837.5	1,922.5
Private banks and non-bank credit institutions	-7,056.1	1,815.7
Newly privatized banks	-7,056.1	1,815.7

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

Banks and Non-public Sector

Banking system credit performance in 1391 represents an increase in facilities[1] extended by banks and non-bank credit institutions to non-public sector (excluding profit and revenue receivables) by Rls. 559,461.9 billion (17.6 percent growth). This shows 1.9 percentage points decrease in growth as compared with 19.5 percent growth of the preceding year. Share of facilities extended by banks and non-bank credit institutions to non-public sector equaled 86.4 percent of total extended facilities, showing 2.1 percentage points decrease compared with 88.5 percent of 1390[2].

Figure 13.2. Outstanding facilities extended by banking system to public & non-public sectors



[1] Includes profit and revenue receivables.

Outstanding facilities extended by public commercial banks to non-public sector (excluding profit and revenue receivables) increased by 5.9 percent (Rls. 39,386.8 billion) to Rls. 702,382.2 billion. Moreover, outstanding facilities extended by specialized banks to non-public sector grew by 20.4 percent (Rls. 171,818.1 billion) to Rls. 1,014,255.4 billion. Outstanding facilities extended by private banks and non-bank credit institutions rose by 20.8 percent (Rls. 348,257.0 billion) to Rls. 2,021,440.0 billion.

[1] Includes overdue and non-performing loans.

[2] Facilities extended to public and non-public sectors exclude profit and revenue receivables.

In 1391, the highest share (44.9 percent) in the rise in net outstanding facilities extended by banks and non-bank credit institutions to the non-public sector belonged to "domestic trade, services, and miscellaneous" sector, followed by "construction and housing" (33.9 percent), "manufacturing and mining" (13.9 percent), "agriculture" (7.2 percent), and "exports" (0.1 percent).

Composition of outstanding facilities extended by banks and non-bank credit institutions to the non-public sector according to Islamic contracts indicates that in 1391, civil partnership and installment sale contracts held the highest shares by 38.9 and 29.3 percent, respectively. It is noteworthy that the share of facilities extended in the framework of hire purchase remained the same as before. Shares of civil partnership, legal partnership, Ju'alah, direct investment, and Gharz-al-hasaneh increased while the shares of other contracts were lower than the year before.

The ratio of overdue and non-performing loans to total facilities extended by banks and non-bank credit institutions (in rial) to public and non-public sectors decreased by 0.9 percentage point to 14.2 percent in 1391. This variable declined by 2.6 percentage

Table 13.6. Outstanding Facilities Extended by Banks and Non-bank Credit Institutions to Non-public Sector[1] (billion rials)

	Year-end balance			Percentage change		Share (percent)	
	1389	1390	1391	1390	1391	1390	1391
Commercial banks	566,897.1	662,995.4	702,382.2	17.0	5.9	20.9	18.8
Specialized banks	733,459.4	842,437.3	1,014,255.4	14.9	20.4	26.5	27.1
Private banks and non-bank credit institutions	1,359,300.5	1,673,183.0	2,021,440.0	23.1	20.8	52.6	54.1
Newly privatized banks	828,958.5	973,974.6	1,133,052.4	17.5	16.3	30.6	30.3
Total	**2,659,657.0**	**3,178,615.7**	**3,738,077.6**	**19.5**	**17.6**	**100.0**	**100.0**

[1] Excludes profit and revenue receivables.

Table 13.7. Share of Economic Sectors in Increase in Outstanding Facilities Extended by Banks and Non-bank Credit Institutions to Non-public Sector[1] (percent)

	1390				1391			
	Public banks	Newly privatized banks	Private banks & non-bank credit institutions	Banking system	Public banks	Newly privatized banks	Private banks & non-bank credit institutions	Banking system
Agriculture	12.1	6.1	2.9	7.3	15.5	4.2	2.2	7.2
Manufacturing and mining	10.4	25.2	19.8	15.3	1.5	12.6	21.3	13.9
Construction and housing	61.3	23.9	16.4	38.0	65.3	28.0	15.0	33.9
Exports	0.4	1.8	0.8	0.6	-0.9	1.0	0.7	0.1
Domestic trade, services, and miscellaneous	15.8	43.0	60.1	38.8	18.6	54.2	60.8	44.9
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[1] Excludes profit and revenue receivables.

points for public commercial banks, 0.1 percentage point for specialized banks, and 0.3 percentage point for private banks and non-bank credit institutions.

Table 13.8. Composition of Outstanding Facilities Extended by Banks & Non-bank Credit Institutions to Non-public Sector by Contracts (percent)

	Banking system	
	1390	1391
Installment sale	30.2	29.3
Mudarabah	3.6	3.1
Civil partnership	36.7	38.9
Gharz-al-hasaneh	5.2	5.3
Hire purchase	0.7	0.7
Forward transactions	0.6	0.4
Legal partnership	2.0	2.5
Direct investment	0.9	1.1
Ju'alah	4.3	4.7
Others [1]	15.8	14.0
Total	**100.0**	**100.0**

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

Table 13.9. Ratio of Overdue, Non-performing, & Doubtful (Non-current) Claims to Total Facilities Extended by Banks & Non-bank Credit Institutions (in Rial)[1] (percent)

	1390	1391	Change (percentage points)
Commercial banks	20.9	18.3	-2.6
Specialized banks	7.2	7.1	-0.1
Private banks and non-bank credit institutions	16.6	16.3	-0.3
Newly privatized banks	12.9	12.5	-0.4
Banking system	**15.1**	**14.2**	**-0.9**

[1] Includes overdue, non-performing, and doubtful claims of public and non-public sectors.

In 1391, banks also extended facilities within the framework of the executive by-law on the expansion of Small and Medium Enterprises (SMEs). Accordingly, the value of facilities extended by public banks in line with the mentioned by-law amounted to Rls. 284,464.0 billion by 1391 year-end, showing Rls. 10,888.9 billion rise compared with end-1390.

In 1391, the government approved that banks should extend facilities as follows:

A- Gharz-al-hasaneh Facilities

It was envisaged in the Budget Law for 1391 that a sum of Rls. 67,420 billion should be extended out of banks' Gharz-al-hasaneh resources to the needy prisoners, job creation project for pensioners of State Prisons and Security and Corrective Measures Organization, and help-seekers of Imam Khomeini Relief Foundation and State Welfare Organization. Other uses of the mentioned amount would be on purposes such as self-employment projects, home-based businesses, advance payment for housing, and applicants confirmed by the Presidential office. On this basis, a sum of Rls. 10,431 billion was paid in 1391 by Bank Saderat Iran, Tejarat Bank, Refah Kargaran Bank, Bank Sepah, Post Bank Iran, and Tose'e Ta'avon Bank to the above-said causes. Moreover, a sum of Rls. 31,365 billion was paid under unscheduled facilities for marriage.

Table 13.10. Banks' Performance in Extension of Gharz-al-hasaneh Facilities for Specified Purposes (billion rials)

Purposes	Paid facilities in 1391
Release of needy prisoners sentenced on financial verdicts	155.0
Employment program of State Welfare Organization	160.7
Employment program of Imam Khomeini Relief Foundation	1,779.7
Self-employment	2,483.6
Home-based businesses	3,336.7
Repair shops and construction of rural hygienic baths	80.0
Advance payments for housing	312.6
President's supervisory trips to provinces	2,092.0
Applicants confirmed by the Presidential office	31.0
Total	**10,431.3**

B- Facilities Extended to the Housing Sector

Although the Budget Law for 1391 did not stipulate the extension of facilities to the housing sector, the following measures were taken with the aim of extending housing facilities based on the Housing Working Group approvals:

- Allocation of a quota for renovation and reconstruction of rural housing in 1391 at Rls. 31,923 billion. Accordingly, agent banks (except Bank Maskan) extended a sum of Rls. 11,689.9 billion out of their internal resources, in implementation of Article 11 of the Law on "Organization and Support for Home Construction", approved by the Parliament on 06.03.1387;

- Extending Mehr Housing Facilities at Rls. 91,600.8 billion by agent banks out of their internal resources, and by Bank Maskan out of resources acquired from the Central Bank, in implementation of Note 6 to the Budget Law of 1386 and Cabinet approvals;

- Allocating Rls. 3,502.7 billion facilities to housing construction in the old urban texture and reinforcement of old buildings in urban areas, in implementation of Article 12 of the Law on "Organization and Support for Home Construction" approved by the Parliament on 06.03.1387 (out of banks' internal resources, except for Bank Maskan);

- Allocating housing quotas for the war veterans by Rls. 100,000 billion. Therefore, a sum of Rls. 3,892.1 billion was extended out of banks' internal resources by 1391 year-end, based on the Cabinet approvals and at a subsidized rate of 4 percent;

- Allocation of 1,000 housing facilities worth Rls. 800 million to elites, judges, and the academic staff, based on MCC approvals and out of banks' internal resources (Rls. 350 million for purchase and 450 million for construction).

Table 13.12. Scheduled Facilities Extended by Banks to Housing Sector in 1391 (billion rials)

	Approved quota	Allocated quota
Rural housing	31,923	11,689.9
Mehr Housing Program	_	91,600.8
Old urban texture	22,500	3,502.7
Special groups' housing	100,000	3,892.1
Total	**154,423**	**110,685.5**

Liquidity

In 1391, liquidity grew by 30.0 percent to Rls. 4,606,935.9 billion, up by 9.9 percentage points compared with the liquidity growth of the previous year (20.1 percent). This was due to the increase in the growth rate of monetary base from 11.4 percent in 1390 to 27.6 percent in 1391. The 27.6 percent growth of monetary base was mainly owing to the rise in CBI net claims on public sector as well as its claims on banks. Therefore, monetary base came to Rls. 975,795.1 billion in 1391. Furthermore, money multiplier grew by 1.9 percent compared with the year before, and reached 4.721 in 1391.

Table 13.11. Liquidity and its Determinants

	Year-end balance		Percentage change	
	1390	1391	1390	1391
Monetary base (billion rials)	764,568.5	975,795.1	11.4	27.6
Money multiplier	4.633	4.721	7.8	1.9
Liquidity (billion rials)	3,542,551.9	4,606,935.9	20.1	30.0

Among the factors affecting liquidity growth in 1391, net domestic assets of the banking system, with 37.0 percent growth compared with the year before, had an increasing share of 28.2 percentage points in raising liquidity. Among net domestic assets, non-public sector indebtedness to banks and non-bank credit institutions (excluding profit and revenue receivables), with 17.6 percent growth and an increasing share of 15.8 percentage points, was the main factor contributing to liquidity growth. Moreover, net claims of the banking system on public sector and other items (net) had positive shares of respectively 7.5 and 4.9 percentage points in liquidity growth. Net foreign assets of the banking system rose 7.5 percent, raising liquidity by 1.8 percentage points.

Table 13.13. Contribution of Factors Affecting Liquidity Growth (percentage points)

	1390	1391
Net foreign assets of the banking system	**5.1**	**1.8**
Net domestic assets of the banking system	**15.0**	**28.2**
Banks' claims on public sector (net)	1.7	7.5
Government	-0.3	5.7
Public corporations	2.0	1.8
Banks' and non-bank credit institutions' claims on non-public sector [1]	17.6	15.8
Other items (net)	-4.3	4.9
Liquidity (percent)	**20.1**	**30.0**

[1] Excludes profit and revenue receivables.

Monetary Base

Monetary base grew by 27.6 percent in 1391, showing 16.2 percentage points increase as compared with 11.4 percent growth of the previous year. CBI net claims on public sector, with 162.9 percent growth compared with end-1390 (Rls. 119,116.3 billion increase) and an increasing share of 15.6 percentage points, largely contributed to the growth of the monetary base. This shows 24.2 percentage points increase compared with the respective figure of the previous year (a decreasing share of 8.6 percentage points). A 43.6 percent increase in CBI claims on public sector and 8.1 percent decrease in the deposits and funds of public sector with the Central Bank were the main factors behind the rise in net claims of CBI on public sector at end-1391.

In 1391, "Central Bank's claims on banks", with 16.7 percent increase and a share of 9.2 percentage points, was the second contributing factor to the growth of the monetary base, showing 3.7 percentage points decline compared with the respective figure of the previous year (the positive share of 12.9 percentage points in 11.4 percent growth of the monetary base in 1390).

Figure 13.3. Liquidity growth and its determinants

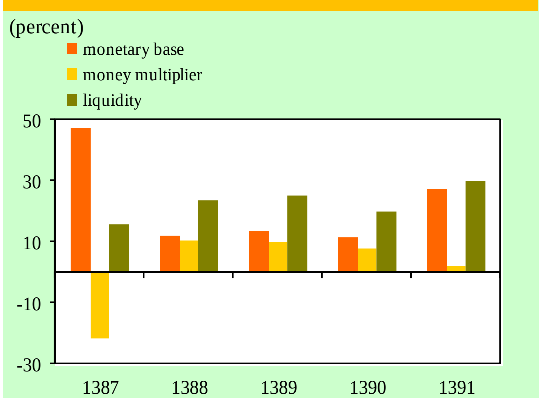
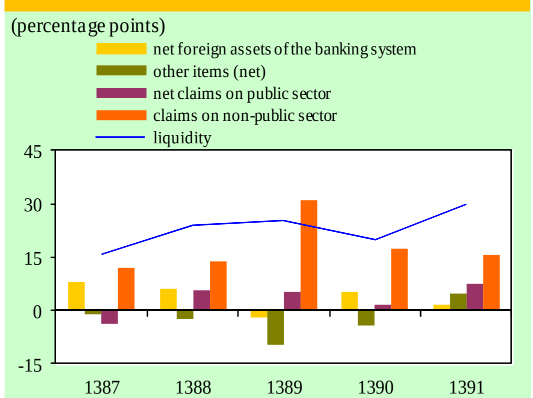


Figure 13.4. Factors affecting liquidity growth



"Net foreign assets of the Central Bank", with 2.8 percent growth compared with end-1390 and an increasing share of 2.7 percentage points was another factor which raised monetary base. The share of this variable indicated 16.7 percentage points decrease compared with 1390 (an increasing share of 19.4 percentage points in the 11.4 percent growth of monetary base in 1390).

"Net other items of the Central Bank", rising by 0.5 percent compared with the previous year-end, had a negligible share in the growth of monetary base in 1391 year-end (a positive share of 0.1 percentage point).

Composition of Liquidity

Share of money in liquidity declined from 25.3 percent in 1390 year-end to 24.7 percent at end-1391. Share of quasi-money, however, increased by 0.6 percentage point to 75.3 percent compared with the year before.

The share of five-year deposits in total long-term deposits decreased by 1.9 percentage points from 69.4 percent in 1390 to 67.5 percent in 1391, and that of one- and three-year deposits fell from respectively 20.2 and 2.5 percent in 1390 to 19.2 and 2.2 percent, respectively, in 1391. Conversely, the share of two- and four-year deposits in total long-term deposits increased from respectively 6.8 and 1.1 percent in 1390 to 9.9 and 1.2 percent, respectively, in 1391.

Table 13.15. Contribution of Factors Affecting Monetary Base Growth (percentage points)

	1390	1391
CBI net foreign assets	19.4	2.7
CBI net claims on public sector	-8.6	15.6
CBI claims on banks	12.9	9.2
Other items (net)	-12.3	0.1
Monetary base (percent)	**11.4**	**27.6**

Table 13.16. Composition of Long-term Deposits[1] (percent)

	Year-end		
	1389	1390	1391
One-year	25.6	20.2	19.2
Two-year	3.4	6.8	9.9
Three-year	3.0	2.5	2.2
Four-year	1.3	1.1	1.2
Five-year	66.7	69.4	67.5

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

Table 13.14. Composition of Liquidity (billion rials)

	Year-end balance			Percentage change		Share (percent)	
	1389	1390	1391	1390	1391	1390	1391
Money	**758,716.6**	**897,572.5**	**1,136,717.7**	**18.3**	**26.6**	**25.3**	**24.7**
Notes and coins with the public	225,155.3	263,209.3	330,164.2	16.9	25.4	7.4	7.2
Sight deposits of non-public sector	533,561.3	634,363.2	806,553.5	18.9	27.1	17.9	17.5
Quasi-money	**2,190,157.6**	**2,644,979.4**	**3,470,218.2**	**20.8**	**31.2**	**74.7**	**75.3**
Gharz-al-hasaneh savings deposits	239,075.4	255,756.2	310,277.5	7.0	21.3	7.2	6.7
Term deposits	1,886,708.3	2,297,937.6	3,059,971.4	21.8	33.2	64.9	66.4
Miscellaneous deposits	64,373.9	91,285.6	99,969.3	41.8	9.5	2.6	2.2
Liquidity	**2,948,874.2**	**3,542,551.9**	**4,606,935.9**	**20.1**	**30.0**	**100.0**	**100.0**

Sources and Uses of Funds of Public Commercial Banks

The value of non-public sector's deposits with public commercial banks grew by 26.6 percent (Rls. 207,963.0 billion) in 1391. Deposits of non-public sector held with the public commercial banks included sight deposits, the value of which rose Rls. 13,220.0 billion and non-sight deposits whose value increased by Rls. 194,743.0 billion. In this year, the amount of non-usable resources of public commercial banks increased by Rls. 22,356.8 billion. This was mainly owing to Rls. 28,280.6 billion rise of reserve requirement and Rls. 5,923.8 billion decrease in notes and coins kept with commercial banks. Moreover, "balance of capital account of public commercial banks" and "public sector's deposits and funds" rose by Rls. 72,491.8 billion and Rls. 1,368.1 billion, respectively.

Sources and Uses of Funds of Specialized Banks

In 1391, non-public sector's deposits held with specialized banks increased by Rls. 85,835.2 billion. The value of sight deposits rose by Rls. 13,567.2 billion, and that of non-sight deposits, by Rls. 72,268.0 billion. In this year, the amount of non-usable resources of specialized banks increased by Rls. 8,757.4 billion, resulting from Rls. 9,173.8 billion rise in reserve requirement and fall in the value of notes and coins kept with specialized banks by Rls. 416.4 billion. Free resources out of non-public sector's deposits held with specialized banks indicated Rls. 77,077.8 billion increase. Total free resources of specialized banks, including other sources (debt to Central Bank, external debt, debt to other banks, and other funds), rose by Rls. 221,785.0 billion. This included rise in non-public sector's debt to specialized banks by Rls. 171,818.1 billion and increase in public sector's debt to specialized banks by Rls. 49,966.9 billion. Specialized banks' debt to Central Bank grew by 21.9 percent (Rls. 79,411.2 billion) compared with 1390, to Rls. 442,104.5 billion at end-1391. Increase in specialized banks' indebtedness to the Central Bank was mainly due to the rise in Bank Maskan's debt for the financing of Mehr Housing Program.

Sources and Uses of Funds of Private Banks and Non-bank Credit Institutions

Non-public sector's deposits with private banks and non-bank credit institutions increased by 33.6 percent (Rls. 703,630.9 billion) in 1391. In this regard, the value of sight deposits increased by Rls. 145,403.1 billion and that of non-sight deposits, by Rls. 558,227.8 billion. Non-usable resources of private banks and non-bank credit institutions went up by Rls. 96,791.9 billion in this year, due to Rls. 96,752.8 billion rise in reserve requirement and Rls. 39.1 billion increase in notes and coins held with private banks and non-bank credit institutions. Furthermore, balance of capital account of private banks and non-bank credit institutions rose Rls. 32,506.1 billion and public sector's deposits and funds kept with private banks and non-bank credit institutions increased by Rls. 267.3 billion. Therefore, non-public sector's debt to private banks and non-bank credit institutions grew by Rls. 339,092.3 billion and public sector's debt increased by Rls. 49,134.8 billion.

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

In 1391, non-public sector's deposits held with the newly privatized banks rose 29.8 percent (Rls. 370,443.2 billion), with

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

Rls. 105,089.6 billion increase related to sight deposits and Rls. 265,353.6 billion to non-sight deposits. The value of non-usable resources of the newly privatized banks increased by Rls. 48,765.2 billion, due to growth of the reserve requirement of these banks by Rls. 49,107.6 billion, and reduction of notes and coins held with them by Rls. 342.4 billion. Moreover, balance of capital account of the newly privatized banks decreased by Rls. 3,077.3 billion, while public sector's deposits and funds kept with these banks increased by Rls. 445.9 billion. On this basis, non-public sector's debt to these banks increased by Rls. 150,042.1 billion and public sector's debt grew by Rls. 49,134.7 billion.

Banking Units and Personnel

The number of banking units, including branches and counters in both domestic offices and representative offices abroad, grew by 0.7 percent to 21,427 in 1391. A total of 21,383 units were located in Iran and the remaining were on foreign lands. Bank Melli Iran and Bank Saderat Iran held the highest shares in the number of domestic units by 16.1 and 16.0 percent, respectively.

In 1391, the number of banking system employees decreased by 0.3 percent to 208,372 persons. In this year, the number of employees in public commercial banks decreased by 2.3 percent while in specialized banks, it increased by 0.9 percent. The number of employees in private banks and non-bank credit institutions grew by 0.3 percent to 113,854 persons. The number of employees in the Iranian banking sector was 9.7 persons in each banking unit, on average, showing a slight decrease compared with the year before (9.8 persons). Furthermore, the ratio of total population to each domestic banking unit declined by 17 persons and reached 3,556 persons in this year, compared with 3,573 persons in 1390.

Table 13.17. Number of Banking Units

	1390	1391
Domestic branches	**21,235**	**21,383**
Commercial banks	5,811	5,673
Specialized banks [1]	4,145	4,260
All private banks & non-bank credit institutions [2]	11,279	11,450
Newly privatized banks	8,712	8,615
Foreign branches	**46**	**44**
Total	**21,281**	**21,427**

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

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

Banking Sector Developments

The major developments in the banking sector in 1391 were as follows:

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

- Formulation of "Executive By-law of *Istisna*, *Murabaha*, and *Debt Purchase* contracts", approval by the Cabinet, and announcement to the banking system;

- Formulation of "Articles of Association of Deposit Guarantee Fund", approval by the Cabinet, and announcement to the banking system;

- Formulation of "Guideline on Identification and Writing off of Bad Debt, and Disclosure in Financial Statements", approval by the MCC, and announcement to the banking system;

- Formulation of the new version of "By-law on Large-value Loans and Facilities", approval by the MCC, and announcement to the banking system;

- Formulation of "Guideline on Keeping Accounts for Ministries, Public Corporations and Institutions, as well as Private Institutions and Foundations", approval by the MCC, and announcement to the banking system;

- Formulation of "Guideline on Current Accounts", approval by the MCC, and announcement to the banking system;

- Formulation of "Guideline on Domestic L/Cs in rial", approval by the MCC, and announcement to the banking system;

- Formulation of "Guideline on Establishment and Closure of Banking Units in Iran", approval by the MCC, and announcement to the banking system;

- Formulation of "Guideline on Determination of External Debt to Foreign Assets Ratio", approval by the MCC, and announcement to the banking system;

- Formulation of "Guideline on Accounting Standards of Credit Cards Based on Murabaha Contract as well as Mizan Card for Civil Servants and Workers", approval by the Credit Commission, and announcement to the banking system;

- Formulation of the "New Guideline on Syndicated Loans and Facilities", approval by the Commission of Regulation and Supervision of Credit Institutions, and announcement to the banking system;

- Formulation of "Guideline on Accounting Standards of Istisna and Debt Purchase Contracts", approval by the Commission of Regulation and Supervision of Credit Institutions, and announcement to the banking system;

- Revision of "Sample Articles of Association for Private Banks".

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

The Central Bank major AML measures in 1391 included:

- Investigating the sources of financing the initial capital as well as the capital increase of 45 banks or credit institutions, both to-be-established and currently-existing;

- Continued on-site supervision of banks aimed at building the infrastructures required for implementation of AML Law, relevant instructions, and financial tracking;

- Oversight of AML units in banks and credit institutions to control their performance regarding the implementation of the AML Law, the relevant executive by-law and regulations, and provision of guidance and instructions for improving the process;

- Emphasizing banks’ obligation to close accounts lacking the national identification number of the holder, conducting comprehensive supervisions to ensure banks' favorable performance in this regard, and requiring banks to refuse to render services to clients whose national identity numbers are not registered;

- Obliging banks not to provide cash payments to clients higher than the ceiling of Rls. 150 million per day;

- Requiring banks to prepare professional AML software and put them into operation;

- Requiring banks to reform procedures in order to facilitate supervision and trace funds;

- Preparation of educational pamphlets and materials on AML for banks' employees;

- Planning educational courses on AML Law aimed at training instructors and expediting information transfer in banking branches and units (in coordination with the Directorate General of Human Resources in CBI);

- Requiring all the employees of the AML Department of CBI to participate in the Computer-based AML courses run by Iran's Financial Intelligence Unit (FIU) and provision of attendance certificate;

- Updating indicators on suspicious money laundering and terrorism financing operations, based on the recommendations of Financial Action Task Force (FATF) and the experiences of other countries;

- Holding joint meetings with the officials of the Central Banks of Russia, Brazil, and Armenia and managing counseling sessions on gaining support for Iran's membership in international organizations active in AML measures;

- Implementation of the provisions of the Memorandum of Understanding between Iran and Armenia for supervision and preparation for a visit between the Iranian experts and Egmont Group, entering discussions concerned with Iran's membership in technical international institutions regarding AML/CFT measures.

Section Three- Bank Licensing

In implementation of the Monetary and Banking Law of Iran and reorganization of unorganized money market institutions, subject of "Regulation of the Unorganized Money Market" Law, and Articles 86 and 96 of the 5th FYDP Law, Banking Regulations, Licensing, and Anti-Money Laundering Department of the Central Bank mainly targeted the following in 1391:

- Organizing 14 deposit-taking unlicensed institutions (whose activities affect the money market), in implementation of Paragraph 7 of the 1133rd MCC Meeting on 06.10.1390;

- Considering banks' application for establishment of Gharz-al-hasaneh Funds aimed at segmentation of banks' and credit institutions' Gharz-al-hasaneh operations, based on Article 86 of the 5th FYDP Law and Note 1, Article 12 of the "Monetary, Credit, and Supervisory Policy of the Banking System in 1390", approved by the MCC on 05.12.1389, which led to the establishment of 4 Gharz-al-hasaneh Funds for applying banks;

- Considering the registration procedures of 1,500 institutions (including banks, credit institutions, Gharz-al-hasaneh Funds, credit cooperatives, money exchanges, and leasing companies) active in Iran's money market, holding either a permanent or a temporary license from the Central Bank as well as about 3,000 Gharz-al-hasaneh Funds holding a license only from the Police Department or active under the supervision of Islamic Economy Organization, in implementation of Note 1, Article 96 of the 5th FYDP Law;

- Holding weekly meetings with the directors of cooperative, labor, and social welfare departments in provinces in order to organize the operations of 1,300 credit cooperatives, which finally led to the conclusion of two Memoranda of Understanding in the framework of "Expediting of Credit Cooperatives Organization";

- CBI ceased issuance and renewal of permits of single-branch Gharz-al-hasaneh Funds based on MCC approval that establishment of such Gharz-al-hasaneh Funds would not require CBI permits.

Table 13.18. Number of Issued and Cancelled Banking Licenses in 1391

	Agreement in principle	Issued licenses	Total	Cancelled licenses
Main land	3	2	5	1
Free economic zones	0	0	0	0
Total	**3**	**2**	**5**	**1**
	- Ayandeh Bank - Askariye Credit Institution - Kosar Credit Institution	- Ghavamin Bank - Resalat Gharz-al-hasaneh Bank		- Arian Bank

Table 13.19. Number of Licenses Issued, Renewed, and Cancelled for Institutions Active in Unorganized Money Market in 1391

	Initial license		Renewed licenses	Total	Cancelled/ Suspended licenses
	Established	Reorganized			
Credit cooperatives	2	2	4	8	0
Gharz-al-hasaneh Funds [1]	4	7	2	13	0
Leasing companies	0	0	12	12	0
Money exchanges	54	0	150	204	7
Total	**60**	**9**	**168**	**237**	**7**

[1] Four Gharz-al-hasaneh Funds belonging to Parsian Bank, Tose'e Ta'avon Bank, Bank Maskan, and Bank Mellat were established in implementation of Article 86 of the 5th FYDP law.