CHAPTER 13

MONETARY AND BANKING POLICY AND PERFORMANCE

Key Aspects of Monetary Policy in 1392

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 1392, the regulations governing the money and credit markets of the country in 1392 followed the rules stipulated in the mentioned guideline. The new package of guidelines on monetary and credit policies and banks' supervision, compared with the package of guidelines in the year before, put into acute focus the money market instruments and the attempts for making these instruments more attractive for markets. The major elements of this policy were greater autonomy for banks and credit institutions to set the provisional deposit rates, raise provisional rate on participation papers, and facilitate the repurchase of participation papers by agent banks. The main concerns of monetary policy decision-makers in pursuing these guidelines are as follows:

- Creating more attractiveness for investment in the money market;

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

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

- Encouraging the public to open savings accounts.

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 1392, were as follows:

- The decision allowing banks and credit institutions to set the annual provisional profit rates for term investment deposits and general/special Certificates of Deposit (CDs) was aiming at liberalization of banks and credit institutions 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 new policies, the "Coordination Council of the State-owned Banks" and the "Association of Private Banks and 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 Investment Deposits Approved by Banks

Deposits	Provisional profit rate (percent)
Profit calculated based on daily average balance	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. Moreover, 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 expected profit rate in PLS contracts between credit institutions and their clients was set within a range of 18 to 21 percent.

However, the political economy of Iran in 1392 caused certain economic trajectories in this year. In spite of major perverse conditions prevailing over the asset markets, especially in foreign exchange and gold markets, and the sharp rise in inflation (point-to-point inflation growth by 45.1 percent in Khordad 1392 and the year-on-year growth of 40.4 percent in Mehr), no attempt was made to revise the monetary and credit policies or reconsider the package of guidelines on supervision of banks which were in practice since Khordad 1392. This situation, coupled with the performance of unauthorized credit institutions whose operations were more pronounced compared to authorized and supervised banks which had already been severely impacted by financial repression, in practice led to unhealthy competition among banks and ultimately irregularities in the banking system.

In the second half of 1392 when the new government took office, the monetary authority mainly aimed at enhancing monetary discipline and sound financing of the economy, with the ultimate goal of lowering inflationary pressure. To this end, the CBI initially embarked on revising the financing mechanism of the Mehr Housing Program (a major factor behind the rise in monetary base over the past years) for lowering the inflationary pressures and instability of macroeconomic condition as well as improving monetary discipline[1]. The MCC, upon approval of the CBI recommendation in Bahman 1392, announced a three-year grace period for the repayment of Bank Maskan's debt to the CBI. However, the MCC decided that Bank Maskan’s loan repayments under Mehr Housing Program be utilized for further financing of this program and the completion of unfinished projects[2]. The revision made on Mehr Housing Program contributed to a more healthy financing mechanism of this program, improved monetary discipline, and a more balanced distribution of funds among different economic sectors.

Moreover, in order to control liquidity growth, in Bahman 1392, the CBI issued Rls. 30 trillion worth of participation papers[3], of which a sum of Rls. 21.9 trillion was sold, reducing the growth rate of monetary base and liquidity by 2.2 and 2.6 percentage points, respectively.

Furthermore, the credit policy of Bank Maskan was revised in 1392, with the aim of empowering households from higher mortgage financing in home purchase. By increasing individual ceiling of mortgage financing on housing purchase and construction to Rls. 350 million (out of housing installment sale contracts), housing purchase by newly-weds to Rls 500 million, and housing repair loan to Rls. 100 million as of Dey 17, 1392, banking sector was better enabled to meet small-value requirements of individual consumers.

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[1] In Bahman 1392, the ratio of Bank Maskan debt to total CBI claims on banks and credit institutions (related to this Program) was 65.3 percent.

[2] 1172nd Meeting of MCC on Bahman 8, 1392.

[3] 1168th Approval by the MCC on Aban 21, 1392.

Banking System[1] Performance

Banking system assets and liabilities grew by 55.6 percent to Rls. 16,054.3 trillion in 1392. On the assets side, 122.4 percent growth in "foreign assets" (Rls. 2,783.4 trillion increase), which was mainly attributable to the rise in the exchange rate, was the main contributing factor. "Other assets" and "claims on non-public sector" (including profit and revenue receivables), with respectively 49.7 and 30.7 percent growth" (Rls. 1,487.6 trillion and Rls. 1,269.2 trillion increase), were the other contributing factors. On the liabilities side, 53.1 percent growth of "other liabilities" (Rls. 2,084.0 trillion rise) (including capital account of the banking system, advance payments on public sector's L/Cs, and imports order registration deposit by non-public sector) and 38.8 percent growth in "liquidity" (Rls. 1,788.6 trillion increase) were the major factors contributing to banks' liabilities.

Figure 13.1. Major economic variables

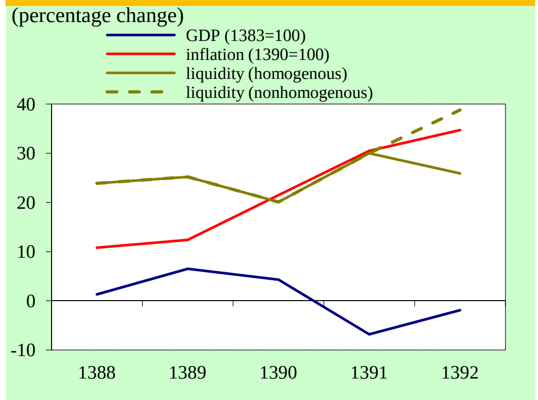


Table 13.2. Major Items in Assets and Liabilities of the Banking System (trillion rials)

	Year-end balance			Percentage change	
	1390	1391	1392	1391	1392
Assets	**8,447.9**	**10,315.0**	**16,054.3**	**22.1**	**55.6**
Foreign assets	2,145.7	2,273.6	5,056.9	6.0	122.4
Central Bank	1,176.6	1,286.2	3,014.2	9.3	134.3
Public banks[1]	362.2	396.0	707.6	9.3	78.7
Private banks and non-bank credit institutions[2]	606.9	591.4	1,335.1	-2.6	125.8
Claims on public sector	638.5	910.4	1,109.5	42.6	21.9
Claims on non-public sector	3,516.8	4,139.0	5,408.2	17.7	30.7
Others	2,146.9	2,992.0	4,479.7	39.4	49.7
Liabilities	**8,447.9**	**10,315.0**	**16,054.3**	**22.1**	**55.6**
Liquidity	3,542.6	4,606.9	6,395.5	30.0	38.8
Loans and deposits of public sector	399.5	407.8	625.6	2.1	53.4
Foreign liabilities	1,308.9	1,373.9	3,022.8	5.0	120.0
Central Bank	428.1	517.1	1,336.0	20.8	158.4
Public banks[1]	276.4	323.3	530.8	17.0	64.2
Private banks and non-bank credit institutions[2]	604.4	533.5	1,156.0	-11.7	116.7
Others[3]	3,196.9	3,926.4	6,010.4	22.8	53.1

[1] Figures for Gharz-al-hasaneh Mehr Iran Bank have been added to private banks' data since 1392, and excluded from specialized banks' category.

[2] Includes Bank Shahr since Shahrivar 1390, Tourism Bank as of Shahrivar 1390, and Bank Hekmat Iranian as of Shahrivar 1391. As of 1392, banking sector also includes "Iran Zamin Bank", "Resalat Gharz-al-hasaneh Bank", "Middle East Bank", "Kish International Free Zone Bank (IFB)", "Iran-Venezuela Bi-National Bank (IVBB)", "Ghavamin Bank", "Kosar Finance and Credit Institution", "Askariye Credit Institution", as well as "Pishgaman Finance and Credit Institution (Ati)" and "Salehin Finance and Credit Institution" (merged into 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.

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

Banking System and External Sector

In 1392, net foreign assets of the banking system grew by 126.1 percent (Rls. 1,134.5 trillion) to Rls. 2,034.2 trillion. This was due to increase in net foreign assets of the Central Bank by Rls. 909.1 trillion, and rise in net foreign assets of public and private banks as well as non-bank credit institutions by Rls. 225.4 trillion. Rise in net foreign assets of the Central Bank was due to the increase in CBI foreign assets by Rls. 1,728.0 trillion and growth in CBI foreign liabilities by Rls. 818.9 trillion. Moreover, increase in net foreign assets of banks and non-bank credit institutions was attributable to the rise in their foreign assets by Rls. 1,055.4 trillion and increase in their foreign liabilities by Rls. 830.0 trillion.

Banking System and Public Sector

Banking system net claims on the public sector decreased by Rls. 18.6 trillion compared with 1391 and reached Rls. 484.0 trillion. In 1392, Central Bank's claims on public sector increased by 11.3 percent (Rls. 35.6 trillion), which was due to 20.3 percent growth in CBI claims on the government and 4.9 percent rise in public corporations' and institutions' indebtedness to CBI. Of total Central Bank's claims on the government, Rls. 39.2 trillion (24.7 percent) was due to deficit in foreign exchange obligations account. In 1392, public sector's deposits with the Central Bank rose by 16.0 percent (Rls. 42.9 trillion), mainly attributable to the increase in government's deposits with the Central Bank by Rls. 29.6 trillion and public corporations' and institutions' deposits with the Central Bank by Rls. 13.3 trillion as well.

Public sector indebtedness to banks and non-bank credit institutions surged by 27.4 percent (Rls. 163.5 trillion). This was mainly attributable to 28.4 percent rise (Rls. 160.9 trillion growth) of banks' and non-bank credit institutions' claims on government. Government indebtedness to banks and non-bank credit institutions reached Rls. 728.3 trillion at end-1392.

Table 13.3. Change in Net Claims of Banking System on Public Sector (trillion rials)

	1391	1392
Public sector	**263.7**	**-18.6**
Central Bank	119.1	-7.2
Commercial and specialized banks (public)	49.5	-13.0
Private banks and non-bank credit institutions	95.1	1.6
Government	**200.2**	**-16.9**
Central Bank [1]	59.4	-2.9
Commercial and specialized banks (public)	47.6	-11.6
Private banks and non-bank credit institutions	93.2	-2.4
Public corporations and institutions	**63.5**	**-1.7**
Central Bank	59.7	-4.3
Commercial and specialized banks (public) [2]	1.9	-1.4
Private banks and non-bank credit institutions	1.9	4.0

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

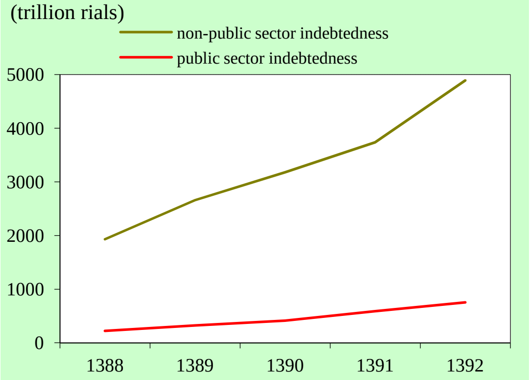
Banking System[1] and Non-public Sector[2]

In 1392, outstanding facilities[3] extended by the banking system to non-public sector grew by 30.8 percent (1,149.9 trillion) to Rls. 4,888.0 trillion. This shows 13.2 percentage points increase as compared with 17.6 percent growth of the preceding year. This was attributable to higher coverage of

[1] Includes state-owned and private banks as well as non-bank credit institutions.
[2] Figures in this section exclude profit and revenue receivables and are, therefore, different from the figures in Appendix.
[3] Includes overdue and non-performing loans.

financial data related to the 6 banks and 4 credit institutions mentioned earlier. Share of facilities extended by the banking system to non-public sector equaled 86.7 percent of total extended facilities, showing 0.3 percentage point increase compared with 86.4 percent of 1391.

Figure 13.2. Public & non-public sectors indebtedness to banks and credit institutions (excluding profit receivables)



Outstanding facilities extended by public commercial banks to non-public sector (excluding profit and revenue receivables) increased by 9.6 percent (Rls. 67.7 trillion) to Rls. 770.1 trillion. Moreover, outstanding facilities extended by specialized banks to non-public sector grew by 14.4 percent (Rls. 145.6 trillion) to Rls. 1,159.9 trillion.

Outstanding facilities extended by private banks and non-bank credit institutions rose by 46.3 percent (Rls. 936.6 trillion) to Rls. 2,958.0 trillion. A large part of this increase was due to the higher coverage of financial data and reclassification of Mehr Gharz-al-hasaneh Iran Bank as a private bank (Rls. 401.9 trillion). Therefore, share of private banks and non-bank credit institutions in outstanding facilities extended to non-public sector rose from 54.1 percent to 60.5 percent at end-1392. Moreover, shares of public commercial and specialized banks increased from 18.8 and 27.1 percent in 1391 to 15.8 and 23.7 percent, respectively, in 1392 year-end.

In 1392, the highest share (41.4 percent) in the rise in net outstanding facilities extended by the banking system to the non-public sector belonged to "domestic trade, services, and miscellaneous" sector, followed by "construction and housing" (27.6 percent), "manufacturing and mining" (18.3 percent), "agriculture" (10.7 percent), and "exports" (2.0 percent).

Composition of outstanding facilities extended by the banking system to the non-public sector according to Islamic contracts indicates that in 1392, civil partnership and installment sale contracts held the highest

Table 13.4. Outstanding Facilities Extended by Banking System to Non-public Sector[1]

(trillion rials)

	Year-end balance			Percentage change		Share (percent)	
	1390	1391	1392	1391	1392	1391	1392
Commercial banks	663.0	702.4	770.1	5.9	9.6	18.8	15.8
Specialized banks	842.4	1,014.3	1,159.9	20.4	14.4	27.1	23.7
Private banks and non-bank credit institutions	1,673.2	2,021.4	2,958.0	20.8	46.3	54.1	60.5
Total	**3,178.6**	**3,738.1**	**4,888.0**	**17.6**	**30.8**	**100.0**	**100.0**

[1] Excludes profit and revenue receivables.

shares by 42.1 and 27.9 percent, respectively. It is noteworthy that the share of facilities extended in the framework of Ju'alah and Gharz-al-hasaneh remained the same as before. Shares of civil partnership and legal partnership increased while the shares of other contracts were lower than the year before.

Table 13.5. Composition of Outstanding Facilities Extended by Banking System to Non-public Sector by Contracts (percent)

	Banking system	
	1391	1392
Installment sale	29.3	27.9
Mudarabah	3.1	2.8
Civil partnership	38.9	42.1
Gharz-al-hasaneh	5.3	5.3
Hire purchase	0.7	0.5
Forward transactions	0.4	0.3
Legal partnership	2.5	3.0
Direct investment	1.1	0.9
Ju'alah	4.7	4.7
Others [1]	14.0	12.5
Total	**100.0**	**100.0**

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

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 1.0 percentage point to 13.2 percent in 1392. This variable declined by 2.2 percentage points for public commercial banks, 0.3 percentage point for specialized banks, and 1.1 percentage points for private banks and non-bank credit institutions.

Table 13.7. Ratio of Overdue, Non-performing, & Doubtful (Non-current) Claims to Total Facilities Extended by Banking System (in Rial)[1] (percent)

	1391	1392	Change (percentage points)
Commercial banks	18.3	16.1	-2.2
Specialized banks	7.1	6.8	-0.3
Private banks and non-bank credit institutions	16.3	15.2	-1.1
Banking system	**14.2**	**13.2**	**-1.0**

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

In 1392, 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. 295.0 trillion by 1392 year-end, showing Rls. 10.6 trillion rise compared with end-1391.

Table 13.6. Share of Economic Sectors in Increase in Net Outstanding[1] Facilities Extended by Banking System to Non-public Sector[2] (percent)

	1391			1392		
	Public banks	Private banks & non-bank credit institutions	Banking system	Public banks	Private banks & non-bank credit institutions	Banking system
Agriculture	15.5	2.1	7.2	25.8	4.2	10.7
Manufacturing and mining	1.5	21.3	13.9	4.0	24.5	18.3
Construction and housing	65.3	15.0	33.9	53.7	16.4	27.6
Exports	-0.9	0.8	0.1	1.5	2.2	2.0
Domestic trade, services, and miscellaneous	18.6	60.8	44.9	15.0	52.7	41.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[1] "Net outstanding facilities" is calculated after deduction of outstanding debts of customers and extended facilities related to exchange rate differentials, profit receivables, profit and commission receivables, receipts from Mudarabah, civil partnership (bank's share), outstanding profit, and outstanding commission. Moreover, net outstanding facilities include legal partnership and direct investment contracts.

[2] Excludes profit and revenue receivables.

Total banks' and credit institutions' scheduled facilities amounted to Rls. 137.0 trillion in 1392, of which a sum of Rls. 74.4 trillion (54.3 percent) was related to Gharz-al-hasaneh facilities and the remaining Rls. 62.6 trillion was related to other uses. Of total Rls 74.4 trillion extended in the form of Gharz-al-hasaneh facilities, Rls. 29.0 trillion (39.0 percent) was exclusively allocated as marriage facility and the remaining Rls. 45.4 trillion was extended for the release of needy prisoners, employment of help-seekers of welfare organizations, self-employment projects, home-based businesses, President's provincial trips, etc. Other scheduled facilities equaled Rls. 62.6 trillion, a major proportion of which (Rls. 47.1 trillion) was related to Mehr Housing Program[1].

Table 13.8. Banks' Performance on Scheduled Facilities in 1392 (trillion rials)

Purposes	Paid facilities in 1392
Gharz-al-hasaneh facilities	**74.4**
Marriage	29.0
Other	45.4
Other scheduled facilities	**62.6**
Domestic purchase of wheat	4.7
Rural housing	4.7
Mehr Housing Program	47.1
Old buildings	2.1
Veterans Home Facility	4.0
Total	**137.0**

Liquidity

In 1392, liquidity grew by 38.8 percent to Rls. 6,395.5 trillion, up by 8.8 percentage points compared with the liquidity growth of the previous year (30.0 percent). It is important to note that 12.9 percentage points of the 38.8 percent growth of liquidity in 1392 was due to the statistical coverage of new banks and credit institutions[2], unrelated to economic factors. Therefore, the homogenous growth of liquidity was 25.9 percent in 1392, showing 4.1 percentage points decrease compared with 30.0 percent growth of 1391.

[1] Includes only 1392.

Figure 13.3. Liquidity growth and its determinants

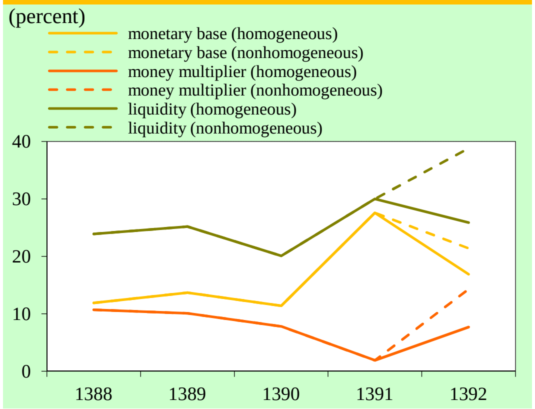


Table 13.9. Liquidity and its Determinants

	Year-end balance		Percentage change	
	1391	1392	1391	1392
Monetary base (trillion rials)	975.8	1,184.9	27.6	21.4
Money multiplier	4.721	5.398	1.9	14.3
Liquidity (trillion rials)	4,606.9	6,395.5	30.0	38.8

[2] As of 1392, banking sector also included data on 6 new banks ("Iran Zamin Bank", "Resalat Gharz-al-hasaneh Bank", "Middle East Bank", "Kish International Free Zone Bank (IFB)", "Iran-Venezuela Bi-National Bank (IVBB)", and "Ghavamin Bank") as well as data on 4 new credit institutions ("Kosar Finance and Credit Institution", "Askariye Credit Institution", along with "Salehin Finance and Credit Institution" and "Pishgaman Finance and Credit Institution (Ati)" which were merged into Ayandeh Bank).

Among the factors affecting liquidity growth in 1392, net foreign assets of the banking system, with 126.1 percent growth compared with the year before, had an increasing share of 24.6 percentage points in raising liquidity. This was mainly due to changes in exchange rate used for revaluation of foreign exchange holdings of CBI. Moreover, net domestic assets of the banking system, with a growth rate of 17.6 percent, had a positive effect on liquidity growth by 14.2 percentage points. Among net domestic assets, non-public sector indebtedness to banks and non-bank credit institutions (excluding profit and revenue receivables), with 30.8 percent growth and an increasing share of 25.0 percentage points, was the main factor contributing to liquidity growth. Moreover, other items (net) and net claims of the banking system on public sector had negative shares of respectively 10.4 and 0.4 percentage points in liquidity growth.

Table 13.10. Contribution of Factors Affecting Liquidity Growth (percentage points)

	1391	1392
Net foreign assets of the banking system	**1.8**	**24.6**
Net domestic assets of the banking system	**28.2**	**14.2**
Banks' claims on public sector (net)	7.5	-0.4
Government	5.7	-0.4
Public corporations	1.8	0.0
Banks' and non-bank credit institutions' claims on non-public sector[1]	15.8	25.0
Other items (net)	4.9	-10.4
Liquidity (percent)	**30.0**	**38.8**

[1] Excludes profit and revenue receivables.

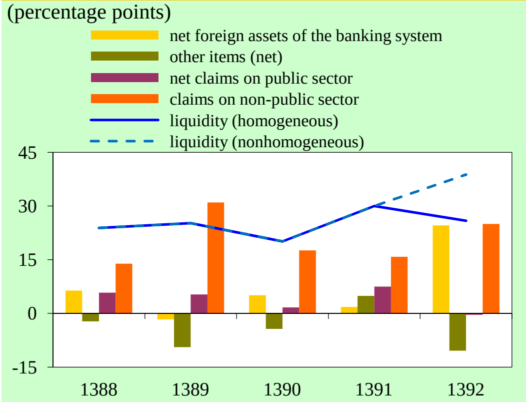
Monetary Base

Monetary base grew by 21.4 percent in 1392, showing 6.2 percentage points decrease compared with 27.6 percent growth of the previous year. It is important to note that 4.5 percentage points of the 21.4 percent growth of monetary base in 1392 was largely due to reclassification and higher coverage of banks' and credit institutions' data.

Disregarding the more extensive data coverage and comparing the banking data on a more homogeneous basis, the rise in monetary base had in fact been 16.9 percent. This would show a remarkable decline of 10.7 percentage points compared with the 27.6 percent growth of 1391[1]. CBI net foreign assets had an increasing share of 93.2 percentage points while CBI other items (net) had a decreasing share in the growth of monetary base by 82.8 percentage points. However, this was mainly attributable to changes in exchange rate (change of reference rate to the transactional rate), used for revaluation of foreign exchange reserves of CBI. Excluding the foreign exchange revaluation reserve, CBI net foreign assets would have a positive contribution of 11.7 percentage points and CBI other items (net) would have a negative effect on monetary base growth by 1.2 percentage points. Moreover, CBI claims on banks had an increasing share (as in previous years) in monetary base growth and with 23.4 percent rise compared to 1391, had a positive contribution of 11.7 percentage points to the rise of monetary base.

Figure 13.4. Factors affecting liquidity growth

(percentage points)



[1] More extensive coverage of banking data led to larger reserve requirements and sight deposits in CBI balance sheet related to newly-licensed and supervised banks and credit institutions, which has led to further rise in monetary base.

Table 13.11. Contribution of Factors Affecting Monetary Base Growth (percentage points)

	1391	1392
CBI net foreign assets	2.7	93.2
CBI net claims on public sector	15.6	-0.7
CBI claims on banks	9.2	11.7
Other items (net)	0.1	-82.8
Monetary base (percent)	**27.6**	**21.4**

In order to control liquidity, in Bahman 1392, CBI issued Rls. 30 trillion worth of participation papers with a maturity of 6 months (at the end of Mordad 1393), of which a sum of Rls. 21.9 trillion was sold. This led to a decline in the growth of monetary base by 2.2 percentage points.

Composition of Liquidity

Share of money in liquidity declined noticeably from 24.7 percent at end-1391 to 18.7 percent in 1392 year-end. Share of quasi-money, however, increased by 6.0 percentage points to 81.3 percent compared with the year before. This was attributable not only to the attraction of such deposit rates for customers but also to the increasing growth in the use of electronic banking and payment cards, which are usually connected to short-term deposits.

The share of five-year deposits in total long-term deposits decreased by 10.5 percentage points from 67.5 percent in 1391 to 57.0 percent in 1392, and shares of one- and two-year deposits rose from 19.2 and 9.9 percent in 1391 to 23.6 and 16.6 percent, respectively, in 1392. Conversely, the shares of three- and four-year deposits in total long-term deposits decreased from 2.2 and 1.2 percent in 1391 to 1.7 and 1.1 percent, respectively, in 1392.

Table 13.13. Composition of Long-term Deposits[1] (percent)

	Year-end		
	1390	1391	1392
One-year	20.2	19.2	23.6
Two-year	6.8	9.9	16.6
Three-year	2.5	2.2	1.7
Four-year	1.1	1.2	1.1
Five-year	69.4	67.5	57.0

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

Table 13.12. Composition of Liquidity (trillion rials)

	Year-end balance			Percentage change		Share (percent)	
	1390	1391	1392	1391	1392	1391	1392
Money	**897.6**	**1,136.7**	**1,196.0**	**26.6**	**5.2**	**24.7**	**18.7**
Notes and coins with the public	263.2	330.2	334.1	25.5	1.2	7.2	5.2
Sight deposits of non-public sector	634.4	806.5	861.9	27.1	6.9	17.5	13.5
Quasi-money	**2,645.0**	**3,470.2**	**5,199.5**	**31.2**	**49.8**	**75.3**	**81.3**
Gharz-al-hasaneh savings deposits	255.8	310.2	338.5	21.3	9.1	6.7	5.3
Term investment deposits	2,297.9	3,060.0	4,756.9	33.2	55.5	66.4	74.4
Miscellaneous deposits	91.3	100.0	104.1	9.5	4.1	2.2	1.6
Liquidity	**3,542.6**	**4,606.9**	**6,395.5**	**30.0**	**38.8**	**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 14.1 percent (Rls. 139.6 trillion) in 1392. Deposits of non-public sector held with the public commercial banks included sight deposits, the value of which rose Rls. 4.7 trillion and non-sight deposits whose value increased by Rls. 134.9 trillion. In this year, the amount of non-usable resources of public commercial banks increased by Rls. 18.9 trillion. This was mainly owing to Rls. 16.2 trillion rise of reserve requirement and Rls. 2.7 trillion increase 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. 57.8 trillion and Rls. 46.0 trillion, respectively.

Sources and Uses of Funds of Specialized Banks

In 1392, non-public sector's deposits held with specialized banks increased by Rls. 99.1 trillion. The value of sight deposits fell by Rls. 3.3 trillion, and that of non-sight deposits rose by Rls. 102.4 trillion (mainly short-term and one-year deposits). In this year, the amount of non-usable resources of specialized banks increased by Rls. 12.2 trillion, resulting from Rls. 10.3 trillion rise in reserve requirement and increase in the value of notes and coins kept with specialized banks by Rls. 1.9 trillion. Free resources out of non-public sector's deposits held with specialized banks indicated Rls. 86.9 trillion 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. 215.3 trillion. This included rise in non-public sector's debt[1] to specialized banks by Rls. 145.6 trillion and increase in public sector's debt[2] to specialized banks by Rls. 69.7 trillion. Specialized banks' debt to Central Bank grew by 23.9 percent (Rls. 105.6 trillion) compared with 1391, to Rls. 547.7 trillion at end-1392. 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.

[1]Excludes profit and revenue receivables.

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 55.2 percent (Rls. 1,546.0 trillion) in 1392. In this regard, the value of sight deposits increased by Rls. 54.0 trillion and that of non-sight deposits, by Rls. 1,492.0 trillion. Remarkable increase in non-public sector's deposits in banks and non-bank credit institutions was attributable to the inclusion of data related to 6 new banks and 4 new credit institutions. Non-usable resources of private banks and non-bank credit institutions went up by Rls. 171.6 trillion in this year, due to Rls. 159.8 trillion rise in reserve requirement and Rls. 11.8 trillion 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. 165.0 trillion and public sector's deposits and funds kept with private banks and non-bank credit institutions increased by Rls. 67.3 trillion. Therefore, private banks and non-bank credit institutions' claims on non-public sector[1] grew by Rls. 939.3 trillion and public sector's debt increased by Rls. 52.4 trillion.

[2]The source and uses of funds data, both in tables and in the text, do not include banks' claims on government and the government participation papers in their portfolios. Hence, these figures are different from data in the table on summary of assets and liabilities of banks.

Banking Units and Personnel

The number of banking units, including branches and counters in both domestic offices and representative offices abroad, grew by 6.8 percent to 22,894 in 1392. A total of 22,851 units were located in Iran and the remaining, on foreign lands. Bank Melli Iran and Bank Saderat Iran held the highest shares in the number of domestic units by 14.7 and 14.0 percent, respectively.

In 1392, the number of banking system employees increased by 6.0 percent to 220,827 persons. In this year, the number of employees in public commercial banks decreased by 3.1 percent and in specialized banks, by 2.4 percent. The number of employees in private banks and non-bank credit institutions grew by 13.3 percent to 128,999 persons. Remarkable rise in the number of private banks' employees was due to the higher statistical coverage and the addition of 9,192 employees of Iran Zamin Bank, Resalat Gharz-al-hasaneh Bank, Iran-Venezuela Bi-National Bank, Middle-East Bank, and Ghavamin Bank. The number of employees in the Iranian banking sector was 9.6 persons in each banking unit, on average, showing a slight decrease compared with the year before (9.7 persons). Furthermore, the ratio of total population to each domestic banking unit declined by 189 persons and reached 3,367 persons in this year, compared with 3,556 persons in 1391.

Banking Sector Developments

The major developments in the banking sector in 1392 were as follows:

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

- Formulation of "Articles of Association of Non-public Commercial Banks" and its announcement to the banking system;

- Formulation of "Guideline on Accounting Standards of Local Currency L/Cs" and its announcement to the banking system;

- Formulation of "By-law on the Fee and Conditions of Membership in Deposit Guarantee Fund" and its announcement to the banking system;

- Formulation of "Civil Partnership Contract Form" and its announcement to the banking system;

Table 13.14. Number of Banking Units

	1391	1392 [1]
Domestic branches	**21,383**	**22,851**
Commercial banks	5,673	5,552
Specialized banks [2]	4,260	3,798
All private banks and non-bank credit institutions [3]	11,450	13,501
Foreign branches	**44**	**43**
Total	**21,427**	**22,894**

[1] As of 1392, banking sector also includes "Iran Zamin Bank", "Resalat Gharz-al-hasaneh Bank", "Middle East Bank", "Kish International Free Zone Bank (IFB)", "Iran-Venezuela Bi-National Bank (IVBB)", "Ghavamin Bank", "Kosar Finance and Credit Institution", "Askariye Credit Institution", as well as "Pishgaman Finance and Credit Institution (Ati)" and "Salehin Finance and Credit Institution" (merged into Ayandeh Bank).

[2] Figures for Gharz-al-hasaneh Mehr Iran Bank have been added to private banks' data since 1392, and excluded from specialized banks' category. This was the main factor behind the decline in the number of specialized banks' units in 1392. Number of units affiliated to Gharz-al-hasaneh Mehr Iran Bank was 525 at end-1392.

[3] Total number of banking units related to new banks and credit institutions at end-1392 (6 banks and 2 credit institutions) was 1,399.

- Formulation of the revised version of "By-law on Large-value Loans and Facilities" and its announcement to the banking system;

- Announcement of regulations governing "Extension of Facilities by Credit Institutions to Investment and Holding Companies";

- Formulation of "Guideline on Performing Stress Tests" and its announcement to the banking system;

- Formulation of "By-Law on Competency of Bank Employees" and its announcement to the banking system;

- Formulation of "By-law on Organization of Institutions Active in Unorganized Money Market" and its announcement to the banking system;

- Raising the ceiling of rewards on Gharz-al-hasaneh savings deposits (in rial and foreign currency);

- Formulation of the revised version of "Articles of Association of Deposit Guarantee Fund" and announcement of the relevant Amendment to the banking system;

- Formulation of "By-law on Public Banking, Subject of Cabinet Approval No. H43605T/91964 dated Tir 19, 1392" and its announcement to the banking system.

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

- Coordination in formulation of the draft Bill of Law on Combating Financing of Terrorism and the follow-up functions for approval of this Bill in Presidential office and judiciary branch;

- Reviewing the sources of financing the initial capital and raising the capital of banks and credit institutions;

- Reviewing the sources of financing the initial capital and raising the capital of insurance companies;

- Conducting comprehensive supervisions to ensure banks' favorable performance in terms of observation of AML regulations and financial tracking;

- Formulation of circulars and declaration thereof to the banking system, based on High Council's Approvals on Anti-money Laundering;

- Planning educational courses on AML Law aimed at training instructors and expediting information transfer in banking branches and units;

- Publishing transparent information on measures adopted on anti-money laundering and combating financing of terrorism in Iran and abroad.

Section Three- Bank Licensing

In implementation of the Monetary and Banking Law of Iran and reorganization of unorganized money market, subject of "Law on Institutions Active in Unorganized Money Market", as well as Articles 86 and 96 of the 5^{th} FYDP Law, Central Bank issued operation licenses for 2 credit institutions, 3 credit cooperatives, 4 Gharz-al-hasaneh Funds, 48 money exchanges, and 2 leasing companies. Meanwhile, CBI renewed the work permits of 78 institutions (including 20 credit cooperatives, 39 money exchanges, and 19 leasing companies). Licenses of 11 money exchanges were also cancelled due to the violation of laws and regulations.

Table 13.15. Number of Issued and Cancelled Banks' and Credit Institutions' Licenses in 1392

	Agreement in principle	Issued licenses	Total	Cancelled licenses
Main land [1]	0	2	2	0
Free economic zones	0	0	0	0
Total	**0**	**2**	**2**	**0**

[1] Includes Askariye Credit Institution and Kosar Finance and Credit Institution.

Table 13.16. Number of Licenses Issued, Renewed, and Cancelled for Institutions Active in Unorganized Money Market in 1392

	Initial license		Renewed licenses	Total	Cancelled/ Suspended licenses
	Established	Reorganized			
Credit cooperatives	3	0	20	23	1
Gharz-al-hasaneh Funds	4	0	0	4	0
Leasing companies	2	0	19	21	0
Money exchanges	48	0	39	87	11
Total	**57**	**0**	**78**	**135**	**12**