CHAPTER 13

MONETARY AND BANKING POLICY AND PERFORMANCE

Key Aspects of Monetary Policy in 1393

The major aspects of monetary and credit policies of CBI in 1393 were focused around continuation and strengthening of monetary discipline, control of liquidity growth, improvement in liquidity composition, and management of banks' allocation of resources with the aim of channeling resources towards productive activities. Government policies aimed at non-inflationary exit of the Iranian economy from recession were formulated with due consideration of the said targets. Strengthened monetary discipline in government policy package was aiming towards maintaining the government achievements in terms of curbing inflation, stabilizing the exchange rate, anchoring inflationary expectations, and avoiding time inconsistencies in formulation and implementation of the monetary policy.

Unlicensed credit institutions' irrational contest for high deposit rates spilled over to other banks and credit institutions as of late-1392, causing an unsound and unhealthy competitive environment in the whole banking system. This brought negative ramifications such as rise in the funding costs for banks which led to an increase in lending rates, directing resources towards speculative and non-productive activities with expectations for quick returns, increase in banking risks, and serious supervision concerns for the CBI. Given the unhealthy contest of banks in raising deposit rates, the CBI strived hard in Ordibehesht 1393 to restructure and reorganize the money market, while trying to safeguard the banks' autonomy in setting deposit rates. In this regard, efforts were made to encourage banks' and credit institutions' participation and cooperation in setting definitive ceilings on banks' deposit rates through banks' own collaborative agreement concluded between "Coordination Council of Public Banks" and "Association of Private Banks and Non-bank Credit Institutions". On this basis, through an agreement between banks and credit institutions on Ordibehesht 8, 1393 and with the coordination of CBI, maximum profit rate on short-term deposits of less than three months, three- to six-month, six- to nine-month, nine-month to less than one year, and one-year deposits were determined at respectively 10.0, 14.0, 16.0, 18.0, and 22.0 percent. Deposits with longer than one year maturity were totally eliminated from the banking system.

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

Deposits	Provisional profit rate (percent)
Short-term (less than 3 months)	10
Short-term (3- to 6-month)	14
Short-term (6- to 9-month)	16
Short-term (9-month to one-year)	18
One-year	22

After the conclusion of the nuclear deal between Iran and the P5+1 which brought tranquility to the money market, the CBI revised the other elements of the monetary policy in Tir 1393 as well and recommended the new package of Monetary and Credit Policy to the MCC for approval[1]. The most important items approved in this package included banks' agreement on determining deposit rates, revision of banks' lending rates, and reduction and unification of the reserve requirement ratio for various types of banking deposits as follows:

Based on Article 1 of the Policy Package, upon agreement between banks and credit institutions in Ordibehesht, regarding the provisional banks' deposit rates, the MCC approved the rate for one-year deposits at a maximum level of 22.0 percent.

Based on Article 2 of the same package, the minimum expected profit rate of PLS contracts between banks and credit institutions and their clients was set at 21.0 percent. Meanwhile, the maximum lending rate on loans and facilities extended by banks and credit institutions under non-PLS contracts was set at 22.0 percent. According to Article 9 of the Monetary, Credit, and Supervisory Policies of the Banking System previously approved in Dey 1390, the non-PLS contracts' profit rates for banks' lending operations had been set at 14 percent for loans of up to 2 years maturity and 15 percent for loans of longer term maturity. Given the priorities assigned to financing of the working capital of productive units and the better conformance of non-PLS types of banks' contracts with the financing of the working capital, the decision by MCC on banks' lending rates should be conceived as a right step in facilitating banks' provision of working capital to productive units and a quicker step for the Iranian economy to exit from recession.

According to Article 3 of the Monetary and Credit Policy Package of 1393, the reserve requirement ratios applied to commercial banks were unified at a single rate of 13.5 percent for all types of deposits. The reserve requirement ratios for specialized banks and banks' branches in free economic zones remained unchanged. Meanwhile, as an incentive for the increase in banks' Gharz-al-hasaneh resources and considering the unification of reserve requirement ratios, reserve requirement ratio on Gharz-al-hasaneh savings deposits held with banks and credit institutions was determined at 10.0 percent. Moreover, banks' keeping of up to 2.0 percentage points cash as reserve requirement of the Central Bank[2] was a major revised item in this package which was approved by the MCC.

Other important decisions by MCC as per the Monetary and Credit Policy Package in 1393 included:

- Authorization of CBI for approval of conditions on issuance of general and special Certificates of Deposit (CDs);

- Setting the lending rate on housing purchase for facilities extended under "priority rights of housing" certificates and the Housing Savings Fund at 16 and 14 percent, respectively;

- Setting the profit rate on participation papers issued by public companies, municipalities, and the government at 22 percent;

- Setting the ban on repurchase of participation papers issued by banks prior to maturity and transaction of these papers in the secondary market.

[1] Subject of 1179th Meeting of MCC on Tir 3, 1393.

[2] Subject of Circular No. MB/2412 dated Shahrivar 28, 1387.

Despite the agreement reached between banks and credit institutions, also approved in the Monetary and Credit Policy Package in 1393, some banks breached the law on observing certain ceiling rates and entered an unhealthy contest, which was originally started by unlicensed financial institutions and led to the outflow of banks' resources in months Aban and Azar. Therefore, CBI, in a session with bank managers in Azar 1393, announced that banks are resolutely required to observe the determined ceilings for the return of discipline to the money market; a measure which was welcome by banks. On this basis, CBI allowed the rise in profit rates of two types of short-term deposits[1] with the aim of raising the attractiveness of short-term money market instruments and mobilizing banking resources.

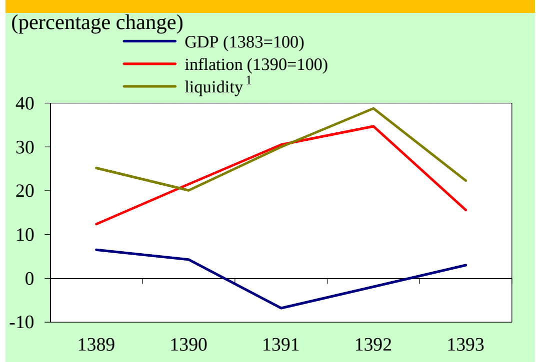
Banking System[2] Performance

Banking system assets and liabilities grew by 15.3 percent to Rls. 18,518.4 trillion in 1393. On the assets side, 27.4 percent growth in "other assets" (Rls. 1,228.4 trillion increase) was the main contributing factor. "Claims on non-public sector" (including profit and revenue receivables) with 16.7 percent growth (Rls. 900.8 trillion increase) and "claims on public sector" with 32.1 percent growth (Rls. 356.5 trillion increase) were the other contributing factors. On the liabilities side, 22.3 percent increase of "liquidity" (Rls. 1,428.3 trillion rise) and 15.1 percent growth of "other liabilities" (Rls. 905.4 trillion rise), including capital account of the banking system, imports order registration deposit by non-public sector, and advance payments on public sector's L/Cs, were the major factors contributing to banks' liabilities.

Banking System and External Sector

In 1393, net foreign assets of the banking system decreased by about 0.4 percent (Rls. 7.4 trillion) to Rls. 2,026.7 trillion. This was attributable to decrease in net foreign assets of the Central Bank by about Rls. 93.5 trillion, along with a rise in net foreign assets of public and private banks as well as non-bank credit institutions by Rls. 86.1 trillion. Decline in net foreign assets of the Central Bank was due to higher foreign exchange sales by the Central Bank than its purchase, leading to Central Bank's being a net seller of foreign exchange in 1393. Moreover, increase in net foreign assets of banks and non-bank credit institutions was attributable to the fall in their foreign assets by Rls. 133.6 trillion and decrease in their foreign liabilities by Rls. 219.7 trillion.

Figure 13.1. Major economic variables



[1] In 1392, the homogenous growth figure for liquidity, comparable with previous years' figure, was 25.9 percent.

Banking System and Public Sector

Banking system net claims on the public sector experienced an increase of Rls. 211.9

[1] Profit rate on short-term 6 to less than 9-month deposits increased from 16 to 18 percent and on short-term 9-month to less than a year deposits, from 18 to 20 percent (subject of Circular No. 93/260243 dated Azar 29, 1393).

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

trillion compared with 1392 and reached Rls. 695.8 trillion. In 1393, Central Bank's claims on public sector increased by 21.6 percent (Rls. 75.7 trillion), which was due to 16.0 percent growth in CBI claims on the government and 26.3 percent rise in public corporations' and institutions' indebtedness to CBI. Of total Central Bank's claims on the government, Rls. 39.2 trillion (21.4 percent) was due to deficit in foreign exchange obligations account. In 1393, public sector's deposits with the Central Bank increased by 26.1 percent (Rls. 81.2 trillion), mainly attributable to the increase in government's deposits with the Central Bank by Rls. 71.1 trillion and public corporations' and institutions' deposits with the Central Bank by Rls. 10.1 trillion.

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

	1392	1393
Public sector	**-18.6**	**211.9**
Central Bank	-7.2	-5.5
Commercial and specialized banks (public)	-13.0	172.4
Private banks and non-bank credit institutions	1.6	45.0
Government	**-16.9**	**167.4**
Central Bank [1]	-2.9	-45.8
Commercial and specialized banks (public)	-11.6	164.4
Private banks and non-bank credit institutions	-2.4	48.8
Public corporations and institutions	**-1.7**	**44.5**
Central Bank	-4.3	40.3
Commercial and specialized banks (public) [2]	-1.4	8.0
Private banks and non-bank credit institutions	4.0	-3.8

[1] Includes deficit in foreign exchange obligations account.

[2] Includes indebtedness for exchange rate differentials.

Table 13.2. Major Items in Assets and Liabilities of the Banking System[1] (trillion rials)

	Year-end balance			Percentage change	
	1391	1392	1393	1392	1393
Assets	**10,315.0**	**16,054.3**	**18,518.4**	**55.6**	**15.3**
Foreign assets	2,273.6	5,056.9	5,035.3	122.4	-0.4
Central Bank	1,286.2	3,014.2	3,126.2	134.3	3.7
Public banks [2]	396.0	707.6	665.9	78.7	-5.9
Private banks and non-bank credit institutions [3]	591.4	1,335.1	1,243.2	125.8	-6.9
Claims on public sector	910.4	1,109.5	1,466.0	21.9	32.1
Claims on non-public sector	4,139.0	5,408.2	6,309.0	30.7	16.7
Others	2,992.0	4,479.7	5,708.1	49.7	27.4
Liabilities	**10,315.0**	**16,054.3**	**18,518.4**	**55.6**	**15.3**
Liquidity	4,606.9	6,395.5	7,823.8	38.8	22.3
Loans and deposits of public sector	407.8	625.6	770.2	53.4	23.1
Foreign liabilities	1,373.9	3,022.8	3,008.6	120.0	-0.5
Central Bank	517.1	1,336.0	1,541.5	158.4	15.4
Public banks [2]	323.3	530.8	439.9	64.2	-17.1
Private banks and non-bank credit institutions [3]	533.5	1,156.0	1,027.2	116.7	-11.1
Others [4]	3,926.4	6,010.4	6,915.8	53.1	15.1

[1] Excludes below-the-line items.

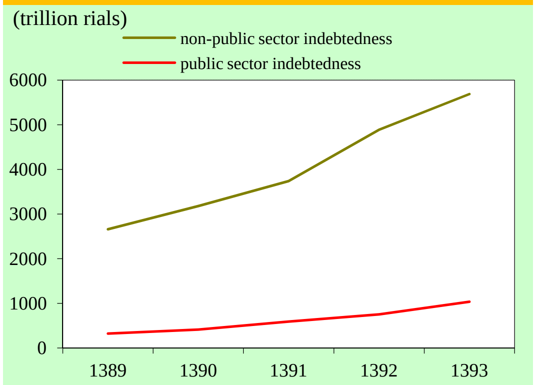
[2] Figures for Gharz-al-hasaneh Mehr Iran Bank were added to private banks' data in 1392 and excluded from specialized banks' category.

[3] 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). It is important to note that there is a time gap between banks' and credit institutions' receiving of a license from CBI and forwarding of their standard general ledgers to CBI for inclusion in monetary and banking data. For instance, Ghavamin Bank received work license in 1390; however, standard data of this bank were sent to CBI in 1392.

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

Public sector indebtedness to banks and non-bank credit institutions surged by 37.0 percent (Rls. 280.7 trillion). This was mainly attributable to 38.0 percent rise (Rls. 276.5 trillion growth) of banks' and non-bank credit institutions' claims on the government. Government indebtedness to banks and non-bank credit institutions reached Rls. 1,004.8 trillion at end-1393.

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



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

In 1393, outstanding facilities[3] extended by the banking system to non-public sector grew by 16.4 percent (799.2 trillion) to Rls. 5,687.2 trillion. This shows 14.4 percentage points decrease as compared with 30.8 percent growth of the preceding year. This was mainly attributable to higher coverage of financial data related to the 6 banks and 4 credit institutions mentioned earlier, which had led to a rise in facilities extended by the banking system to non-public sector by 30.8 percent in 1392 compared with 1391. Share of outstanding facilities extended by the banking system to non-public sector equaled 84.6 percent of total extended facilities, showing 2.1 percentage points decrease compared with 86.7 percent of 1392.

Outstanding facilities extended by public commercial banks to non-public sector (excluding profit and revenue receivables) increased by 10.8 percent (Rls. 83.5 trillion) to Rls. 853.6 trillion at end-1393. Moreover, outstanding facilities extended by specialized banks to non-public sector grew by 11.7 percent (Rls. 135.7 trillion) to Rls. 1,295.6 trillion. Outstanding facilities extended by private banks and non-bank credit institutions rose 19.6 percent (Rls. 580.0 trillion) to Rls. 3,538.0 trillion at end-1393. Share of private banks and non-bank credit institutions in outstanding facilities extended to

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

(trillion rials)

	Year-end balance			Percentage change		Share (percent)	
	1391	1392	1393	1392	1393	1392	1393
Commercial banks	702.4	770.1	853.6	9.6	10.8	15.8	15.0
Specialized banks	1,014.3	1,159.9	1,295.6	14.4	11.7	23.7	22.8
Private banks and non-bank credit institutions	2,021.4	2,958.0	3,538.0	46.3	19.6	60.5	62.2
Total	**3,738.1**	**4,888.0**	**5,687.2**	**30.8**	**16.4**	**100.0**	**100.0**

[1] Excludes profit and revenue receivables.

[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.

non-public sector rose from 60.5 percent at end-1392 to 62.2 percent in 1393 year-end. Moreover, shares of public commercial banks and specialized banks decreased from 15.8 and 23.7 percent in 1392 to 15.0 and 22.8 percent, respectively, at end-1393.

In 1393, the highest share (44.9 percent) of 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" (28.8 percent), "manufacturing and mining" (16.6 percent), "agriculture" (10.1 percent), and "exports" (-0.4 percent).

Composition of outstanding facilities extended by the banking system to the non-public sector according to Islamic contracts indicates that in 1393, civil partnership and installment sale contracts held the highest shares by 41.9 and 29.4 percent, respectively. It is noteworthy that the share of facilities extended in the framework of direct investment remained the same as in the year before. Shares of installment sale, legal partnership, and forward transactions increased in 1393 while the shares of other contracts were lower than the year before.

Table 13.6. Composition of Outstanding Facilities Extended by Banking System to Non-public Sector by Contracts (percent)

	Banking system	
	1392	1393
Installment sale	27.9	29.4
Mudarabah	2.8	2.5
Civil partnership	42.1	41.9
Gharz-al-hasaneh	5.3	5.1
Hire purchase	0.5	0.4
Forward transactions	0.3	0.4
Legal partnership	3.0	3.1
Direct investment	0.9	0.9
Ju'alah	4.7	4.6
Others [1]	12.5	11.7
Total	**100.0**	**100.0**

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

Table 13.5. Share of Economic Sectors in Increase in Net Outstanding[1] Facilities Extended by Banking System to Non-public Sector (percent)

	1392			1393[2]		
	Public banks	Private banks & non-bank credit institutions	Banking system	Public banks	Private banks & non-bank credit institutions	Banking system
Agriculture	25.8	4.2	10.7	21.3	4.1	10.1
Manufacturing and mining	4.0	24.5	18.3	5.0	22.8	16.6
Construction and housing	53.7	16.4	27.6	43.0	21.1	28.8
Exports	1.5	2.2	2.0	-0.4	-0.3	-0.4
Domestic trade, services, and miscellaneous	15.0	52.7	41.4	31.1	52.3	44.9
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] In calculating the share of change in outstanding facilities extended to various economic sectors in 1393, data of Gharz-al-hasaneh Mehr Iran Bank were excluded from specialized banks' category and included under the classification of private banks.

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 2.0 percentage points from 13.2 percent at end-1392 to 11.2 percent in 1393. This variable declined by 5.2 percentage points for public commercial banks and 2.1 percentage points for private banks and non-bank credit institutions. For specialized banks, this variable remained unchanged.

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

	1392	1393[2]	Change (percentage points)
Commercial banks	16.1	10.9	-5.2
Specialized banks	6.8	6.8	0.0
Private banks and non-bank credit institutions	15.2	13.1	-2.1
Banking system	**13.2**	**11.2**	**-2.0**

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

[2] For the calculation of the ratio of non-current claims to total facilities in 1393, data of Gharz-al-hasaneh Mehr Iran Bank were excluded from specialized banks' category.

In 1393, 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. 296.2 trillion by 1393 year-end, showing Rls. 1.2 trillion rise compared with end-1392.

Total banks' and credit institutions' scheduled facilities amounted to Rls. 126.0 trillion in 1393, of which a sum of Rls. 54.0 trillion (42.9 percent) was related to Gharz-al-hasaneh facilities and the remaining Rls. 72.0 trillion was related to other uses. Of total Rls 54.0 trillion facilities extended in the form of Gharz-al-hasaneh facilities, Rls. 38.5 trillion (71.3 percent) was exclusively allocated as marriage facility and the remaining Rls. 15.5 trillion was extended for the release of needy prisoners, employment of help-seekers of welfare organizations, self-employment projects, home-based businesses, etc. Other scheduled facilities equaled Rls. 72.0 trillion, Rls. 31.0 trillion of which was related to the purchase of domestic wheat and 25.8 trillion was related to Mehr Housing Program[1].

Table 13.8. Banks' Performance on Scheduled Facilities in 1393 (trillion rials)

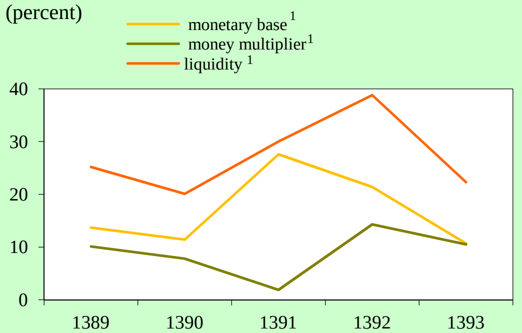
Purposes	Paid facilities in 1393
Gharz-al-hasaneh facilities	**54.0**
Marriage	38.5
Other	15.5
Other scheduled facilities	**72.0**
Purchase of domestic wheat	31.0
Rural housing	3.4
Mehr Housing Program	25.8
Old buildings	2.9
Veterans' Home Facility	8.9
Total	**126.0**

Liquidity

In 1393, liquidity grew by 22.3 percent to Rls. 7,823.8 trillion, down by 16.5 percentage points compared with the liquidity growth of the previous year (38.8 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 higher statistical coverage but not a real rise in liquidity. Therefore, liquidity growth of 1393 (22.3 percent) shows 3.6 percentage points decline compared with the homogenous liquidity growth of 25.9 percent in 1392. One of the factors behind the reduction of liquidity in 1393 was the decline in the monetary base growth in 1392 (16.9 percent homogeneous growth) to 10.7 percent in 1393.

[1] Includes only the performance of the year 1393.

Figure 13.3. Liquidity growth and its determinants



[1] In 1392, the homogenous growth figures for liquidity, money multiplier, and monetary base, comparable with previous years' figures, were 25.9, 7.7, and 16.9 percent.

Table 13.9. Liquidity and its Determinants

	Year-end balance		Percentage change	
	1392	1393	1392	1393
Monetary base (trillion rials)	1,184.9	1,311.5	21.4	10.7
Money multiplier	5.398	5.966	14.3	10.5
Liquidity (trillion rials)	6,395.5	7,823.8	38.8	22.3

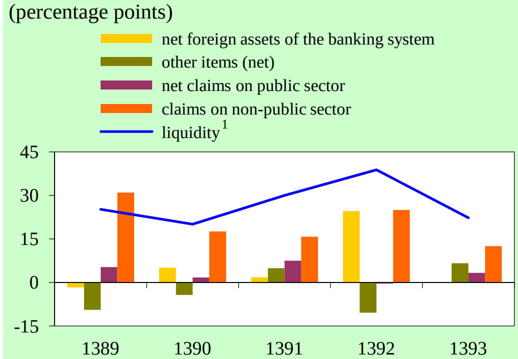
Among the factors affecting liquidity growth in 1393, net domestic assets of the banking system, with 32.9 percent growth compared with the year before, had an increasing share of 22.4 percentage points in raising liquidity. Among net domestic assets, non-public sector indebtedness to banks and non-bank credit institutions (excluding profit and revenue receivables), with 16.4 percent growth and an increasing share of 12.5 percentage points, and other items (net), with 42.3 percent growth and a positive contribution of 6.6 percentage points, were the main factors contributing to liquidity growth. Moreover, net claims of the banking system on public sector had a positive share of 3.3 percentage points in liquidity growth. On the other hand, net foreign assets of the banking system, with about 0.4 percent reduction compared with 1392, had a decreasing share of 0.1 percentage point in liquidity growth.

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

	1392	1393
Net foreign assets of the banking system	**24.6**	**-0.1**
Net domestic assets of the banking system	**14.2**	**22.4**
Banks' claims on public sector (net)	-0.4	3.3
Government	-0.4	2.6
Public corporations	0.0	0.7
Banks' and non-bank credit institutions' claims on non-public sector [1]	25.0	12.5
Other items (net)	-10.4	6.6
Liquidity (percent)	**38.8**	**22.3**

[1] Excludes profit and revenue receivables.

Figure 13.4. Factors affecting liquidity growth



[1] In 1392, the homogenous growth figure for liquidity, comparable with previous years' figure, was 25.9 percent.

Monetary Base

Monetary base grew by 10.7 percent in 1393, showing 10.7 percentage points decrease compared with 21.4[1] percent growth of the previous year. CBI claims on banks, with 42.4 percent growth and an increasing share in the growth of monetary base by 21.6 percentage points was the only important factor behind the rise in monetary

[1] 4.5 percentage points of the 21.4 percent monetary base growth in 1392 was related to higher data coverage of new banks' and credit institutions' statistics in the banking sector data. Hence, the homogenous and comparable growth of monetary base for 1392 has been 16.9 percent.

base, which compared to its 11.7 percentage points positive share in the 21.4 percent growth of monetary base in 1392, indicated 9.9 percentage points increase. The major reason behind the rise in banks' debt to CBI was Rls. 235.1 trillion increase in banks' use of CBI overdraft facility.

CBI net foreign assets decreased by 5.6 percent compared with end-1392 figure and had a decreasing share of 7.9 percentage points in the growth of monetary base. This reduction was attributable to the fact that CBI was a net seller of foreign exchange in 1393.

CBI other items (net), with 2.6 percent decline and a decreasing share of 2.5 percentage points, was another negative factor in the growth of monetary base at end-1393. One of the factors behind the fall in CBI other items (net) was the rise in foreign exchange revaluation reserve.

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

	1392	1393
CBI net foreign assets	93.2	-7.9
CBI net claims on public sector	-0.7	-0.5
CBI claims on banks	11.7	21.6
CBI other items (net)	-82.8	-2.5
Monetary base (percent)	**21.4**	**10.7**

CBI net claims on public sector, with 14.2 percent decrease compared with the previous year-end, had a negative contribution by 0.5 percentage point to the growth of monetary base in 1393.

For liquidity control, in Bahman 1392, CBI issued Rls. 30 trillion worth of participation papers with a maturity of 6 months (maturity date being end of Mordad 1393) and a provisional profit rate of 23 percent, of which a sum of Rls. 21.9 trillion was sold. At the end of Mordad 1393 (maturity and repayment date of the securities), these participation papers were repurchased by CBI, leading to a moderate rise in monetary base supply in Mordad 1393. This operation had 1.8 percentage points contribution to the 10.7 percent growth of monetary base in 1393[1].

Composition of Liquidity

Share of money in liquidity declined from 18.7 percent in 1392 year-end to 15.4 percent at end-1393. Share of quasi-money, however, increased by 3.3 percentage points to 84.6 percent compared with the year before. This was due not only to the attractiveness of such deposit rates for customers as compared to cash, but also to the increasing

Table 13.12. Composition of Liquidity (trillion rials)

	Year-end balance			Percentage change		Share (percent)	
	1391	1392	1393	1392	1393	1392	1393
Money	**1,136.7**	**1,196.0**	**1,207.5**	**5.2**	**1.0**	**18.7**	**15.4**
Notes and coins with the public	330.2	334.1	351.7	1.2	5.3	5.2	4.5
Sight deposits of non-public sector	806.5	861.9	855.9	6.9	-0.7	13.5	10.9
Quasi-money	**3,470.2**	**5,199.5**	**6,616.3**	**49.8**	**27.2**	**81.3**	**84.6**
Gharz-al-hasaneh savings deposits	310.2	338.5	390.9	9.1	15.5	5.3	5.0
Term investment deposits	3,060.0	4,756.9	6,100.9	55.5	28.3	74.4	78.0
Miscellaneous deposits	100.0	104.1	124.5	4.1	19.6	1.6	1.6
Liquidity	**4,606.9**	**6,395.5**	**7,823.8**	**38.8**	**22.3**	**100.0**	**100.0**

[1] Sale of CBI participation papers leads to a rise in CBI other liabilities and hence a decrease in CBI other items (net). This causes the tightening of monetary base. Repurchase of these papers contrarily raises the monetary base.

growth in the use of electronic banking and payment cards, which are connected to short-term deposits.

Share of one-year deposits in total long-term deposits increased by 33.8 percentage points from 23.6 percent in 1392 to 57.4 percent in 1393. On the other hand, share of five-year deposits in total long-term deposits decreased by 27.8 percentage points from 57.0 percent in 1392 to 29.2 percent in 1393, and shares of two-, three-, and four-year deposits decreased from 16.6, 1.7 and 1.1 percent in 1392 to 11.9, 0.9, and 0.6 percent, respectively, in 1393. The agreement concluded between the Coordination Council of Public Banks and the Association of Private Banks and Non-bank Credit Institutions in Ordibehesht, setting a ban on opening deposits with more than one year maturity, was the most important reason behind the fall in the share of long-term deposits of more than one year in 1393.

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

Deposits	Year-end		
	1391	1392	1393
One-year	19.2	23.6	57.4
Two-year	9.9	16.6	11.9
Three-year	2.2	1.7	0.9
Four-year	1.2	1.1	0.6
Five-year	67.5	57.0	29.2

Sources and Uses of Funds of Public Commercial Banks

The value of non-public sector's deposits with public commercial banks grew by 22.8 percent (Rls. 257.2 trillion) in 1393. Deposits of non-public sector held with the public commercial banks included sight deposits, the value of which rose Rls. 8.4 trillion and non-sight deposits whose value increased by Rls. 248.8 trillion. In this year, the amount of non-usable resources of public commercial banks increased by Rls. 25.1 trillion. This was mainly owing to Rls. 20.4 trillion rise of reserve requirement and Rls. 4.7 trillion increase in notes and coins kept with commercial banks. Moreover, balance of capital account of public commercial banks decreased by Rls. 64.4 trillion while public sector's deposits and funds rose by Rls. 21.8 trillion. Accordingly, non-public sector indebtedness[1] and public sector indebtedness[2] rose Rls. 83.5 trillion and Rls. 78.6 trillion, respectively.

Sources and Uses of Funds of Specialized Banks

In 1393, non-public sector's deposits held with specialized banks increased by Rls. 174.3 trillion. The value of sight deposits increased by Rls. 14.5 trillion, and that of non-sight deposits (mainly one-year deposits) rose by Rls. 159.8 trillion. In this year, the amount of non-usable resources of specialized banks increased by Rls. 17.2 trillion, resulting from Rls. 15.9 trillion rise in reserve requirement and increase in the value of notes and coins kept with specialized banks by Rls. 1.3 trillion. Free resources out of non-public sector's deposits held with specialized banks increased by Rls. 157.1 trillion. 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. 270.1 trillion. This included rise in non-public sector's debt to specialized banks by Rls. 135.7 trillion and increase in public sector's debt to specialized banks by Rls. 134.4 trillion. CBI claims on specialized banks grew by 2.1 percent (Rls. 11.3 trillion) to Rls. 559.0 trillion.

[1] Excludes profit and revenue receivables.

[2] The sources and uses of funds' data, both in tables and in the text, exclude government participation papers. Hence, the figure for public sector indebtedness is different from the figure in the table on summary of assets and liabilities of banks.

Sources and Uses of Funds of Private Banks and Non-bank Credit Institutions[1]

Non-public sector's deposits with private banks and non-bank credit institutions increased by 22.5 percent (Rls. 979.3 trillion) in 1393. In this regard, the value of non-sight deposits increased by Rls. 1,008.2 trillion while that of sight deposits decreased by Rls. 28.9 trillion. Non-usable resources of private banks and non-bank credit institutions went up by Rls. 142.6 trillion in this year, due to Rls. 136.2 trillion rise in reserve requirement and Rls. 6.4 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 by Rls. 19.0 trillion and public sector's deposits and funds kept with private banks and non-bank credit institutions increased by Rls. 26.8 trillion. Therefore, private banks' and non-bank credit institutions' claims on non-public sector grew by Rls. 585.4 trillion and public sector's debt rose by Rls. 95.9 trillion.

Banking Units and Personnel

The number of banking units, including branches and counters in both domestic offices and representative offices abroad, decreased by 1.4 percent to 22,574 in 1393. A total of 22,529 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 14.8 and 13.7 percent, respectively.

In 1393, the number of banking system employees decreased by 0.04 percent to 220,736 persons. In this year, the number of employees in public commercial banks decreased by 0.3 percent and in private banks and non-bank credit institutions, by 0.5 percent. The number of employees in public specialized banks grew by 2.3 percent. The number of employees in the Iranian banking sector was 9.8 persons in each banking unit, on average, showing a slight increase compared with the year before (9.6 persons). Furthermore, the ratio of total population to each domestic banking unit went up by 89 persons and reached 3,456 persons in this year, compared with 3,367 persons in 1392.

Banking Sector Developments

The major developments in the banking sector in 1393 were as follows:

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

- Formulation and announcement of "Guideline on Banks' Letters of Guarantee (LGs) in rial";

Table 13.14. Number of Banking Units[1]

	1392	1393
Domestic branches	**22,851**	**22,529**
Commercial banks	5,552	5,516
Specialized banks	3,798	3,837
All private banks and non-bank credit institutions	13,501	13,176
Foreign branches	**43**	**45**
Total	**22,894**	**22,574**

[1] Excludes representative offices.

[1]Includes banks, subject of Article 44 of the Constitution.

- Formulation and announcement of "Rules Governing Transparency Standards and Public Data Dissemination by Non-bank Credit Institutions";

- Formulation and announcement of "unified form of housing installment sale contracts, installment sale of manufacturing tools, machinery, transport vehicles, domestically-manufactured consumer durables, installations, raw materials, spare parts, and Gharz-al-hasaneh installment sale contracts";

- Formulation and announcement of "Executive Guideline on Syndicated Loans";

- Formulation and announcement of "Sample Articles of Association for Non-bank Credit Institutions".

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

- Coordination in formulation of the "Draft Bill of Combating Financing of Terrorism" with due consideration of its impact on removing Iran from the blacklist of FATF known as "High-risk and Non-cooperative Jurisdictions";

- Reviewing the sources of financing the initial capital and the means of raising the capital of banks and credit institutions, based on the Approval of the Supreme National Security Council;

- Reviewing the sources of financing the initial capital and the means of raising the capital of insurance companies based on High Council's Approval on Anti-money Laundering;

- Conducting comprehensive supervision on banks to ensure proper performance in terms of observation of AML regulations;

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

- Responding to enquiries made by supervisory institutions;

- Supervising the implementation of anti-money laundering software in banks;

- Confirming and implementing the project formulated by banks' financial data center;

- Planning educational courses on AML Law aimed at training instructors to constantly train bank employees in this regard.

Section Three- Bank Licensing[1]

In implementation of the Monetary and Banking Law of Iran and for the rationalization of the unorganized money market, subject of "Law on Regulation of Unorganized Money Market", as well as Article 96 of the 5th FYDP Law, Central Bank issued operation licenses for Ayandeh Bank, 10 credit cooperatives, 3 Gharz-al-hasaneh Funds, 26 money exchanges, and 6 leasing companies. Meanwhile, CBI renewed the work permits for 122 institutions (including 92 credit cooperatives, 18 money exchanges, and 12 leasing companies). Licenses of 9 money exchanges were also cancelled due to the violation of laws and regulations.

[1] There is a time gap between CBI granting of licenses to banks and credit institutions and forwarding of the general ledgers by these institutions to CBI, for inclusion in the monetary and banking data.

Table 13.15. Number of Issued and Cancelled Banks' and Credit Institutions' Licenses in 1393

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

[1] Includes Ayandeh Bank.

Table 13.16. Number of Licenses Issued, Renewed, and Cancelled for Institutions Active in Unorganized Money Market in 1393

	Initial licenses		Renewed licenses	Total	Cancelled/ Suspended licenses
	Established	Reorganized			
Credit cooperatives	0	10	92	102	0
Gharz-al-hasaneh Funds	3	0	0	3	0
Leasing companies	4	2	12	18	0
Money exchanges	6	20	18	44	9
Total	**13**	**32**	**122**	**167**	**9**