CHAPTER 13

MONETARY AND BANKING POLICY AND PERFORMANCE

Key Aspects of Monetary Policy in 1394

Despite the sharp reduction of inflation rate in 1393 year-end and the ensuing expectations for its further decline, banks' deposit rates were not adjusted accordingly. This could be mainly attributed to banks' credit constraints which ultimately led to the stickiness of profit rates. High volume of non-performing loans in banks' portfolios, high levels of public sector debt which may not be repaid in due time, and freezing of part of banks' assets due to weaknesses in the assets and housing markets are responsible for credit crunch in the banking system, leading to the deterioration of bank balance sheets and manifesting itself in high deposit and lending rates. In simple words, high profit rates of the present period are the result of the current banking system conditions. Consequently, the CBI focused its policies on the non-administrative and gradual reduction of profit rates, mainly through the utilization of the capacity of the interbank money market.

Commensurate with the macroeconomic policy requirements, the Central Bank revised its monetary policy in spring 1394, considering inflation containment targets and productive sectors' demand for loans as the utmost priorities for monetary policy. CBI's revised monetary policy recommended to the Money and Credit Council was approved in the 1198th Meeting of the MCC held on Ordibehesht 8, 1394. On this basis, banks' deposit rates were reduced from 22.0 percent to 20.0 percent, rate of return on non-PLS contracts decreased from 22.0 percent to 21.0 percent, the profit rate on PLS contracts was set at a maximum rate of 24.0 percent, and the reserve requirement ratio of commercial banks was reduced from 13.5 percent to 13.0 percent. In implementation of these approved measures, CBI adopted a gradual and non-administrative approach to adjusting deposit rates, with a view to its ramifications for the real sector of the economy.

In line with Note 2, Article 3 of the mentioned MCC Approval, CBI adopted a set of supplementary measures to resolve banks' liquidity problems and pave the way for the reduction of banks' lending rates. Certain policy measures were adopted and introduced in restructuring banks' debt to CBI. Providing the banks with the option to use CBI lines of credit and contracts for the current account at reasonable rates, instead of banks' utilizing CBI overdraft facility, and strengthening the interbank money market through the incentive structures aimed at encouraging banks to make deposits in this market were amongst the measures adopted by the Central Bank.

The negative impact of oil shock on GDP growth shaped concerns regarding the deceleration of economic growth in 1394.

Therefore, the government's team of economic experts designed the Package of Monetary and Credit Policy with the aim of stimulating economic growth. This package was submitted to the MCC for approval and the Council approved this Package in its 1208th Meeting on Mehr 28, 1394. Based on Paragraph (3) in this Approval, the CBI, while constantly monitoring inflation, was made authorized to intervene in the interbank market and take measures to develop it, provide resources to banks to resolve their liquidity problems, and adjust banking deposit rates with regard to inflation. These measures were aimed at stimulating the real sector of the economy, supporting domestic producers, promoting competition among domestic producers to facilitate sales of their inventories, removing financial bottlenecks, and gradually reducing banks' profit rates. The items contained in Paragraph (3) are as follows:

- The legal reserve requirement ratio for deposits held with commercial banks and non-bank credit institutions is set within a range of 10.0 to 13.0 percent. The Central Bank is obligated to set the reserve requirement ratio for banks and non-bank credit institutions, commensurate with the MCC approved measures. The ratios determined by the Central Bank should be revised every three months, considering the performance of banks and non-bank credit institutions in terms of observing the relevant regulations.

- Other approved measures of MCC regarding the reserve requirement ratios of banks and non-bank credit institutions remain in effect.

- Banks and non-bank credit institutions shall be authorized to purchase commercial papers related to the sales of agricultural machinery (tractors and combines) by the manufacturer at a price of Rls. 250 million (at most 80 percent of the value of the machine) at a maximum maturity period of seven years and at a rate of 16.0 percent. The Central Bank will provide the required credit to banks and non-bank credit institutions at a rate of 14.0 percent.

- Extension of facilities by banks and non-bank credit institutions to manufacturing units through debt purchase facilities (installment sale contracts) at an annual profit rate of 16.0 percent (the Central Bank will fund this project at a rate of 14.0 percent).

- Extension of facilities for the purchase of consumer durables by credit cards (based on Murabaha contracts) to fixed-income parties, up to Rls. 100 million and with a maximum repayment period of two years.

- CBI will put in place a stimulative package for the support of the interbank money market and domestic production. This package will include provision of credit to banks and non-bank credit institutions with a maximum repayment period of seven years as well as CBI deposits in these institutions. These measures would help to gradually decrease banks' deposit rates.

The above-said measures, along with the approaches taken to penalize non-compliant banks and credit institutions, led to the reduction in the profit rate of transactions concluded in the interbank market from about 29 percent at the beginning of the year to almost 19 percent at end-1394.

Upon the reasonable reduction of profit rates in the interbank market and the CBI declaration of Circular on banking deposit rates, banking authorities reached a consensus on adjusting the provisional profit rate of deposits held with their banks. Therefore, "Coordination Council of Public Banks" and "Association of Private Banks and Non-bank Credit Institutions", in a session held in

Bahman 1394, determined the profit on one-year deposits at a maximum rate of 18.0 percent and the profit on deposits of three months and less, at a maximum rate of 10.0 percent. Accordingly, the MCC, through its 1215th Meeting held on Bahman 27, 1394, confirmed banks' decision on new deposit rates and approved the decision on the reduction of banks' lending rates as well. On this basis, the maximum lending rate on non-PLS contracts was reduced from 21.0 percent to 20.0 percent and the maximum expected profit rate on PLS contracts (concluded between banks and their clients) decreased from 24.0 percent to 22.0 percent.

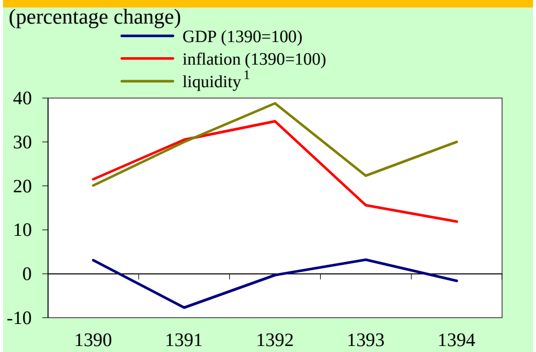
Banking System[1] Performance

Banking system assets and liabilities grew by 22.0 percent to Rls. 22,591.7 trillion in 1394. On the assets side, 16.7 percent growth (Rls. 1,053.2 trillion increase) in claims on non-public sector (including profit and revenue receivables) was the main contributing factor. Foreign assets, with 15.6 percent growth (Rls. 787.7 trillion increase), were the second contributing factor to the increase in banking system assets. On the liabilities side, 30.0 percent rise of liquidity (Rls. 2,349.0 trillion increase) was the major factor contributing to the rise of banks' liabilities.

Banking System and External Sector

In 1394, net foreign assets of the banking system increased by about 21.6 percent (Rls. 437.6 trillion) to Rls. 2,464.3 trillion. This was attributable to the increase in net foreign assets of the Central Bank by about Rls. 351.7 trillion, along with a rise in net foreign assets of public and private banks as well as non-bank credit institutions by Rls. 85.9 trillion. Rise in net foreign assets of the Central Bank was due to Rls. 391.3 trillion increase in CBI foreign assets and Rls. 39.6 trillion growth in CBI foreign liabilities. Increase in net foreign assets of banks and non-bank credit institutions was attributable to the rise in their foreign assets by Rls. 396.4 trillion and increase in their foreign liabilities by Rls. 310.5 trillion.

Figure 13.1. Major economic variables



[1] In 1392, the homogenous growth figure for liquidity, comparable with corresponding figures of previous and coming years, was 25.9 percent.

Banking System and Public Sector

Banking system net claims on the public sector experienced an increase of Rls. 407.2 trillion compared with 1393 and reached Rls. 1,103.1 trillion. In 1394, Central Bank's claims on public sector increased by 22.2 percent (Rls. 94.6 trillion), which was due to 33.0 percent growth in CBI claims on the government and 14.1 percent rise in public corporations' and institutions' indebtedness to CBI. Of total Central Bank's claims on the government, Rls. 39.2 trillion (16.1 percent) was due to the deficit in foreign exchange obligations account. In 1394, public sector's deposits with the Central Bank decreased by

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

13.8 percent (Rls. 54.3 trillion), mainly attributable to the decrease in government's deposits with the Central Bank by Rls. 54.8 trillion and increase in public corporations' and institutions' deposits with the Central Bank by Rls. 0.5 trillion.

Table 13.1. Major Items in Assets and Liabilities of the Banking System[1] (trillion rials)

	Year-end balance			Percentage change	
	1392	1393	1394	1393	1394
Assets	**16,054.3**	**18,518.4**	**22,591.7**	**15.3**	**22.0**
Foreign assets	5,056.9	5,035.3	5,823.0	-0.4	15.6
Central Bank	3,014.2	3,126.2	3,517.5	3.7	12.5
Public banks[2]	707.6	665.9	854.7	-5.9	28.4
Private banks and non-bank credit institutions[3]	1,335.1	1,243.2	1,450.8	-6.9	16.7
Claims on public sector	1,109.5	1,466.0	1,738.6	32.1	18.6
Claims on non-public sector	5,408.2	6,309.0	7,362.2	16.7	16.7
Others	4,479.7	5,708.1	7,667.9	27.4	34.3
Liabilities	**16,054.3**	**18,518.4**	**22,591.7**	**15.3**	**22.0**
Liquidity	6,395.5	7,823.8	10,172.8	22.3	30.0
Loans and deposits of public sector	625.6	770.2	635.5	23.1	-17.5
Foreign liabilities	3,022.8	3,008.6	3,358.7	-0.5	11.6
Central Bank	1,336.0	1,541.5	1,581.1	15.4	2.6
Public banks[2]	530.8	439.9	574.7	-17.1	30.6
Private banks and non-bank credit institutions[3]	1,156.0	1,027.2	1,202.9	-11.1	17.1
Others[4]	6,010.4	6,915.8	8,424.7	15.1	21.8

[1] Excludes below-the-line items.

[2] As of 1392, Gharz-al-hasaneh Mehr Iran Bank was excluded from specialized banks' category to be included under the classification of private banks.

[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 Salehin Finance and Credit Institution and Pishgaman Finance and Credit Institution (Ati) (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 the forwarding of their standard general ledgers to CBI for inclusion in monetary and banking data. For instance, Ghavamin Bank received its work license in 1390; however, the standard data of this bank were sent to CBI in 1392.

[4] Includes capital account of the banking system and advance payments on public sector's L/Cs.

Table 13.2. Change in Net Claims of Banking System on Public Sector (trillion rials)

	1393	1394
Public sector	**211.9**	**407.2**
Central Bank	-5.5	148.9
Commercial and specialized banks (public)	172.4	109.6
Private banks and non-bank credit institutions	45.0	148.7
Government	**167.4**	**382.1**
Central Bank[1]	-45.8	115.3
Commercial and specialized banks (public)	164.4	119.7
Private banks and non-bank credit institutions	48.8	147.1
Public corporations and institutions	**44.5**	**25.1**
Central Bank	40.3	33.6
Commercial and specialized banks (public)[2]	8.0	-10.1
Private banks and non-bank credit institutions	-3.8	1.6

[1] Includes the deficit in foreign exchange obligations account.

[2] Includes indebtedness for the exchange rate differential.

Public sector indebtedness to banks and non-bank credit institutions surged by 17.1 percent (Rls. 178.0 trillion), mainly due to 18.6 percent rise (Rls. 186.5 trillion growth) of banks' and non-bank credit institutions' claims on the government. Government indebtedness to banks and non-bank credit institutions reached Rls. 1,191.3 trillion at end-1394.

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

In 1394, the outstanding facilities[3] extended by the banking system to the non-public sector grew by 17.0 percent (968.1 trillion) to Rls. 6,655.3 trillion. This shows 0.6 percentage points increase as compared with 16.4 percent growth in 1393. The share of the outstanding facilities extended by the banking system to the non-public sector equaled 84.6 percent of total extended facilities, remaining unchanged compared with the respective figure of 1393 (84.6 percent).

The outstanding facilities extended by public commercial banks to non-public sector (excluding profit and revenue receivables) rose by 20.3 percent (Rls. 173.0 trillion) to reach Rls. 1,026.6 trillion at end-1394. Moreover, the outstanding facilities extended by specialized banks to the non-public sector grew by 12.7 percent (Rls. 164.7 trillion) and by private banks and non-bank credit institutions, by 17.8 percent (Rls. 630.4 trillion), totaling respectively Rls. 1,460.3 trillion and Rls. 4,168.4 trillion.

In 1394, the highest share (65.3 percent) of the increase in net outstanding facilities extended by the banking system to the non-public sector belonged to "domestic trade, services, and miscellaneous" sector, followed by "manufacturing and mining" by 17.1 percent, "construction and housing" by 12.5 percent, and "agriculture" by 6.2 percent.

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

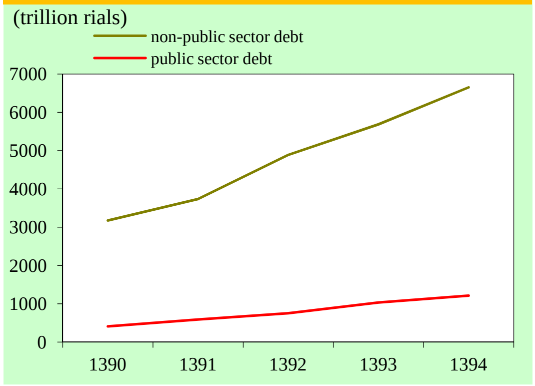


Table 13.3. Facilities Extended by Banking System to Non-public Sector[1] (trillion rials)

	Year-end balance			Percentage change		Share (percent)	
	1392	1393	1394	1393	1394	1393	1394
Public commercial banks	770.1	853.6	1,026.6	10.8	20.3	15.0	15.4
Specialized banks	1,159.9	1,295.6	1,460.3	11.7	12.7	22.8	22.0
Private banks and non-bank credit institutions	2,958.0	3,538.0	4,168.4	19.6	17.8	62.2	62.6
Total	**4,888.0**	**5,687.2**	**6,655.3**	**16.4**	**17.0**	**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.

Composition of the outstanding facilities extended by the banking system to the non-public sector according to Islamic contracts indicates that civil partnership and installment sale contracts held the highest shares by respectively 44.0 and 24.7 percent in 1394. Moreover, the share of facilities extended in the form of forward transactions remained the same as in the year before. The shares of civil partnership, legal partnership, and direct investment contracts increased in 1394 while the shares of other contracts were lower than 1393. Meanwhile, as of Tir 1394, data on "Murabaha" and "Istisna" contracts were added to the data on Islamic contracts.

Table 13.4. Share of Economic Sectors in Increase in Net Outstanding[1] Facilities Extended by Banking System to Non-public Sector (percent)

	1393[2]			1394		
	Public banks	Private banks & non-bank credit institutions	Banking system	Public banks	Private banks & non-bank credit institutions	Banking system
Agriculture	21.3	4.1	10.1	16.9	1.3	6.2
Manufacturing and mining	5.0	22.8	16.6	13.9	18.6	17.1
Construction and housing	43.0	21.1	28.8	24.4	7.1	12.5
Exports	-0.4	-0.3	-0.4	-0.5	-1.3	-1.1
Domestic trade, services, and miscellaneous	31.1	52.3	44.9	45.3	74.3	65.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[1] Net outstanding facilities are calculated after deduction of outstanding debts of customers and extended facilities related to the exchange rate differential, 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 to be included under the classification of private banks.

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

	Banking system	
	1393	1394
Installment sale	29.4	24.7
Mudarabah	2.5	2.3
Civil partnership	41.9	44.0
Gharz-al-hasaneh	5.1	5.0
Hire purchase	0.4	0.2
Forward transactions	0.4	0.4
Legal partnership	3.1	3.4
Direct investment	0.9	1.1
Ju'alah	4.6	4.2
Murabaha[1]	..	3.7
Others[2]	11.7	11.0
Total	**100.0**	**100.0**

[1] Executive Guideline on Murabaha contracts was declared to the banking system in 1390 based on Circular No. 90/141696 dated Shahrivar 20, 1390. However, the data on this type of contract were added to the banking system data as of Tir 1394. Due to the significance of this type of contract for the Iranian banking system as well as some ambiguities in the relevant Guideline declared in 1390, the mentioned Guideline was revised in 1394 and later approved by the MCC through its 1213th Meeting on Dey 29. Accordingly, Banking Studies and Regulations Department of CBI declared the mentioned Approval to the banking system through Circular No. 94/347278 dated Bahman 27, 1394.

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

The ratio of overdue and non-performing loans to total rial facilities extended by banks and non-bank credit institutions to public and non-public sectors decreased by 1.5 percentage points from 11.2 percent at end-1393 to 9.7 percent in 1394. This variable declined by 2.1 percentage points for public commercial banks, private banks, and non-bank credit institutions and rose by 0.4 percentage point for specialized banks.

In 1394, total banks' and credit institutions' scheduled facilities amounted to Rls. 130.7 trillion, of which a sum of Rls. 40.3 trillion (30.8 percent) was related to Gharz-al-hasaneh facilities and the remaining Rls. 90.4 trillion was related to other uses. Of total Rls. 40.3 trillion facilities extended in the form of Gharz-al-hasaneh facilities, Rls. 24.6 trillion (61.0 percent) was exclusively allocated as marriage facility and the remaining Rls. 15.7 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. 90.4 trillion, Rls. 51.0 trillion of which was related to the purchase of domestic wheat and Rls. 23.9 trillion was related to Mehr Housing Program[1].

Table 13.7. Banks' Performance on Scheduled Facilities in 1394 (trillion rials)

Purposes	Paid facilities in 1394
Gharz-al-hasaneh facilities	**40.3**
Marriage	24.6
Other	15.7
Other scheduled facilities	**90.4**
Purchase of domestic wheat	51.0
Rural housing	4.6
Mehr Housing Program	23.9
Old buildings	3.7
Veterans' Home Facility	7.2
Total	**130.7**

Liquidity

In 1394, liquidity grew by 30.0 percent to Rls. 10,172.8 trillion, up by 7.7 percentage points compared with the liquidity growth of the previous year (22.3 percent). This was mainly attributable to the increase in the growth rate of monetary base from 10.7 percent in 1393 to 16.9 percent in 1394. Rise in the monetary base in 1394 mainly occurred as a result of the increase in net foreign assets of the Central Bank as well as the rise in CBI net claims on the public sector. Money multiplier increased by 11.2 percent compared with the year before and reached 6.633 in 1394.

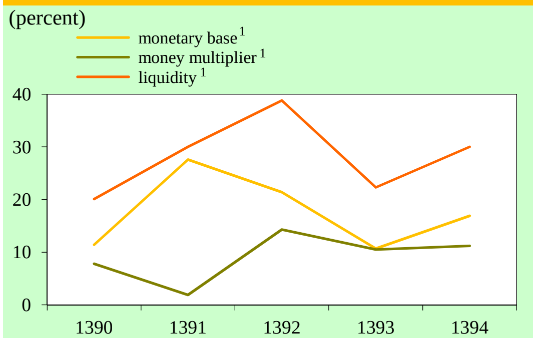
Table 13.6. Ratio of Overdue, Non-performing, and Doubtful (Non-current) Claims to Total Facilities Extended by Banking System (in rials)[1] (percent)

	1393[2]	1394	Change (percentage points)
Public commercial banks	10.9	8.8	-2.1
Specialized banks	6.8	7.2	0.4
Private banks and non-bank credit institutions	13.1	11.0	-2.1
Banking system	**11.2**	**9.7**	**-1.5**

[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 to be included under the classification of private banks.

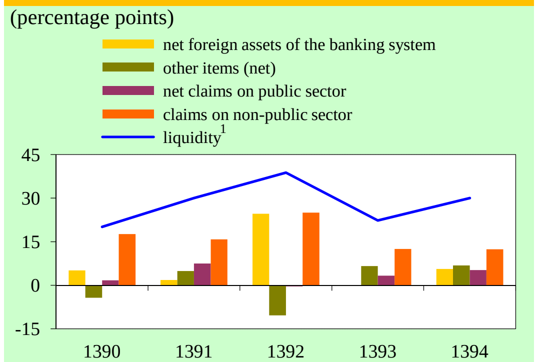
[1] Includes only the performance of the year 1394.

Figure 13.3. Liquidity growth and its determinants



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

Figure 13.4. Factors affecting liquidity growth



[1] In 1392, the homogenous growth figure for liquidity, comparable with corresponding figures of previous and coming years, was 25.9 percent.

Table 13.8. Liquidity and its Determinants

	Year-end balance		Percentage change	
	1393	1394	1393	1394
Monetary base (trillion rials)	1,311.5	1,533.6	10.7	16.9
Money multiplier	5.966	6.633	10.5	11.2
Liquidity (trillion rials)	7,823.8	10,172.8	22.3	30.0

Among the factors affecting liquidity growth in 1394, net domestic assets of the banking system, with 33.0 percent growth compared with 1393, had an increasing share of 24.4 percentage points in raising liquidity. Among the items of net domestic assets, non-public sector indebtedness to banks and non-bank credit institutions (excluding profit and revenue receivables), with 17.0 percent growth and an increasing share of 12.4 percentage points, and other items (net), with 92.1 percent growth and a positive contribution of 6.8 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 5.2 percentage points in liquidity growth. Net foreign assets of the banking system, with 21.6 percent rise compared with 1393, had a positive share of 5.6 percentage points in liquidity growth.

Table 13.9. Contribution of Factors Affecting Liquidity Growth (percentage points)

	1393	1394
Net foreign assets of the banking system	**-0.1**	**5.6**
Net domestic assets of the banking system	**22.4**	**24.4**
Banks' claims on public sector (net)	3.3	5.2
Government	2.6	4.9
Public corporations	0.7	0.3
Banks' and non-bank credit institutions' claims on non-public sector[1]	12.5	12.4
Other items (net)	6.6	6.8
Liquidity (percent)	**22.3**	**30.0**

[1] Excludes profit and revenue receivables.

Monetary Base

Monetary base grew by 16.9 percent in 1394, showing 6.2 percentage points increase compared with 10.7 percent growth of the previous year. CBI net foreign assets, with 22.2 percent growth and an increasing share of 26.8 percentage points in the growth of monetary base, was the most important factor behind the rise in monetary base. Rise in net foreign assets of the Central Bank was mainly attributable to the increase in the exchange rate used for the revaluation of CBI foreign assets and liabilities and the surplus resulted from revaluation of net foreign assets.

It is important to note that CBI net claims on the public sector, with 447.1 percent growth compared with the year before and an increasing share of 11.4 percentage points, was the second most contributing factor to the increase of the monetary base in 1394.

CBI other items (net), with 22.1 percent decline and a decreasing share of 19.6 percentage points, was another negative factor in the growth of monetary base at end-1394. One of the factors behind the fall in CBI other items (net) in Esfand 1394 was the rise in foreign exchange revaluation reserve. Excluding the revaluation reserve account of foreign assets and liabilities from the monetary base, the share of CBI other items (net) in monetary base would increase from -19.6 percentage points to -8.8 percentage points.

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

	1393	1394
CBI net foreign assets	-7.9	26.8
CBI net claims on public sector	-0.5	11.4
CBI claims on banks	21.6	-1.7
CBI other items (net)	-2.5	-19.6
Monetary base (percent)	**10.7**	**16.9**

CBI claims on banks, with 2.5 percent decrease compared with the previous year-end and a negative contribution of 1.7 percentage points to the growth of monetary base, was another factor responsible for the reduction of monetary base. This variable, compared with its 21.6 percentage points increasing share in the 10.7 percent growth of the monetary base in 1393, indicates 23.3 percentage points decrease in 1394. The CBI adopted effective measures in 1394 for the reduction of banks' debt to the CBI. One of the most important approaches taken by the CBI in this regard, which had a great impact on the decrease in the share of banks' debt in monetary base growth, was the launching of CHAKAVAK (Electronic System for Checks Image Transfer and Clearance), through which banks' overdraft from CBI account was minimized. This, coupled with the use of reserve requirement reduction as a bonus to non-compliant banks, led to Rls. 21.7 trillion reduction in banks' debt to the CBI from Rls. 858.0 trillion in 1393 to Rls. 836.3 trillion in 1394 year-end.

Composition of Liquidity

The share of money in liquidity declined from 15.4 percent at end-1393 to 13.4 percent in 1394 year-end. The share of quasi-money, however, increased by 2.0 percentage points to 86.6 percent. This was attributable not only to the customers' interest in non-sight deposits' profit rates compared to cash, but also to the growth in the use of electronic banking and payment cards connected to short-term deposits.

Table 13.11. Composition of Liquidity (trillion rials)

	Year-end balance			Percentage change		Share (percent)	
	1392	1393	1394	1393	1394	1393	1394
Money	**1,196.0**	**1,207.5**	**1,367.0**	**1.0**	**13.2**	**15.4**	**13.4**
Notes and coins with the public	334.1	351.7	371.9	5.3	5.7	4.5	3.7
Sight deposits of non-public sector	861.9	855.9	995.1	-0.7	16.3	10.9	9.7
Quasi-money	**5,199.5**	**6,616.3**	**8,805.8**	**27.2**	**33.1**	**84.6**	**86.6**
Gharz-al-hasaneh savings deposits	338.5	390.9	469.8	15.5	20.2	5.0	4.6
Term investment deposits	4,756.9	6,100.9	8,187.4	28.3	34.2	78.0	80.5
Miscellaneous deposits	104.1	124.5	148.6	19.6	19.4	1.6	1.5
Liquidity	**6,395.5**	**7,823.8**	**10,172.8**	**22.3**	**30.0**	**100.0**	**100.0**

The share of one-year deposits in total long-term deposits increased by 19.7 percentage points from 57.4 percent in 1393 to 77.1 percent in 1394. On the other hand, the share of five-year deposits in total long-term deposits decreased by 11.0 percentage points from 29.2 percent in 1393 to 18.2 percent in 1394 and shares of two-, three-, and four-year deposits decreased from respectively 11.9, 0.9, and 0.6 percent in 1393 to 4.0, 0.4, and 0.3 percent in 1394. The agreement concluded between the Coordination Council of Public Banks and the Association of Private Banks and Non-bank Credit Institutions in Ordibehesht 1393, 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 1394.

Table 13.12. Composition of Long-term Deposits (percent)

Deposits	Year-end 1392	1393	1394
One-year	23.6	57.4	77.1
Two-year	16.6	11.9	4.0
Three-year	1.7	0.9	0.4
Four-year	1.1	0.6	0.3
Five-year	57.0	29.2	18.2

Sources and Uses of Funds of Public Commercial Banks

The value of non-public sector's deposits with public commercial banks grew by 24.5 percent (Rls. 340.3 trillion) in 1394. Deposits of non-public sector held with these banks included sight deposits, the value of which rose Rls. 13.3 trillion and non-sight deposits whose value increased by Rls. 327.0 trillion. The amount of non-usable resources of public commercial banks increased by Rls. 23.4 trillion, mainly owing to Rls. 16.2 trillion increase of reserve requirement and Rls. 7.2 trillion increase in notes and coins kept with commercial banks. Moreover, the balance of the capital account of public commercial banks declined by Rls. 2.8 trillion while public sector's deposits and funds increased by Rls. 11.6 trillion. Accordingly, non-public sector indebtedness[1] and public sector indebtedness[2] rose by respectively Rls. 173.0 trillion and Rls. 46.7 trillion in 1394.

Sources and Uses of Funds of Specialized Banks

In 1394, non-public sector's deposits held with specialized banks increased by Rls. 238.5 trillion. The value of sight deposits increased by Rls. 9.0 trillion and that of non-sight deposits (mainly one-year deposits) rose by Rls. 229.5 trillion. In this year, the amount of non-usable resources of specialized banks increased by Rls. 8.3 trillion, resulting from Rls. 6.1 trillion rise in reserve requirement and Rls. 2.2 trillion increase in the value of notes and coins kept with specialized banks. Free resources out of non-public sector's deposits held with specialized banks increased by Rls. 230.2 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. 220.1 trillion. This included rise in non-public sector's debt to specialized banks by Rls. 162.3 trillion and increase in public sector's debt by Rls. 57.8 trillion. CBI claims on specialized banks grew by 2.5 percent (Rls. 13.8 trillion) to Rls. 572.8 trillion at end-1394.

[1] Excludes profit and revenue receivables.

[2] The sources and uses of funds' data in the text and tables 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 went up by 32.9 percent (Rls. 1,749.9 trillion) in 1394. In this regard, the value of sight deposits increased by Rls. 116.9 trillion and that of non-sight deposits, by Rls. 1,633.0 trillion. Non-usable resources of private banks and non-bank credit institutions rose by Rls. 152.5 trillion in this year, due to Rls. 146.9 trillion growth in reserve requirement and Rls. 5.6 trillion increase in notes and coins held with private banks and non-bank credit institutions. Furthermore, the balance of the capital account of private banks and non-bank credit institutions increased by Rls. 46.0 trillion while public sector's deposits and funds kept with private banks and non-bank credit institutions decreased by Rls. 68.3 trillion. Consequently, private banks' and non-bank credit institutions' claims on non-public sector grew by Rls. 636.3 trillion and public sector's debt rose by Rls. 122.8 trillion.

Banking Units and Personnel

The number of banking units, including branches and counters in both domestic offices and representative offices abroad, rose 1.9 percent to 22,995 in 1394. A total of 22,950 units were located in Iran and the remaining units were on foreign lands. Bank Melli Iran and Bank Saderat Iran held the highest shares in the number of domestic units by 14.5 and 13.2 percent, respectively.

In 1394, the number of banking system employees increased by 1.8 percent to 224,771 persons. In this year, the number of employees in public commercial and specialized banks decreased by 3.3 and 0.3 percent, respectively. The number of employees in private banks and non-bank credit institutions, however, grew by 4.7 percent. The number of employees in the Iranian banking sector was 9.8 persons in each banking unit on average, remaining unchanged compared with the year before (9.8 persons). Furthermore, the ratio of total population to each domestic banking unit decreased by 24 persons and reached 3,432 persons in 1394, compared with 3,456 persons in 1393.

Banking Sector Developments

The major measures adopted by the CBI in 1394 were as follows:

Section One- Major Regulations, Bylaws, Guidelines, Circulars, and Amendments

- Revision and declaration of "Guideline on Calculation of Net Fixed Assets of Non-bank Credit Institutions";

Table 13.13. Number of Banking Units [1]

	1393	1394
Domestic branches	**22,529**	**22,950**
Public commercial banks	5,516	5,515
Specialized banks	3,837	3,847
Private banks and non-bank credit institutions	13,176	13,588
Foreign branches	**45**	**45**
Total	**22,574**	**22,995**

[1] Excludes representative offices.

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

- Formulation and declaration of "Guideline on Calculation and Distribution of Banks' Joint Profit with Clients (in rials)";

- Formulation and declaration of "Guideline on Establishment, Operation, Supervision, and Liquidation of Cross-border Banking Branches in Free Economic Zones";

- Revision and declaration of "Bylaw on Collection of Non-performing Loans (in rials and foreign exchange) of Non-bank Credit Institutions";

- Revision and declaration of "Bylaw on Establishment and Closure of Branches and Units or Representative Offices of Credit Institutions in the Main Land";

- Formulation and declaration of "Executive Guideline of Article 21 of Law on Removing Impediments to Competitive Production and Upgrading the Country's Financial System", concerning the opening of special accounts for economic firms for the financing of the working capital;

- Revision and declaration of "Revised Bylaw on Loans and Commitments of Related Parties";

- Formulation and declaration of "Executive Guideline, subject of Article 18 of the Bylaw on Establishment and Closure of Domestic Banking Branches and Units or Representative Offices of Credit Institutions in the Main Land";

- Declaration of "Revised Guideline on Domestic Letters of Credit (L/Cs) in rials";

- Revision and declaration of "Executive Guideline on Murabaha Contracts";

- Formulation and declaration of "Unified Forms of Banking Loans and Facilities";

- Formulation and declaration of the "Executive Bylaw on Note 26 of Budget Law for 1394", regarding the use of installment sale contracts instead of other direct loan instruments for the newly married applicants;

- Formulation and declaration of "Executive Bylaw on Note 29 of Budget Law for 1394", regarding the possibility of capital injection into state-owned banks, financed through sales of semi-complete projects under "disposal of non-financial assets" section of government budget;

- Formulation and declaration of "Executive Guideline of Article 47 of Law on Removing Impediments to Competitive Production and Upgrading the Country's Financial System", concerning facilities extended to the agriculture sector;

- Cooperation in formulation and declaration of "Executive Bylaw of Paragraph (C), Article 17 of Law on Removing Impediments to Competitive Production and Upgrading the Country's Financial System", regarding valuation of banks' excess immovable assets;

- Cooperation in formulation and declaration of "Executive Bylaw of Section (B), Note 1, Paragraph (D), Article 17 of Law on Removing Impediments to Competitive Production and Upgrading the Country's Financial System", concerning the compulsory acquisition of assets and properties by credit institutions.

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

- Coordination in the formulation and approval of the "Draft Bill on Combating the Financing of Terrorism";

- Commenting on the cases of economic corruption convicts, forwarded by the competent authorities to the CBI;

- Responding to banking employees' inquiries about the implementation of the AML Act;

- Performing periodic as well as case supervision of banks to ensure the proper implementation of the AML Act;

- Tracking the sources of initial capital for the establishment or capital increase of banks and non-bank credit institutions, as per the National Security High Council Approval;

- Tracking the sources of initial capital for the establishment or capital increase of insurance companies, as per the Approval of High Council for Combating Money Laundering.

Section Three- Bank Licensing[1]

- In implementation of the Monetary and Banking Law of Iran and Law on Rationalization of the Unorganized Money Market, the CBI adopted appropriate measures in order to fulfill its supervisory role in the Iranian banking system. By strengthening its supervisory and prudential role, the CBI adopted stricter measures in considering establishment license applications of new entrants into the industry and obliging the operative banks to align their activities with laws and regulations or consider liquidation otherwise, so that the entry of incompetent newcomers into the industry is restricted. To this end and based on the current rules and regulations, various stages have been designed for the sound establishment and adjustment of banks and non-bank credit institutions through the issuance of agreements-in-principle and work licenses. Accordingly, the CBI issued operation licenses for 2 non-bank credit institutions, 20 credit cooperatives, 27 Gharz-al-hasaneh Funds, 121 money exchanges, and 5 leasing companies. Meanwhile, CBI renewed the work permits for 134 institutions (including 56 credit cooperatives, 75 money exchanges, and 3 leasing companies). Licenses of 5 money exchanges were also cancelled due to the violation of laws and regulations.

Table 13.14. Number of Issued and Cancelled Banks' and Credit Institutions' Licenses in 1394

	Agreement in principle	Work 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 Noor Credit Institution and Caspian Credit Institution.

Table 13.15. Number of Licenses Issued, Renewed, and Cancelled for Institutions Active in Unorganized Money Market in 1394

	Initial licenses		Renewed licenses	**Total**	Cancelled/Suspended licenses
	Established	Reorganized			
Credit cooperatives	7	13	56	**76**	0
Gharz-al-hasaneh Funds	15	12	0	**27**	0
Leasing companies	3	2	3	**8**	0
Money exchanges	77	44	75	**196**	5
Total	**102**	**71**	**134**	**307**	**5**

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