CHAPTER TEN

MONETARY AND BANKING POLICY

The upward trend in crude oil prices in international markets in 1379 resulted in recovery in the external sector and improved government's overall fiscal position in the first year of the 3rd FYDP. This in turn paved the way for implementing certain structural reforms, particularly in the monetary and banking area. With a view to implementing policies stipulated in the 3rd FYDP Law, the CBI, with the approval of the Money and Credit Council (MCC) was authorized to issue participation papers in an effort to mop up excess liquidity. Moreover, in accordance with the same law, authorization for the establishment of private banks by real and legal individuals was granted to central bank in order to increase competition in financial markets, promote savings and investment as well as provide suitable grounds for the economic growth and development.

In this year, with the improvement in the government's fiscal position and the weakening of inflationary expectations, the inflation rate declined to its lowest level in a decade i.e. 12.6 percent.

In accordance with the 1379 Budget Law, it is the CBI's responsibility to determine total credits and facilities of the banking system as well as the ratio of long-term credits and facilities to the short-term. The CBI is further authorized and charged to regulate credit plans and facilities of the banking system on the basis of the banks current and investment deposits, after observance of banks legal obligations, and implement these policies in such a way that the targets for economic growth and the reduction of inflation are realized as envisaged in the 3rd FYDP. Additionally, the budget bill sanctioned the increase of the banks scheduled facilities up to a new ceiling of Rls. 5,400 billion, while still requiring compliance of other obligations stipulated in the development plan. The main stipulation in this respect was namely a 10 percent reduction in the increase of outstanding balance of scheduled facilities from the approved budget figures for 1378. Public sector share of this increase was determined at 30 percent with the remaining 70 percent going to the private sectors and cooperatives.

In accordance with the by-law of approved Budget Bill about 20 percent of the increase in outstanding balance of banking facilities to the non-public sector out of the determined shares, was not subject to sectoral allocation with the provision that priority would be given to productive and export sectors. These facilities could be utilized by the sectors for capital investment or working capital requirements. Therefore, the sectoral allocation of new facilities was determined based upon the remaining 80 percent of change in banking facilities.

In 1379, the expected rate of return on facilities extended by banks to economic sectors remained unchanged as before.

APPROVED SECTORAL ALLOCATION OF NEW FACILITIES TO NON-PUBLIC SECTOR (1)

(percent)

Economic sector	1379 80%	1379 100%
Agriculture	25.0	20.0
Manufacturing and mining	33.5	26.8
Construction and housing (2)	29.0	23.2
Exports	8.0	6.4
Trade, services & miscellaneous	4.5	3.6
Other uses		20.0
Total	**100.0**	**100.0**

(1) Private banks and non-bank credit institutions are not subject to sectoral allocation.
(2) On the basis of the by-law of 1379 Budget Law, 70 percent of the construction and housing sector is allocated to housing.

MAJOR ITEMS IN THE ASSETS AND LIABILITIES OF THE BANKING SYSTEM

(billion rials)

	Balance at the end of the year			Percentage change	
	1377	1378	1379	1378	1379
Assets	**328,691.4**	**396,355.4**	**500,097.3**	**20.6**	**26.2**
Foreign assets	11,737.6	18,325.0	32,832.8	56.1	79.2
Central Bank	9,313.6	13,035.4	23,566.8	40.0	80.8
Banks	2,424.0	5,287.6	9,262.7	118.1	75.2
Non-bank credit institutions	0	2.0	3.3	θ	65.0
Claims on public sector	109,976.1	117,116.9	122,785.3	6.5	4.8
Claims on non-public sector	98,220.0	137,912.9	180,870.7	40.4	31.1
Others	108,757.7	123,000.6	163,608.5	13.1	33.0
Liabilities	**328,691.4**	**396,355.4**	**500,097.3**	**20.6**	**26.2**
Liquidity(M2)	160,401.5	192,689.2	249,110.7	20.1	29.3
Public sector deposits and funds	21,363.1	25,653.1	36,563.7	20.1	42.5
Foreign loans & foreign exchange deposits	12,373.2	14,995.6	27,322.6	21.2	82.2
Central Bank(1)	6,848.2	8,585.6	15,990.0	25.4	86.2
Banks (1)	5,525.0	6,408.0	11,329.6	16.0	76.8
Non-bank credit institutions	0	2.0	3.0	θ	50.0
Others (2)	134,553.6	163,017.5	187,100.3	21.2	14.8

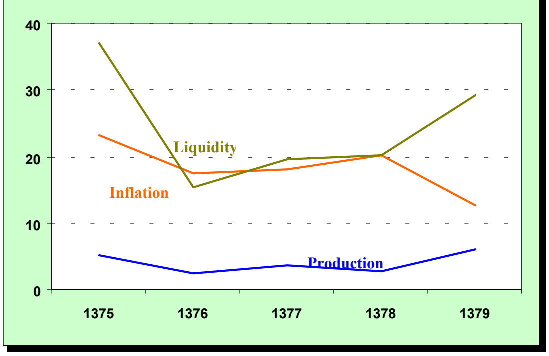
(1) Includes foreign exchange deposits of banks.
(2) Includes capital account of the banking system.

EXPECTED RATE OF RETURN ON BANKING FACILITIES

(percent per annum)

	1379
Agriculture	13-16
Manufacturing and mining	17-19
Housing and construction	
Housing savings fund of Bank Maskan (housing consumption patterns)	15
Housing savings fund of Bank Maskan (out of housing consumption pattern)	16
Other	18-19
Trade and services	22-25
Exports	18

Source: Banking system performance



Major Economic Variables
(percentage change)

Banking System Performance [1]

Assets and liabilities of the banking system grew by 26.2 percent and reached Rls. 500,097.3 billion showing a higher growth rate than a year before. The major reason behind this trend was the increase in the growth of foreign assets of the banking system and the CBI, owing to inclusion of the OSF account in the foreign assets of the CBI. It is to be noted that this account amounted to $ 5.9 billion, at the end of 1379.

Increase in growth of deposits and funds of the public sector and foreign exchange deposits of the banking system were the main factors for the growth in liabilities of the banking system. The foreign exchange liabilities of banking system increased significantly by 82.2 percent in 1379, as compared to the 21.2 percent growth of the previous year. This increase was mainly due to inclusion of OSF in foreign exchange liabilities of the CBI. The OSF is a governmental account the use of which is stipulated in an amendment to the 3rd FYDP Law and is governed by a board of trustee. The net foreign assets of the banking system, therefore, increased by Rls. 2,180.8 billion to total Rls. 5,510.2 billion in 1379.

Banking System and the External Sector

Following the increase in crude oil prices in international markets in 1379, foreign exchange reserves of the CBI which included the OSF increased. The net foreign assets of the banking system grew by 65.5 percent or Rls. 2,180.8 billion, owing to the Rls. 3,127.0 billion increase in the net foreign assets of the CBI and the Rls. 946.2 billion decrease in net foreign assets of banks and non-bank credit institutions.

Banking System and the Public Sector

Government's deposits with the CBI, as a result of an increase in government's demand deposits and deposits of government departments with Bank Melli as a representative of the CBI, grew by 48.1 percent. On the other hand due to a reduction of CBI's claims on government as a result of repayment of parts of government debt and reduction of government indebtedness to banking system due to repurchase of government bonds held with banks by the CBI, the banking system's claims on government declined by 3.1 percent, and net claims of banking system on government declined by Rls. 9,153.7 billion in this year.

CHANGES IN NET CLAIMS OF THE BANKING SYSTEM ON THE PUBLIC SECTOR

(billion rials)

	1378	1379
Public sector	**2,850.8**	**-5,242.2**
Central Bank (1)	-62.4	-12,669.1
Commercial & specialized banks	2,852.8	7,297.4
Non-bank credit institutions	60.4	129.5
Government	**-389.9**	**-9,153.7**
Central Bank (2)	1,469.9	-9,207.3
Commercial & specialized banks	-1,920.2	-75.9
Non-bank credit institutions (3)	60.4	129.5
Public corporations & agencies	**3,240.7**	**3,911.5**
Central Bank	-1,532.3	-3,461.8
Commercial & specialized banks (4)	4,773.0	7,373.3
Non-bank credit institutions	0	0

(1) Excludes advance payment of public sector L.C's .
(2) Includes deficits in foreign exchange obligation account.
(3) It merely includes the government participation papers.
(4) Includes indebtedness for exchange rate differential.

Moreover, the net claims of banking system on public corporations and institutions increased to Rls. 3,911.5 billion, owing to the 21.6 percent growth in banks' claims on public corporations and institutions and the 3.3 percent growth of Central Bank's claims on this sector, regarding a remarkable growth of 74.5 percent of public corporations and

(1) Includes non-bank credit institutions in addition to commercial and specialized banks.

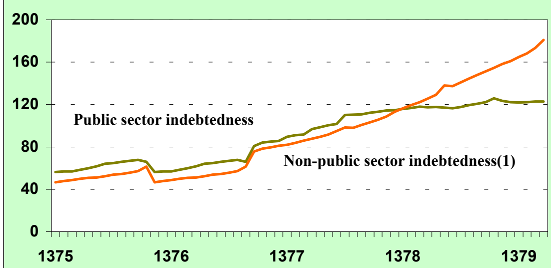
institutions' deposits with the Central Bank. As a result, net claims of banking system on public sector was reduced, due to decline in net claims of the Central Bank on public sector. Excluding Rls. 818.3 billion as foreign exchange losses, this reduction would be Rls. 4,424.0 billion.

In 1379, part of banking system resources were extended according to various stipulations in the budget law. One such instance is the authorized increase in the ceiling for outstanding of banks' scheduled facilities, up to Rls. 5,400 billion, bearing in mind other obligations stipulated in 3rd FYDP. From these facilities, the public sector share was determined to be up to a maximum of 30 percent or Rls. 1,620 billion.

Banking System and the Non-Public Sector

Credit performance of banks indicates that the outstanding facilities extended by banks and non-bank credit institutions to the non-public sector, excluding profit and revenue receivables, increased by Rls. 35,704.0 billion or 30.8 percent, and reached Rls. 151,544.9 billion. This figure includes an increase of Rls. 27.2 billion in the claims of the banking system on the non-public sector due to exchange rate differential. In this year, the share of facilities extended by banks and non-bank credit institutions to the non-public sector was 76.1 percent of total extended facilities, which amounts to a considerable volume of facilities provided to this sector in this year. It is to be noted that part of these facilities were extended by way of scheduled facilities which according to the 1379 Budget Law, had a ceiling of Rls. 3,780 billion which was 70 percent of the overall ceiling of Rls. 5,400 billion. On the basis of an approved change made in the executive by-law of the same budget law, the outstanding of scheduled facilities to the non-public sector was determined at Rls. 3,049.5 billion which in practice amounted to Rls. 1,735.2 billion.

Outstanding Facilities Extended by the Banking System to Public & Non-public Sectors
(thousand billion rials)



1-Includes profit & revenue receivables

BANKS AND NON-BANK CREDIT INSTITUTIONS FACILITIES EXTENDED TO THE NON-PUBLIC SECTOR (1) (billion rials)

	Outstanding at the end of year			Percentage change		Share (percent)	
	1377	1378	1379	1378	1379	1378	1379
Commercial Banks	61,457.5	84,129.9	109,352.1	36.9	30.0	72.6	72.2
Specialized Banks	22,615.7	31,525.0	41,800.2	39.4	32.6	27.2	27.6
Non-bank Credit Institutions	0	186.0	392.6	θ	111.1	0.2	0.2
Overall Facilities	84,073.2	115,840.9	151,544.9	37.8	30.8	100.0	100.0

(1) Excludes profit and revenues receivable.

In the year under review, facilities extended by the commercial and specialized banks to the non-public sector, excluding profit and revenues receivable, grew by 30.0 and 32.6 percent, respectively showing less growth as compared to the previous year. In this year the volume of facilities extended by non-bank credit institutions grew by 111.1 percent and reached Rls. 392.6 billion.

The distribution of facilities extended by banks to various sectors of the economy, indicates that about 20 percent of the increase in outstanding facilities out of the determined shares for different sectors was to be allocated with priority to productive and export sectors as approved by the MCC. In this manner the increase in outstanding facilities, was still within the framework of the approved relative share, taking into account observation of the priority for the productive and export sector's by banks.

In this year, banks' matured and overdue claims significantly increased by 34.3 percent, in comparison to the previous year. Of this increase, 29.1 percent was for matured claims and 70.9 percent for overdue claims. The shares of matured and overdue claims out of bank's total claims on the non-public sector was 5.6 percent which almost remained unchanged, while this share in commercial banks was reduced and in specialized bank increased. This was mainly due to rescheduling of part of the facilities extended by Agricultural Bank, due to the drought in recent years.

SECTORAL ALLOCATION OF BANKING FACILITIES TO THE NON-PUBLIC SECTOR (1) (percent)

	1377		1378		1379		
	Approved	Actual	Approved	Actual	Approved		Actual
					80%	100%	
Agriculture	25.0	26.0	25.0	23.2	25.0	20.0	20.2
Manufacturing and mining	33.5	19.4	33.5	22.0	33.5	26.8	26.2
Construction and Housing	29.0	34.0	29.0	29.2	29.0	23.2	29.6
Exports	8.0	2.4	8.0	13.3	8.0	6.4	9.5
Domestic trade, services and miscellaneous (2)	4.5	18.2	4.5	12.0	4.5	3.6	14.5
Free uses	-	-	-	-	-	20.0	-
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

(1) Excludes profit and revenues receivable.

(2) Excludes increase in outstanding of Gharz-al-hasaneh deposits extended to the non-public sector.

NON-PERFORMING FACILITIES (percent)

	Percentage change			Share in total claims of banks on non-public sector		
	1377	1378	1379	1377	1378	1379
Commercial banks	14.7	21.0	24.4	5.8	5.1	4.9
Specialized banks	59.0	-2.8	51.8	9.8	6.4	7.3
All banks	**29.5**	**11.2**	**34.3**	**6.9**	**5.5**	**5.6**

COMPOSITION OF OUTSTANDING FACILITIES EXTENDED BY BANKS AND NON-BANK CREDIT INSTITUTIONS TO NON-PUBLIC SECTOR (1) (percent)

	Commercial banks		Specialized banks		Non-bank credit institutions		Banks and credit institutions	
	1378	1379	1378	1379	1378	1379	1378	1379
Installment sale	53.8	55.1	72.7	73.6	17.4	33.8	59.7	60.9
Mozarebeh	7.9	7.8	2.8	2.6	4.4	6.9	6.2	6.2
Civil partnership	11.0	10.8	8.7	8.0	5.8	5.0	10.3	9.9
Gharz-al-hasaneh	6.0	5.7	1.5	1.2	0.5	0.4	4.6	4.2
Hire purchase	0.5	0.6	0.8	0.7	0	0	0.6	0.6
Forward transactions	7.8	8.4	4.3	4.1	4.9	3.7	6.7	7.0
Legal partnership	3.2	2.7	1.6	1.2	0	3.1	2.7	2.2
Direct investment	1.9	1.5	0.6	0.5	0	0	1.5	1.2
Joalah	2.3	2.1	*	0.1	66.0	42.8	1.7	1.6
Others (2)	5.6	5.3	7.0	8.0	1.0	4.3	6.0	6.2
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

(1) Includes profit and revenues receivable.

(2) Includes hire purchase and overdue and matured claims and properties under transaction.

Composition of outstanding facilities extended by banks to the non-public sector in the form of new facilities shows that a major portion of these facilities (60.9 percent) was extended for installment sale. All facilities extended for the housing sector are categorized under this group.

Liquidity

In 1379, liquidity (M2), with 29.3 percent growth, reached Rls. 249,110.7 billion, owing to increase in the growth of monetary base and money multiplier. It is worth noting that permission to issue CBI participation papers was only granted in the last month of the year which resulted in only Rls. 1,593.1 billion worth of participation papers being sold in this year. The sale of these participation papers could therefore not significantly affect absorption of liquidity for the year.

In this year, monetary base grew by 17.5 percent, due to the significant growth of 246.4 percent in other CBI assets. The money multiplier grew by 10 percent and reached 2.952.

LIQUIDITY ACCORDING TO ITS DETERMINANTS (1)

	Outstanding at the end of the year			Percentage change	
	1377	1378	1379	1378	1379
Monetary base (billion rials)	61,964.6	71,822.6	84,398.1	15.9	17.5
Money multiplier	2.589	2.683	2.952	3.6	10.0
Liquidity (billion rials)	**160,401.5**	**192,689.2**	**249,110.7**	**20.1**	**29.3**

(1) Based upon the new headings of banks general ledgers and includes figures of non-bank credit institutions from 1378.

Review of factors affecting changes in liquidity based on domestic and external sectors indicate that changes were mainly due to performance of domestic sector, in that 63.3 percent of changes in liquidity was due to net claims of banking system on non-public sector. In this year change in net claims of banking system on public sector had a diminishing effect on growth of liquidity.

FACTORS AFFECTING CHANGES IN LIQUIDITY ACCORDING TO DOMESTIC AND EXTERNAL SECTORS (billion rials)

	1377	1378	1379
Changes in liquidity	**26,115.2**	**32,287.7**	**56,421.5**
Effects of the domestic sector	**44,033.4**	**34,905.9**	**30,884.7**
Changes in claims of the banking system on non-public sector (1)	19,001.1	31,767.7	35,704.0
Changes in net claims of the banking system on pubic sector (2)	25,032.3	3,138.2	-4,819.3
Effects of the foreign sector (net)	**-4,526.1**	**13,310.6**	**3,115.4**
Net foreign exchange receipts of non-public sector	-8,373.6	-6,177.6	-16,580.7
Net foreign exchange receipts of public sector	3,847.5	19,488.2	19,696.1
Others (net)	**-13,392.1**	**-15,928.8**	**22,421.4**

(1) Excludes profit and revenues receivable.

(2) Includes prepayments on letters of credit of public sector.

SHARE OF FACTORS AFFECTING LIQUIDITY GROWTH (percent)

	1377	1378	1379
Banking system claims on non-public sector (1)	**14.1**	**19.8**	**18.5**
Banking system net claims on public sector	**18.7**	**2.0**	**-2.6**
Government	9.0	-0.2	-4.8
Public corporations and institutions	7.7	2.0	2.0
Less:			
Prepayment on public sector's LC's	-0.2	-0.2	-0.2
Net foreign assets of the banking system	**-6.6**	**2.5**	**1.1**
Other items (net)	**-6.8**	**-4.2**	**12.3**
Liquidity	**19.4**	**20.1**	**29.3**

(1) Excludes profit and revenues receivable.

In 1379, banking system's claims on the non-public sector was again the major factor in the growth of liquidity, in that it contributed 18.5 percentage point to liquidity growth. The other factor affecting liquidity growth was the growth of other items (net) of the banking system. The share of this variable in liquidity growth was 12.3 percent. It is to be noted that the share of other items (net) of the CBI in liquidity growth was 9.7 percent.

Monetary Base

Monetary base grew by 17.5 percent and reached Rls. 84,398.2 billion, owing mostly to increase in other items (net), which in turn was due to changes in miscellaneous assets of the CBI. One major reason for the sharp rise of monetary base was the purchase by Central Bank of part of oil export earnings at CD rate on its own account.

MONETARY BASE AND ITS COMPONENTS

(billion rials)

	End year outstanding			Percentage change	
	1377	1378	1379	1378	1379
Monetary base	**61,964.6**	**71,822.6**	**84,398.2**	**15.9**	**17.5**
Net foreign assets of the CBI	2,465.4	4,449.8	7,576.8	80.5	70.3
Net claims of the CBI on public sector	54,042.5	53,980.1	41,311.0	-0.1	-23.5
Net claims of the CBI on banks	13,399.8	20,811.0	23,553.4	55.3	13.2
Other items (net)	-7,943.1	-7,418.3	11,957.0	6.6	261.2

CONTRIBUTION OF FACTORS AFFECTING MONETARY BASE GROWTH

(percent)

	1377	1378	1379
Monetary base	**18.0**	**15.9**	**17.5**
Net foreign assets of the Central Bank	-6.6	3.2	4.4
Net claims of the Central Bank on public sector	17.2	-0.1	-17.6
Claims of the Central Bank on banks	-2.9	12.0	3.8
Other items (net)	10.3	0.8	26.9

In this year all factors that affected the growth of monetary base, made positive contribution to this growth, with the exception of CBI's net claims on the public sector which had a diminishing effect by 17.6 percent. In this year, share of claims of the CBI on banks in the growth of monetary base declined as compared to the previous year.

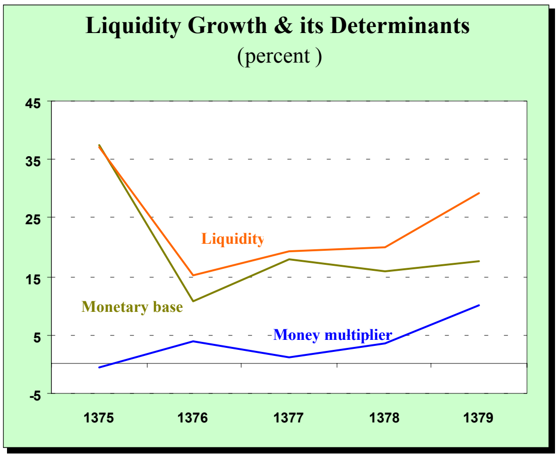
Money Multiplier

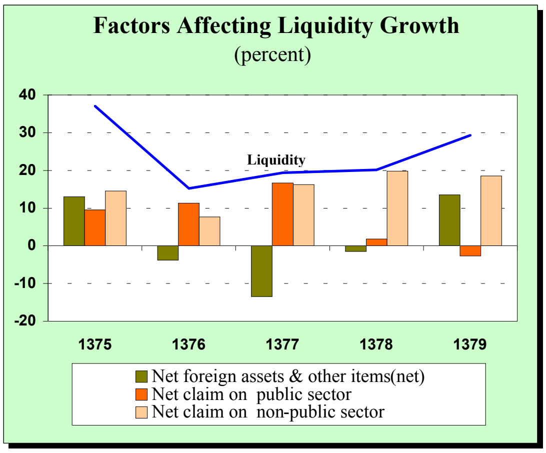
In 1379, the money multiplier grew by 10 percent and reached 2.952, showing a considerable growth, compared with the previous year.

FACTORS AFFECTING MONEY MULTIPLIER

	1377	1378	1379	Contribution to growth
Money multiplier	**2.589**	**2.683**	**2.952**	**0.2687**
Currency in circulation/sight deposits	0.335	0.342	0.282	0.1099
Reserve requirement/total deposits	0.267	0.266	0.231	0.2388
Excess reserves/total deposits	0.038	0.025	0.033	-0.0534
Non-sight deposits/sight deposits	1.529	1.639	1.509	-0.0266

A review of the factors affecting changes of money multiplier indicates that reduction in the ratio of reserve requirement to total deposits has been the major factor for increase in money multiplier, owing mostly to the reduction in the required ratio of LC prepayments to the banks. Excess reserves to total deposits and the ratio of non-sight deposits to sight deposits were the two diminishing factors in the growth of money multiplier.





Composition of Liquidity

The share of money in liquidity increased slightly and reached 45.9 percent in 1379. In this year, despite the reduction of notes and coins held with the public, due to an increase in sight deposits, the share of money increased moderately while the share of quasi-money declined due to a reduction of other deposits.

Non-public sector's deposits with banks and non-bank credit institutions increased by 31.3 percent and reached Rls. 223,952.3 billion, of which Rls. 28,752.0 billion was in the form of non-sight deposits.

COMPOSITION OF LIQUIDITY (billion rials)

	Outstanding at the end of the year			% change		Share (%)	
	1377	1378	1379	1378	1379	1378	1379
Money	**74,784.4**	**86,751.0**	**114,420.5**	**16.0**	**31.9**	**45.0**	**45.9**
Notes & coins in circulation	18,773.1	22,119.3	25,158.3	17.8	13.7	11.5	10.1
Sight deposits	56,011.3	64,631.7	89,262.2	15.4	38.1	33.5	35.8
Quasi-Money	**85,617.1**	**105,938.2**	**134,690.2**	**23.7**	**27.1**	**55.0**	**54.1**
Gharz-al-hasaneh savings deposits	12,420.0	16,296.0	22,014.4	31.2	35.1	8.5	8.8
Term investment deposits	62,429.1	79,532.0	103,363.6	27.4	30.0	41.3	41.5
Other deposits	10,768.0	10,110.2	9,312.2	-6.1	-7.9	5.2	3.8
Liquidity	**160,401.5**	**192,689.2**	**249,110.7**	**20.1**	**29.3**	**100.0**	**100.0**

Money

In 1379, due to the significant growth of sight deposits, the volume of money increased by 31.9 percent and reached Rls. 114,420.5 billion. The percentage change in the growth of this variable was 16.0 percent in the previous year. During this period, notes and coins held with the public and sight deposits increased by 13.7 and 38.1 percent, respectively. In this year notes and coins issued increased by 14.2 percent and reached Rls. 27,555.4 billion, out of which 91.3 percent was held with the public, 7.5 percent with banks and 1.2 percent kept with the CBI. Thus, the share of notes and coins with the public was reduced to 22.0 percent, owing mostly to the use of travelers and banking checks as preferred alternatives for money in transactions.

COMPOSITION OF MONEY (percent)

	1377	1378	1379
Notes and coins with the public	25.1	25.5	22.0
Sight deposits	74.9	74.5	78.0
Total	**100.0**	**100.0**	100.0

Quasi-Money

In 1379, quasi-money enjoyed a growth of 27.1 percent and reached Rls. 134,690.2 billion, showing a higher growth rate, as compared with the previous year.

During this period, share of Gharz-al-hasaneh savings deposits and term-investment deposits increased, while the share of other deposits declined. The rate of growth for other deposits was reduced by 7.9 percent, registering a greater reduction than that in the previous year, which was mainly the result of reduction in the minimum required prepayments for LCs.

COMPOSITION OF QUASI-MONEY (percent)

	1377	1378	1379
Gharz-al-hasaneh savings deposits	**14.5**	**15.4**	**16.3**
Term investment deposits	**72.9**	**75.1**	**76.8**
Short term	37.1	36.9	36.9
Short-term (special)	0.3	0.5	0.6
Long-term	35.5	37.7	39.3
Miscellaneous deposits (1)	**12.6**	**9.5**	**6.9**
Total	**100.0**	**100.0**	**100.0**

(1) Includes prepayments on LC, deposits of letters of guarantee, prepayment of transactions, bank employees' retirement fund and savings fund.

In 1379, the profit rates on term-investment deposits remained unchanged as before.

PROFIT RATE OF TERM-INVESTMENT DEPOSITS(1) (% per annum)

	1377	1378	1379
Short-term	8	8	8
Short-term (special)	10	10	10
Long-term			
One-year	14	14	14
Two-year	15	15	15
Three-year	16	16	16
Four-year	…	17	17
Five-year	18.5	18.5	18.5

(1) According to MCC approval, profit rate of short-term, short-term (special) and one-year deposits with Bank Maskan (Housing Bank) are higher by one percentage point.

The composition of long-term investment deposits indicates that the share of five-year deposits was still increasing, due mainly to the higher profit rate offered to this deposit, in comparison to other term-investment deposits.

COMPOSITION OF LONG-TERM INVESTMENT DEPOSITS(1)

	1377	1378	1379
One-year	14.5	14.9	15.0
Two-year	6.1	3.2	2.8
Three-year	3.4	3.0	2.9
Four-year			0.2
Five-year	76.0	78.9	79.1
Total	**100.0**	**100.0**	**100.0**

(1) Includes non-bank credit institutions since 1378.

Sources and Uses of Commercial Banks Funds

In 1379, non-public sector deposits with commercial banks increased by 29.4 percent, to a total of Rls. 44,840.6 billion, 51.3 percent of which was in sight deposits and 48.7 percent in non-sight deposits.

In 1379, a total of Rls. 5,735.0 billion from the increase in depository holdings of the banks and 60 percent of LC prepayments was blocked with CBI as reserve requirement.

During the review year, commercial banks' capital increased by Rls. 160.3 billion and public sector deposits and funds with these banks declined by Rls. 1,028.1 billion. Total commercial banks' free resources increased by Rls. 38,237.8 billion. Out of these resources commercial banks' claims on public and non-public sector increased by Rls. 6,123.3 billion and Rls. 25,222.2 billion, respectively. Therefore, commercial banks ran a deficit that was Rls. 6,892.3 billion less than that of the previous year.

Sources and Uses of Specialized Banks Funds

In this year, non-public sector deposits with specialized banks rose by Rls. 8,113.6 billion, 20.1 percent of which was due to the increase in sight deposits and 79.9 percent to non-sight deposits. Thus, the share of reserve requirement out of these deposits went up by Rls. 238.8 billion.

Free resources out of non-public sector deposits with specialized banks increased by Rls. 7,776.2 billion, including change in other deposit sources such as capital account by Rls. 1,559 billion and CBI's claims of Rls. 1,212.5 billion, bringing the total free resources of specialized banks to Rls. 9,824.7 billion. Of this figure, specialized banks' claims on the public sector were reduced by Rls. 450.5 billion, while their claims on the non-public sector increased by Rls. 10,275.2 billion. The major source of financing for the specialized banks are facilities extended by the CBI. The share of non-public sector deposits in financing the required sources to extend facilities, increased from 40 percent in 1378 to 45 percent in 1379. Furthermore, the 72.1 percent growth in specialized banks' capital account contributed effectively to the improvement of the sources and uses of banks and reduced dependence on commercial banks.

Banking Developments

In 1379, the CBI adopted measures to enhance the banks and supervise their performance more effectively. Amongst these, was the increase in banks' capital. According to the 3rd FYDP, in order to expand banks' capital base and develop Iranian banks' capacities worldwide, the government was authorized to issue up to Rls. 5,000 billion special participation papers to be used to increase government's share in the banks' capital, during the plan period. Out of the total projected capital increase, Rls. 4,000 billion was allocated to commercial banks and the remainder to specialized banks. However, mobilization of these resources, issuance of participation papers, and payment of related funds was deferred to be done in 1380.

Furthermore, in accordance with the 1379 Budget Law, it was determined that Rls. 800 billion, be allocated from the OSF as government's share in the increase in the capital of the Export Development Bank, which increased this bank's capital from Rls. 320 billion to Rls. 1,120 billion.

Amongst other measures adopted in this year was the approval of the law on Regulation of the Establishment of Private Banks in Azar 1379 by the MCC in line with the 3rd FYDP Law. According to this regulation, the establishment of private banks is permitted, with CBI permission, and within the framework of the Monetary and Banking Law as approved in 1351(1972), the Usury-free Banking Law approved in 1362, and other related regulations and MCC approvals.

Revision of the regulation on banks exposure to real and legal persons is another measure adopted in the area of reforming banking regulations in 1379. The regulations that were previously in effect set a blanket predetermined individual exposure for all banks, without taking any individual factors, such as the credit ceiling of the bank, their financial strength, volume of their capital account, volume of their operations, and their banks deposit absorption potential, into account. Taking into account the country's economic condition, in the new regulations, an effort has been made to give individual banks more autonomy in their decision making and to raise their authority. This would allow them to carry out banking according to international standards, such as risk management, large exposure risks, and other international banking norms, all of which would henceforth be taken into account in the process of setting individual ceilings.

New regulations that were approved by the MCC in Aban 1379 include the following points:

- The individual exposure for extending facilities to any real person, without reference to CBI, increased from Rls 80 million to 500 million. For a legal person this was increased from Rls. 800 million to five billion rials. Moreover, the total facilities that could be extended to a legal person by all banks, was also increased from Rls. 5 billion to Rls. 50 billion. A special ceiling would be predetermined for each bank, proportionate to the amount of capital and the volume of deposits of that individual bank.

In the new regulations, an individual facility extended by each bank of over Rls. 5 billion is considered to be a 'large exposure'. These facilities can not exceed 33 percent of total outstanding facilities extended by each bank to the non-public sector (excluding scheduled facilities).

- Extending facilities in the form of group ceiling to member group corporations, is allowed up to the determined ceiling. It is to be noted that 'group' refers to legal individuals with over 20 percent of their shares belongs to a real or legal individual (excluding investment companies).

- Among other changes in the regulations was the prohibition of extending facilities by each bank to its own investment companies and also observance of previous individual ceilings of extended facilities concerning affiliated corporations (corporations whose over 10 percent of shares belong to bank). Moreover concerning corporations affiliated to each bank's investment companies (corporations, at least 10 percent of whose shares belong to bank's investment company), the observance of previous ceiling for extended facilities was mandated.

In 1379, other measures were taken to provide new instruments and offer new banking services, the most important one of which, is provision of instructions for executing certificates of special term-investment deposit. On the basis of these instructions, banks and credit institutions are authorized to issue certificate of term-investment deposit for term-investment deposit accounts opened with them. These CD's are transferable and depositors can trade these CD's on TSE, banks without nullification of proxy contract and payment of penalty. Permission prescribing the required instructions for CD's was approved at MCC session in the month of Bahman 1378 (January 2000).

Regulations for Establishment of Private Banks

Regulations pertaining to the establishment of private banks was approved by the MCC in the month of Azar 1379 (December 2000). According to the Law for Establishment of Private Banks approved in Farvardin 1379 (April 2000) and as per the 3rd FYDP Law, a private bank is an institution wholly owned and operated by Iranian national private persons in accordance with regulations and upon permission of the CBI. Once established, it may commence authorized banking operations within the framework of the Monetary and Banking Law, the Usury-free Banking Law and its own Articles of Association.

Accordingly any national real or legal entity in which 75 percent of the shares are held outright by Iranian nationals or Iranian cooperatives who qualify under the regulations, may submit to CBI their application to establish a private bank.

Some of the main articles stipulated in Regulations for Establishment of Private Banks are as follows:

- Banks can solely be established in the form of a joint stock company with registered share certificates.

- The bank's Articles of Association and any subsequent changes thereto must be approved by the CBI. Obligatory clauses in the Articles of Association will be specified by the CBI and approved by the MCC.

- Granting of permits is at the sole discretion of the CBI that will take into consideration the country's needs and the eligibility of applicants in their decision.

- Legal persons, a portion of whose capital belongs to government, public corporations and public entities, directly or indirectly or are under the management of the public sector and public entities are prohibited from holding shares in private banks.

- Applicants must be of upstanding character and have sound professional and financial reputations, with no criminal convictions. Their financial means must be such that they can cover possible shortfalls in the bank's capital account in case of capital inadequacy or any probable losses. No member of the board of directors, managing director, deputy managing director, or member of the executive board of a private bank, can hold a position or own shares in any other private bank or credit institution without the CBI's prior approval.

- The minimum capital required for establishment of a bank is Rls. 200 billion which should be fully subscribed and at least 50 percent of which must be deposited with the CBI before issuance of the primary permit. This capital must not be financed through facilities of any other bank, whether public or non-public, or credit institutions.

- Any bank or credit institution may not hold more than one percent share in any private bank at any time except with the prior approval of the CBI.

- The CBI can revoke the issued banking license and halt bank operations at any time due to applicants not fulfilling the required commitments and/or not being able to fulfill the required commitments, or for having submitted false or misleading or incomplete information and/or as deemed to be in the interest of the banking system.

- After receiving all the necessary permits and approvals as per the regulations, the bank may start operations in domestic currency only (Rial). In order to conduct foreign exchange operations a separate permit is required from the CBI.

-The private bank's shares may be traded on the TSE.

Number of Banking Units

In 1379, the total number of bank units, including branches, counters and representative offices grew by 5.5 percent to 15,732. Bank Saderat Iran and Bank Melli Iran respectively held 21.0 and 20.5 percent of these units, and together accounted for the most domestic banking units.

BANKING UNITS

	1377	1378	1379
Domestic branches	**14,518**	**14,849**	**15,679**
Commercial banks	12,126	12,480	13,204
Specialized banks	2,392	2,369	2,472
Foreign branches	**61**	**56**	**56**
Melli Iran	25	21	20
Saderat Iran	23	22	23
Tejarat	3	3	3
Mellat	5	5	5
Sepah	5	5	5
Total	**14,579**	**14,905**	**15,732**

In the review year, the overall number of bank employees grew by 3.2 percent and reached 155,836. Number of commercial and specialized banks' employees grew by 2.5 and 9.0 percent, respectively. The average number of employees at each banking outlet, was 9.9 persons. In this period, the ratio of population to each banking unit was 4,074 persons, showing 3.7 percent reduction compared with the previous year (4,230 persons).

Generally, the average educational level of bank employees is rising in that the number of employees holding undergraduate and graduate degrees is on the rise while those with less than high school diplomas is decreasing. The majority of employees remain those with high school diplomas.