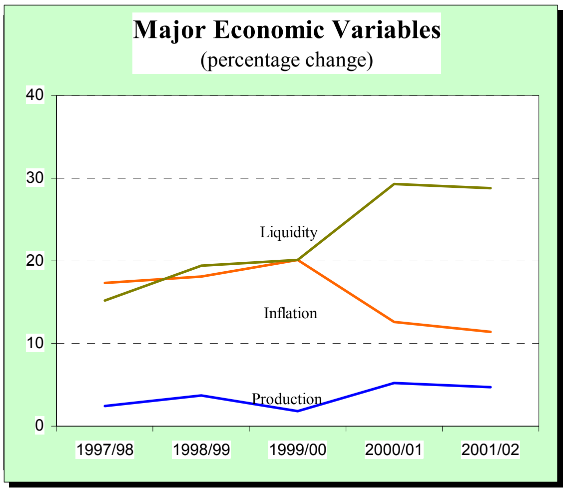
CHAPTER TEN

MONETARY AND BANKING POLICY AND PERFORMANCE

Following mild improvement in crude oil prices in international markets, the external sector of the economy and government's fiscal position enjoyed a relatively favorable situation in 1380. Exchange rate stability corrected the public inflationary expectations, which in tandem with rebounded economic growth, helped reduce inflation rate dramatically to an unprecedented level of 11.4 percent in the review year.

According to the 1380 Budget Law, the CBI was authorized to determine total rial credits and facilities of the banking system as well as the ratio of long-term credits and facilities to short-term, on the basis of current and term-investment deposits. This was done after deduction of banks' legal obligations to meet the targets set in the 3rd Plan. Moreover, according to the 3rd Plan Law, increase in the outstanding of banks' directed credits was authorized, upto a ceiling of Rls. 4,800 billion, observing obligations stipulated in the development plans, namely a 10 percent reduction in the increase in the balance of directed facilities over the approved budget figures for 1378. Public sector's share of this increase was determined at 30 percent, and that of cooperative and private sectors 70 percent.

During 1380, banks were authorized to extend 25 percent of the increase in the outstanding of non-public sector facilities, free from sectoral allocations, with the priority given to productive and exports sectors. The share of economic sectors out of total increase in the outstanding facilities of the non-public sector, on the basis of 75 percent of banks' uses are shown in the following table:



APPROVED SECTORAL ALLOCATION OF FACILITIES TO NON-PUBLIC SECTOR

(percent)

	1380	
Economic sector	75%	100%
Agriculture	25.0	18.8
Manufacturing and mining	33.5	25.1
Construction and housing	29.0	21.8
Exports	8.0	6.0
Trade, services & miscellaneous	4.5	3.3
Other uses		25.0
Total	**100.0**	**100.0**

In 1380, the expected rate of return on facilities extended by banks to economic sectors was reduced by one percentage point, as compared to 1379.

MAJOR ITEMS IN THE ASSETS AND LIABILITIES OF THE BANKING SYSTEM (1)

(billion rials)

	Year-end balance			Percentage change	
	1378	1379	1380	1379	1380
Assets	**396,355.4**	**500,097.3**	**633,186.6**	**26.2**	**26.6**
Foreign assets	18,325.0	32,832.8	44,397.9	79.2	35.2
Central Bank	13,035.4	23,566.8	31,809.5	80.8	35.0
Banks	5,287.6	9,262.7	12,564.3	75.2	35.6
Non-bank credit institutions	2.0	3.3	24.1	65.0	⊡
Claims on public sector	117,116.9	122,785.3	138,457.2	4.8	12.8
Claims on non-public sector	137,912.9	180,870.7	242,542.6	31.1	34.1
Others	123,000.6	163,608.5	207,789.0	33.0	27.0
Liabilities	**396,355.4**	**500,097.3**	**633,186.6**	**26.2**	**26.6**
Liquidity(M2)	192,689.2	249,110.7	320,957.3	29.3	28.8
Public sector deposits and funds	25,653.1	36,563.7	37,969.7	42.5	3.8
External debts	14,995.6	27,322.6	34,322.8	82.2	25.6
Central Bank	8,585.6	15,990.0	20,068.7	86.2	25.5
Banks (2)	6,408.0	11,329.6	14,247.0	76.8	25.8
Non-bank credit institutions	2.0	3.0	7.1	50.0	136.7
Others (3)	163,017.5	187,100.3	239,936.9	14.8	28.2

(1) Data are based on new headings of banks' general ledgers.
(2) Includes foreign exchange deposits of banks.
(3) Includes capital account of the banking system.

Banking System Performance(1)

Banking system's assets and liabilities grew by 26.6 percent in 1380 to reach Rls. 633,186.6 billion. The major reason behind increase in the foreign assets of banking system was the remarkable growth of CBI foreign assets, owing to the inclusion of OSF account. Increase in the CBI foreign assets was due to purchase of part of government foreign exchange.

Increase in the non-public sector deposits and in the external debts were accounted for the rise in banking system liabilities. In 1380, banking system's external debts grew by 25.6 percent, indicating a lower rate of growth compared with the previous year (82.2 percent). Thus, during the review year, banking system's net foreign assets, with Rls. 4,564.9 billion increase, reached Rls. 10,075.1 billion.

EXPECTED RATE OF RETURN ON BANKING FACILITIES

(percent per annum)

	1380
Agriculture	14-15
Manufacturing and mining	16-18
Housing and construction	
Housing savings fund of Bank Maskan (housing consumption pattern)	15
Housing savings fund of Bank Maskan (out of housing consumption pattern)	16
Other	17-19
Trade and services	23 (min.)
Exports	18

Banking System and the External Sector

Foreign exchange reserves of the CBI (including the OSF) went up in 1380. Accordingly, banking system's net foreign assets grew by 82.8 percent (Rls. 4,564.9 billion). This was due to rise of Rls. 4,164.1 billion in the CBI's net foreign assets and Rls. 400.8 billion rise in the net foreign assets of banks and non-bank credit institutions.

(1) Includes non-bank credit institutions.

Banking System and the Public Sector

The net claims of banking system on public corporations and institutions increased by Rls. 15,634.0 billion in 1380. Government's deposits with the CBI, grew by 22 percent in this period and reached Rls. 30,067.2 billion as a result of an increase in government's demand deposits.Government indebtedness to the banking system, also grew by Rls. 3,777.3 billion and amounted to Rls. 64,636.3 billion. Of this amount, Rls. 31,318.1 billion (48.5 percent) is related to deficit in the foreign exchange obligations account. It is to be noted that, according to the 3rd Plan, government issued Rls. 5,000 billion special participation papers to strengthen banks' capital base. Thus, the CBI, according to the related by-law, purchased these papers form the government, and the accrued funds was paid to banks as government's share in banks' capital.

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

(billion rials)

	1379	1380
Public sector	**-5,242.2**	**14,265.9**
Central Bank (1)	-12,669.1	6,914.4
Commercial & specialized banks	7,297.4	6,744.7
Non-bank credit institutions	129.5	606.8
Government	**-9,153.7**	**-1,368.1**
Central Bank (2)	-9,207.3	-1,645.9
Commercial & specialized banks	-75.9	-329.0
Non-bank credit institutions (3)	129.5	606.8
Public corporations & agencies	**3,911.5**	**15,634.0**
Central Bank	-3,461.8	8,560.3
Commercial & specialized banks (4)	7,373.3	7,073.7
Non-bank credit institutions	0	0

(1) Excludes advance payment of public sector LCs.
(2) Includes deficit in foreign exchange obligations account.
(3) Includes government participation papers only.
(4) Includes indebtedness for exchange rate differential.

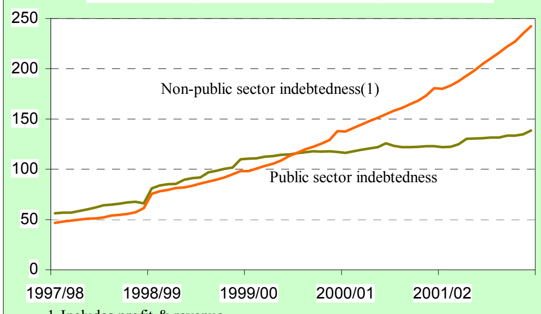
Change in the net claims of commercial and specialized banks on public sector was Rls. 6,744.7 billion in 1380. Banks claims on the government on account of directed credits subsidy, with 21.9 percent rise reached Rls. 7,553.5 billion. Banking system claims on corporations grew by 17.1 percent, the major portion of which is related to banks' directed credits. By and large, the net claims of banking system on public sector increased by Rls. 14,265.9 billion.

In 1380, according to budget law, increase in the ceiling of banks' outstanding directed credits, observing other obligations stipulated in development plans was authorized upto Rls. 4,800 billion.

Banking System and the Non-Public Sector

Review of banks credit performance indicates that the outstanding facilities extended by banks and non-bank credit institutions, excluding profit and revenue receivables, grew by 34.5 percent in 1380 and amounted to Rls. 203,792.2 billion. This was due to banks' more access to free resources, owing to the reduction in the reserve requirement ratios, on the one hand, and high credit demand on the other. According to the executive by-law of the mentioned Note, the approved change in the outstanding of banks' directed credits to the non-public sector was determined at Rls. 2,329.8 billion, while in practice amounted to Rls. 1,100.8 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)	
	1378	1379	1380	1379	1380	1379	1380
Commercial banks	84,129.9	109,352.1	148,538.5	30.0	35.8	72.2	72.9
Specialized banks	31,525.0	41,800.2	54,294.8	32.6	29.9	27.6	26.6
Non-bank credit institutions	186.0	392.6	958.9	111.1	144.2	0.2	0.5
Total	**115,840.9**	**151,544.9**	**203,792.2**	**30.8**	**34.5**	**100.0**	**100.0**

(1) Excludes profit and revenue receivables.

In 1380, the MCC authorized banks to extend 25 percent of the increase in the outstanding facilities, free from sectoral allocations, with the priority given to productive and export sectors.

Banks' matured and overdue claims increased significantly by 49.5 percent, as compared with the previous year. Of this increase, 52.2 percent was related to matured claims and 47.8 percent to overdue claims. The share of matured and overdue claims on non-public sector out of total claims was 6.3 percent, increasing as compared with 1379.

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

	1379					1380				
	Approved		Performance			Approved		Performance		
	80%	100%	Banks	Credit institutions	Total	75%	100%	Banks	Credit institutions	Total
Agriculture	25.0	20.0	18.3	0.1	18.2	25.0	18.8	19.0	0.6	18.7
Manufacturing & mining	33.5	26.8	28.9	26.7	28.9	33.5	25.1	38.9	52.9	39.1
Construction & housing	29.0	23.2	28.2	53.0	28.3	29.0	21.8	26.3	30.7	26.4
Exports	8.0	6.4	7.9	0	7.9	8.0	6.0	1.8	0	1.7
Domestic trade, services & miscellaneous (2)	4.5	3.6	16.7	20.2	16.7	4.5	3.4	14.0	15.8	14.0
Free uses	-	20.0	-	-	-	-	25.0	-	-	-
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

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

NON-PERFORMING CLAIMS (percent)

	Percentage change			Share in total claims of banks on non-public sector		
	1378	1379	1380	1378	1379	1380
Commercial banks	21.0	24.4	42.8	5.1	4.9	5.1
Specialized banks	-2.8	51.8	59.4	6.4	7.3	9.1
All banks	**11.2**	**34.3**	**49.5**	**5.5**	**5.6**	**6.3**

Composition of outstanding facilities extended by banks to the non-public sector according to Islamic contracts shows that a major portion of these facilities (62.5 percent) was extended through installment sale. All facilities extended for housing are categorized under this group.

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	
	1379	1380	1379	1380	1379	1380	1379	1380
Installment sale	55.1	57.8	73.6	73.3	33.8	43.6	60.9	62.5
Mozarebeh	7.8	6.8	2.6	2.5	6.9	8.1	6.2	5.5
Civil partnership	10.8	9.3	8.0	7.1	5.0	3.8	9.9	8.6
Gharz-al-hasaneh	5.7	5.8	1.2	1.6	0.4	0.2	4.2	4.5
Hire purchase	0.6	0.7	0.7	0.6	0	2.4	0.6	0.7
Forward transactions	8.4	8.9	4.1	4.2	3.7	7.1	7.0	7.5
Legal partnership	2.7	1.9	1.2	1.0	3.1	2.0	2.2	1.6
Direct investment	1.5	1.2	0.5	0.4	0	0	1.2	0.9
Joalah	2.1	2.1	0.1	0	42.8	30.5	1.6	1.6
Others (2)	5.3	5.5	8.0	9.3	4.3	2.3	6.2	6.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

(1) Includes profit and revenue receivables.

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

Liquidity

Liquidity (M2) grew by 28.8 percent in 1380 (against 29.3 percent in 1379) to reach Rls. 320,957.3 billion, which was due to increase in monetary base and money multiplier. Among major factors affecting liquidity growth during the last two years was increase in monetary base due to the rise in other items (net). Money multiplier also faced a higher growth of 11.9 percent, compared with the previous year to reach 3.303.

LIQUIDITY ACCORDING TO ITS DETERMINANTS (1)

	Outstanding at the end of the year			Percentage change	
	1378	1379	1380	1379	1380
Monetary base (billion rials)	71,822.6	84,398.1	97,184.8	17.5	15.2
Money multiplier	2.683	2.952	3.303	10.0	11.9
Liquidity (billion rials)	**192,689.2**	**249,110.7**	**320,957.3**	**29.3**	**28.8**

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

Review of factors affecting changes in liquidity based on domestic and external factors indicates that changes were mainly due to performance of domestic sector, in that 72.7 percent of changes in liquidity was due to change in net claims of banking system on non-public sector.

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

	1378	1379	1380
Changes in liquidity	**32,287.7**	**56,421.5**	**71,846.7**
Effects of the domestic sector	**34,905.9**	**30,884.7**	**66,555.7**
Changes in claims of the banking system on non-public sector (1)	31,767.7	35,704.0	52,247.3
Changes in net claims of the banking system on pubic sector (2)	3,138.2	-4,819.3	14,308.4
Effects of the external sector	**13,310.6**	**3,115.4**	**7,030.0**
Net foreign exchange receipts of non-public sector	-6,177.6	-16,580.7	-6,509.0
Net foreign exchange receipts of public sector	19,488.2	19,696.1	13,539.0
Others (net)	**-15,928.8**	**22,421.4**	**-1,739.0**

(1) Excludes profit and revenue receivables.

(2) Includes prepayments on public sector LCs.

Banks' claims on non-public sector accounted for liquidity growth in 1380 as the most important factor which caused 21 percentage point of the growth by itself. Banking system's net claim on public corporations' and institutions' share of 6.3 percentage point in the liquidity growth, was among other significant factors.

Monetary Base

Monetary base grew by 15.2 percent to reach Rls. 97,184.8 billion in the review year, owing mostly to rise in CBI net claims on public sector and in other items (net). Since part of oil export revenues was not sold at CD rate on TSE, CBI purchased foreign exchange at CD rate, which in turn raised the monetary base. Therefore, the foreign exchange purchased at Rls. 1,750: 1US$ has been included in the CBI foreign resources and its differential to CD rate was included in the CBI other assets.

CBI claims on banks had a negative effect of 13.6 percent on the monetary base. This was due to the banks' resources freed as a result of reduction in reserve requirement ratio, and repayment of part of CBI claims on banks, from the said sources.

MONETARY BASE AND ITS COMPONENTS (billion rials)

	Year-end outstanding			Percentage change	
	1378	1379	1380	1379	1380
Monetary base	**71,822.6**	**84,398.1**	**97,184.8**	**17.5**	**15.2**
CBI net foreign assets	4,449.8	7,576.8	11,740.8	70.3	55.0
CBI net claims on public sector	53,980.1	41,311.0	48,225.4	-23.5	16.7
CBI net claims on banks	20,811.0	23,553.4	12,076.7	13.2	-48.7
Other items (net)	-7,418.3	11,956.9	25,141.9	261.2	110.3

In 1380, all factors affecting monetary base growth, except for CBI claims on banks, had an increasing effect. It is noteworthy that, the trend of CBI claims on banks' and public sector's impact in raising monetary base reversed, and share of OIN was also reduced in the review period.

CONTRIBUTION OF FACTORS AFFECTING MONETARY BASE GROWTH (percent)

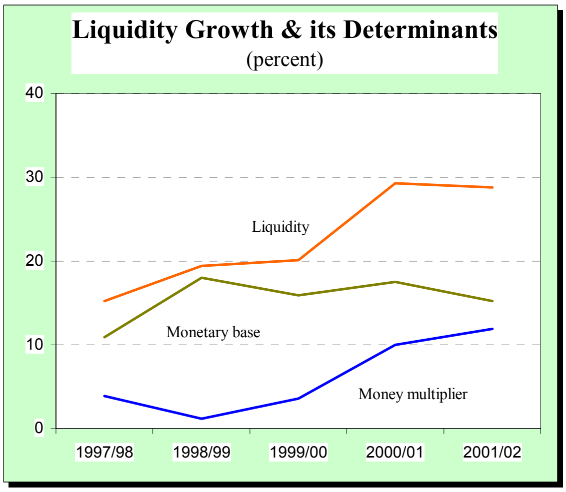
	1378	1379	1380
Monetary base	**15.9**	**17.5**	**15.2**
CBI net foreign assets	3.2	4.4	4.9
CBI net claims on public sector	-0.1	-17.6	8.2
CBI net claims on banks	12.0	3.8	-13.6
Other items (net)	0.8	26.9	15.7

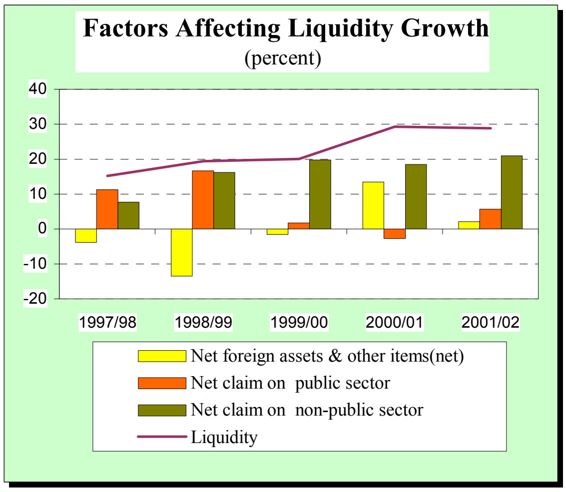
Money Multiplier

The money multiplier grew by 11.9 percent in 1380 and reached 3.303, showing a noticeable rise, compared with the previous year.

FACTORS AFFECTING MONEY MULTIPLIER

	1378	1379	1380	Contribution to growth in 1380
Money multiplier	**2.683**	**2.952**	**3.303**	**0.3509**
Currency in circulation/sight deposits	0.342	0.282	0.257	0.0605
Reserve requirement/total deposits	0.266	0.231	0.174	0.5034
Excess reserves/total deposits	0.025	0.033	0.059	-0.2263
Non-sight deposits/sight deposits	1.639	1.509	1.565	0.0133





A review of the factors affecting changes of money multiplier indicates that reduction in the reserve requirement ratio has been the major factor for increase in money multiplier. Moreover, reduction in the notes and coins with the public ratio to sight deposits also raised the money multiplier.

Composition of Liquidity

The volume of money growth slowed down compared with the previous year, while the growth pace of quasi-money went up in 1380. Thus, the share of money in liquidity reached 44.5 percent, while that of quasi-money reached 55.5 percent, due to increase in the share of term-investment deposits.

COMPOSITION OF LIQUIDITY (billion rials)

	Outstanding at the end of the year			% change		Share (%)	
	1378	1379	1380	1379	1380	1379	1380
Money	**86,751.0**	**114,420.5**	**142,956.7**	**31.9**	**24.9**	**45.9**	**44.5**
Notes & coins with the public	22,119.3	25,158.3	29,188.7	13.7	16.0	10.1	9.1
Sight deposits	64,631.7	89,262.2	113,768.0	38.1	27.5	35.8	35.4
Quasi-Money	**105,938.2**	**134,690.2**	**178,000.6**	**27.1**	**32.2**	**54.1**	**55.5**
Gharz-al-hasaneh savings deposits	16,296.0	22,014.4	29,847.5	35.1	35.6	8.8	9.3
Term investment deposits	79,532.0	103,363.6	141,066.5	30.0	36.5	41.5	44.0
Other deposits	10,110.2	9,312.2	7,086.6	-7.9	-23.9	3.8	2.2
Liquidity	**192,689.2**	**249,110.7**	**320,957.3**	**29.3**	**28.8**	**100.0**	**100.0**

Non-public sector's deposits with banks and non-bank credit institutions, with 30.3 percent rise, reached Rls. 291,768.5 billion in the review year. Of this amount, Rls. 178,000.6 billion was in the form of non-sight deposits.

Money

The volume of money grew by 24.9 percent in 1380 and reached Rls. 142,956.7 billion. The growth of this variable was 31.9 percent in the previous year. The share of notes and coins held with the public declined from 22 percent in 1379 to 20.4 percent in 1380, owing mostly to the use of traveler and banking checks as preferred alternatives in transactions. The volume of notes and coins issued, with 15.4 percent growth, reached Rls. 31,790.1 billion, 91.8 percent of which was held with the public, 7.4 percent with banks and 0.8 percent with the CBI.

COMPOSITION OF MONEY (percent)

	1378	1379	1380
Notes and coins with the public	25.5	22.0	20.4
Sight deposits	74.5	78.0	79.6
Total	**100.0**	**100.0**	**100.0**

Quasi-Money

Quasi-money grew by 32.2 percent to reach Rls. 178,000.6 billion, showing a higher growth rate, compared with the previous year. The shares of gharz-al-hasaneh savings and term investment deposits in the quasi-money went up, while share of miscellaneous deposits fell in 1380. Other deposits faced 23.9 percent reduction, which was greater than that in the previous year. This was mostly due to reduction in the ratio of LC prepayments.

COMPOSITION OF QUASI-MONEY (percent)

	1378	1379	1380
Gharz-al-hasaneh savings deposits	**15.4**	**16.3**	**16.8**
Term-investment deposits	**75.1**	**76.8**	**79.2**
Short-term	36.9	36.9	37.0
Short-term (special)	0.5	0.6	0.6
Long-term	37.7	39.3	41.6
Miscellaneous deposits (1)	**9.5**	**6.9**	**4.0**
Total	**100.0**	**100.0**	**100.0**

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

The profit rates on short-term investment, one-year and five-year deposits were reduced by one percentage point in 1380. Moreover, banks were authorized to determine the rate of return on 2-year, 3-year, and 4-year investment deposits in the range of 13-17 percent.

PROFIT RATE OF TERM-INVESTMENT DEPOSITS(1)

(% per annum)

	1378	1379	1380
Short-term	**8**	**8**	**7**
Short-term (special)	**10**	**10**	**9**
Long-term			
One-year	14	14	13
Two-year	15	15	13-17
Three-year	16	16	13-17
Four-year	17	17	13-17
Five-year	18.5	18.5	17

(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 percent.

COMPOSITION OF LONG-TERM INVESTMENT DEPOSITS(1)

(percent)

	1378	1379	1380
One-year	14.9	15.0	13.3
Two-year	3.2	2.8	3.7
Three-year	3.0	2.9	3.6
Four-year	...	0.2	0.4
Five-year	78.9	79.1	79.0
Total	**100.0**	**100.0**	**100.0**

(1) Includes non-bank credit institutions.

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

Sources and Uses of Commercial Banks Funds

In 1380, non-public sector deposits with commercial banks rose by Rls. 57,526.6 billion (29.1 percent). Of this increase, 39.8 percent was in sight deposits and 60.2 percent in non-sight deposits.

In this year, banks' blocked resources as reserve requirement, and 60 percent of LC prepayments with the CBI declined by Rls. 1,665.0 billion, owing to reduction in the reserve requirement ratio and LC prepayments.

Commercial banks' capital account and public sector deposits and funds with these banks increased by Rls. 5,670.2 billion and Rls. 1,056.0 billion, respectively. Thus, total commercial banks' free resources went up by Rls. 65,917.8 billion. Out of these resources, commercial banks' claims on non-public sector increased by Rls. 39,186.4 billion, and commercial banks' claims on public sector rose by Rls. 6,719.2 billion. Therefore, commercial banks' deficit fell by Rls. 20,012.2 billion, compared with the previous year. This amount was mostly allocated to depositing with the CBI and also repayment of CBI claims on these banks.

Sources and Uses of Specialized Banks Funds

In 1380, non-public sector deposits with specialized banks rose by Rls. 9,114.9 billion, 17.5 percent of which was due to increase in sight deposits and 82.5 percent to increase in non-sight deposits. Thus, the share of reserve requirement out of these deposits increased by Rls. 810.3 billion.

Free resources out of non-public sector deposits with specialized banks increased by Rls. 8,301.1 billion, taking the change in other sources such as capital account by Rls. 3,319.1 billion into account, specialized banks total free resources amounted to Rls. 13,600.9 billion. Of this figure, specialized banks' claims on non-public sector increased by Rls. 12,494.6 billion, and their claims on public sector went up by Rls. 1,106.3 billion. The share of non-public sector deposits in financing the required sources for extending facilities, increased from 45 percent in 1379 to 46.8 percent in 1380. Furthermore, the 89.2 percent growth in specialized banks' capital account contributed effectively to the improvement of the sources and uses of banks and reduced their dependence on commercial banks and CBI.

Banking Developments

In 1380, the CBI adopted measures to enhance the banks and supervise their performance more effectively. Amongst these was the increase in banks' capital. Out of the total projected capital increase of Rls. 5,000 billion, Rls. 4,000 billion was allocated to commercial banks and the remainder to specialized banks.

With the establishment of private banks in 1380 and increased role of non-bank credit institutions working successfully along with public banks, CBI supervisory mechanisms changed dramatically. Among the important measures taken in 1380, along with the unification of exchange rate and establishment of foreign exchange inter-bank market, was the design of contingency regulations for foreign exchange risk management in banks.

The individual ceiling for extending banking facilities to legal and real persons changed in 1380 in a way that the individual exposure ceiling to a real person, without reference to the CBI was determined at Rls. 900 million. Moreover, the total facilities that could be extended to a legal person was determined at Rls. 9 billion and for companies accepted on the TSE Rls. 13.5 billion.

To pursue the implementation of structural reforms, particularly in monetary and financial areas, and to achieve a sustainable economic growth, the CBI issued the establishment permit for three private banks namely, Eghtessade-Novin, Parsian, and Karafarin. Their capital was Rls. 250, 310, and 200 billion, respectively. In this year, certain regulations pertaining private banks were designed and announced, the most important of which are:

1- The ceiling of facilities extended by private banks to each legal person equals 10 percent of capital base and to each real person was determined at one percent.

2- The reserve requirement ratio on sight deposits and Gharz-al-hasaneh savings deposits with private banks was set at 20 percent, for short-term and one-year investment deposits 15 percent, for 2-year and over long-term 10 percent, and for other deposits 25 percent.

3- Setting deposits' provisional rate of return and expected rate of return on facilities are vested with private banks. However, it was suggested that they set the rates at the maximum of 2-3 percent above the profit rates approved by the MCC for public banks.

Number of Banking Units

The total number of bank units, including branches, counters and representative offices grew by 5.1 percent to 16,533 units in 1380. Bank Saderat Iran and Bank Melli Iran with 19.9 percent of these units each, accounted for the most domestic banking units.

In the review year, number of banks' employees grew by 4.6 percent to reach 162,967 persons. Number of commercial and specialized banks' employees grew by 4.6 and 4.0 percent, respectively.

BANKING UNITS

	1378	1379	1380
Domestic branches	**14,849**	**15,676**	**16,476**
Commercial banks	12,480	13,204	13,896
Specialized banks	2,369	2,472	2,580
Foreign branches	**56**	**56**	**57**
Melli Iran	21	20	20
Saderat Iran	22	23	23
Tejarat	3	3	3
Mellat	5	5	6
Sepah	5	5	5
Total	**14,905**	**15,732**	**16,533**

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 3,939 persons, showing 3.4 percent reduction compared with the previous year.

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.