CHAPTER 13

MONETARY AND BANKING POLICY AND PERFORMANCE

Key Aspects of Monetary Policy Approved for 2018/19

With the intensification of uncertainties regarding the Iran nuclear deal over the period January-March 2018 and the ultimate US unilateral withdrawal from the JCPOA in May, which in turn led to the formation of negative expectations concerning reductions in crude oil exports, as well as increase in transaction costs in the realm of external trade, resumption of sanctions, and restrictions on correspondent banking relationships, the foreign exchange and gold markets in Iran were disrupted. The resulted macroeconomic instability, the shortened term of banking deposits' remaining with banks, the rise in demand for consumer durables, restrictions on the imports of raw materials and intermediate goods, and the surge in production costs led to an increase in the inflation rate, an unfavorable environment for investment and production, and ultimately a reduction in GDP growth in 2018/19.

Given the abovementioned developments and to offset the complications encountered by the domestic economy, the CBI defined as its mission the adoption of certain supervisory and regulatory policies to restore relative stability to the foreign exchange market and facilitate external trade. Consequently, as of the second half of 1397 (October 2018), the foreign exchange as well as other financial markets started to experience relative stability. Maintaining this achievement, protecting the foreign exchange resources, and fulfilling import requirements for essential commodities, raw materials, and intermediate goods, required by the manufacturing units, were among important measures taken by the CBI for 2018/19.

Other significant measures in this regard included the adjustment of import policies in accordance with the foreign exchange flows, implementation of the new foreign exchange policy package, implementation of Iran's integrated system of foreign exchange transactions (NIMA), and prioritization of imports for the better provision of foreign exchange and its targeted allocation to essential commodities for getting around sanctions. Declaration of guidelines and circulars dictating regulations on how to return dollar receipts from non-oil exports to the Iranian economy, raising of transparency on foreign exchange transactions, as well as strengthening of external transactions through negotiations with major trade partners and neighboring countries on external trade, foreign transfers, and the utilization of national currencies were on the agenda of the CBI for 2018/19.

In line with the other policies adopted for monetary discipline, the CBI took serious measures for the management of the local currency flow, which reduced speculative activities and prevented the foreign exchange from being adversely affected. Other significant measures included strict oversight on banking transactions and electronic banking services, organization of money transfers and payments via different instruments, and reforming of procedures regarding the utilization of guaranteed banking checks.

Among measures adopted for the reduction of funds' mobilization costs and the lengthening of the term structure of banking deposits was the formulation of new rules on general Certificates of Deposit (CDs) in 2018/19. Based on the CBI recommendation and the approval of the MCC[1], the provisional profit rate of the general CDs and the rate of repurchase were set at 18.0 and 10.0 percent, respectively. The penalty rate on violating general CDs was raised from 2.0 percentage points to 8.0 percentage points. To encourage the public to open and keep long-term deposit accounts with banks, reduce the mobilization costs of funds in the banking system, raise the capacity of facility allocation for financing manufacturing units, and stabilize the domestic economy, the CBI revised the profit calculation procedure for short-term deposits from a daily basis to a monthly one and decided to follow the prior MCC Approval (Article 22 of the Executive Guideline on deposit taking approved at the 514th MCC Meeting on January 8, 1984), which is more compatible with the requirements of ordinary short-term deposits[2].

Given the dominant role of banks' debt to the CBI in growth of monetary base and broad money in recent years, the CBI negotiated with banks on strengthening the interbank market and managing the bank's use of the CBI overdraft facility through the interbank market. In implementation of the monetary policy and for the better management of the profit rate as well as broad money, containment of inflation, reconsideration of banks' overdraft practices, and regulation of credit allocations to banks and credit institutions, the CBI put on its agenda the implementation of the Open Market Operations (OMOs) and allocation of credit against collateral, based on the license conferred by the Supreme Council of Economic Coordination on October 2, 2018.

With regard to the credit policy, the CBI focused on the improvement of banks' facility allocations based on priorities, channeling of resources towards productive activities, diversification of financing modes, and strengthening of credit allocation capacities of banks. Special measures included allocating lines of credit to banks, depositing in the interbank market with the aim of reducing credit crunch in the money market, providing the broad money required by productive units, financing the working capital of productive units aimed at putting the unutilized capacities of the economy into operation, supporting the SMEs and boosting employment through workshops active in provinces, extending scheduled facilities on the guaranteed purchase of agricultural products, unexpected events, and job creation for the beneficiaries of supportive foundations as well as the microfinance of households through marriage Gharz-al-hasaneh and purchase of consumer durable facilities, and reducing the lending rates for the first-time home buyers in the framework of the national program of sustainable urban renewal for the first-time depositors.

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[1] Minutes of the 1258th Meeting of the MCC on September 17, 2018.

[2] Circular No. 97/344336 dated December 22, 2018.

On its supervisory role, the CBI was mostly focused on reforming the banking system of the country, through acquiring the necessary approvals from the Supreme Council of Economic Coordination for the authorization to deal with banks' large non-performing loans (NPLs), control the banks' use of the CBI overdraft facility, and oversee banks' responsibilities in dealing with these problems. Other significant measures included requiring banks to raise transparency on their balance sheets, recapitalize, and sell their redundant assets. The CBI also took measures to dissolve unlicensed financial institutions, settle the issues of unsound banks and credit institutions, and implement the comprehensive plan of merging the banks affiliated with the armed forces (including Ansar, Ghavamin, Hekmat Iranian, and Mehr Eghtesad banks as well as Kosar Credit Institution) into Bank Sepah.

Banking System[1] Performance

The assets and liabilities of the banking system increased by 24.6 percent to Rls. 38,786 trillion in 2018/19. Other assets, with 27.7 percent (Rls. 2,858.3 trillion) increase were the main factor contributing to the rise in assets. Claims on non-public sector (including future profits and revenues) and foreign assets, with respectively 20.2 and 25.3 percent growth (Rls. 2,207.6 trillion and Rls. 1,849.9 trillion increase) were the other two factors raising the assets.

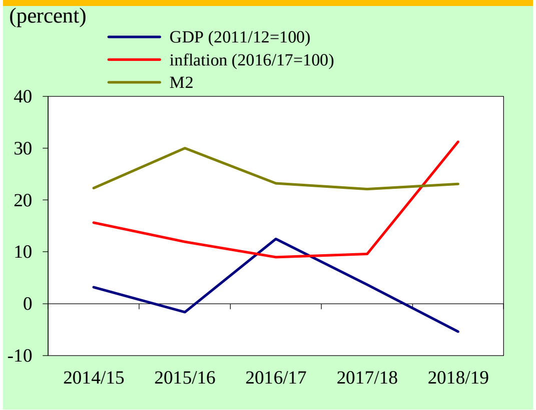
On the liabilities side of the banking system, broad money (M2), with 23.1 percent (Rls. 3,529.1 trillion) increase and other liabilities (including the capital account of the banking system and advance payments by public sector on L/Cs), with 23.5 percent (Rls. 2,500.3 trillion) growth compared with the year before, were the two most important factors contributing to the rise of banks' liabilities.

Banking System and External Sector

In 2018/19, the net foreign assets of the banking system increased by 13.9 percent (Rls. 397.6 trillion) compared with the year before to reach Rls. 3,252.6 trillion. This was attributable to the increase in the net foreign assets of the CBI by Rls. 256.7 trillion on the one hand and rise in the net foreign assets of public banks as well as private banks and non-bank credit institutions by Rls. 140.9 trillion on the other.

The reason behind the rise in the net foreign assets of the CBI was Rls. 581.2 trillion increase in its foreign assets as against Rls. 324.5 trillion growth in its foreign liabilities. The increase in the net foreign assets of public banks as well as private banks and non-bank credit institutions in 2018/19 was attributable to the rise in their foreign assets and liabilities by Rls. 1,268.7 trillion and Rls. 1,127.8 trillion, respectively.

Figure 13.1. Growth in major economic variables



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

Banking System and Public Sector

The net claims of the banking system on the public sector increased by Rls. 565.9 trillion to reach Rls. 2,409.6 trillion in 2018/19. The claims of the CBI on the public sector rose by 81.5 percent (Rls. 430.2 trillion), which was due to 171.8 percent rise in the claims of the CBI on the government and 12.4 percent decline in public corporations' and institutions' debt to the CBI. The rise in the claims on the government compared with 2017/18 was mainly due to the debt swap of part of the CBI claims on banks and credit institutions (subject to Paragraph F, Note 5 of the Budget Law for 2018/19), as well as the debt swap of the CBI claims on public institutions (subject to Article 6 of the Law on Facilitation of Competitive Production and Financial Sector Reform approved in 2015/16) to the CBI claims on government. Of the total CBI claims on the government, Rls. 39.2 trillion (5.4 percent) was due to the deficit in the foreign exchange obligations account[1] and Rls. 8.9 trillion, to the unification of the exchange rate in 2002. Public sector's deposits with the CBI increased by 41.7 percent (Rls. 196.1 trillion) in 2018/19, mainly attributable to the increase in government's deposits with the CBI by Rls. 184.8 trillion and rise in public corporations' and institutions' deposits with the CBI by Rls. 11.3 trillion compared with the year before.

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

	Year-end balance			Percentage change	
	2016/17	2017/18	2018/19	2017/18	2018/19
Assets	**25,496.6**	**31,130.8**	**38,786.0**	**22.1**	**24.6**
Foreign assets	5,823.5	7,321.5	9,171.4	25.7	25.3
Central Bank	3,394.1	4,070.1	4,651.3	19.9	14.3
Public banks[2]	982.7	1,268.1	1,686.8	29.0	33.0
Private banks and non-bank credit institutions	1,446.7	1,983.3	2,833.3	37.1	42.9
Claims on public sector	2,197.5	2,586.1	3,325.5	17.7	28.6
Claims on non-public sector[3]	9,177.2	10,918.5	13,126.1	19.0	20.2
Other	8,298.4	10,304.7	13,163.0	24.2	27.7
Liabilities	**25,496.6**	**31,130.8**	**38,786.0**	**22.1**	**24.6**
Broad money (M2)	12,533.9	15,299.8	18,828.9	22.1	23.1
Loans and deposits of public sector	614.4	742.4	915.9	20.8	23.4
Foreign liabilities	3,310.9	4,466.5	5,918.8	34.9	32.5
Central Bank	1,469.5	1,910.3	2,234.8	30.0	17.0
Public banks[2]	696.5	951.5	1,312.6	36.6	38.0
Private banks and non-bank credit institutions	1,144.9	1,604.7	2,371.4	40.2	47.8
Other[4]	9,037.4	10,622.1	13,122.4	17.5	23.5

[1] Excludes below the line items. [2] Includes commercial and specialized banks. [3] Includes future profits and revenues.
[4] Includes capital account and advance payments by public sector on L/Cs.

[1] The foreign exchange obligations account was opened in 1993, upon the unification of the exchange rate.

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

	2017/18	2018/19
Public sector	**260.6**	**565.9**
Central Bank	-144.7	234.1
Public commercial and specialized banks	205.9	170.3
Private banks and non-bank credit institutions	199.4	161.5
Government	**303.2**	**585.1**
Central Bank [1]	-106.3	277.4
Public commercial and specialized banks	200.5	144.1
Private banks and non-bank credit institutions	209.0	163.6
Public corporations and institutions	**-42.6**	**-19.2**
Central Bank	-38.4	-43.3
Public commercial and specialized banks [2]	5.4	26.2
Private banks and non-bank credit institutions	-9.6	-2.1

[1] Includes the deficit in the foreign exchange obligations account, resulted from the unification of the exchange rate in 1993, as well as government debt to the CBI due to the unification of the exchange rate in 2002.

[2] Includes indebtedness for the exchange rate differential, resulted from the unification of the exchange rate in 1993.

Public sector's indebtedness to banks and non-bank credit institutions surged by 15.0 percent (Rls. 309.2 trillion) in 2018/19, mainly due to 14.1 percent (Rls. 285.1 trillion) growth in banks' and non-bank credit institutions' claims on the government. The government's debt to banks and non-bank credit institutions reached Rls. 2,310.1 trillion in March 2019.

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

In 2018/19, the outstanding facilities[3] extended by the banking system to the non-public sector increased by 17.5 percent (Rls. 1,705.4 trillion) to Rls. 11,466.7 trillion. This shows 1.0 percentage point decrease as compared with the 18.5 percent growth of 2017/18. The share of facilities extended by the banking system to the non-public sector equaled 82.9 percent of total facilities extended to public and non-public sectors. This indicated 0.3 percentage point increase compared with the respective figure in the year before (82.6 percent).

[1] Includes state-owned and private banks as well as non-bank credit institutions.

[2] Figures in this section exclude future profits and revenues and are, therefore, different from the figures in the Appendix.

[3] Includes overdue and non-performing loans.

In March 2019, the outstanding facilities extended by the public commercial banks to the non-public sector increased by 21.2 percent (Rls. 324.9 trillion) to Rls. 1,857.1 trillion (excluding future profits and revenues). The outstanding facilities extended by the specialized banks to the non-public sector grew by 14.7 percent (Rls. 277.3 trillion) to Rls. 2,165.3 trillion. For the private banks and non-bank credit institutions, this variable grew by 17.4 percent (Rls. 1,103.2 trillion) to Rls. 7,444.3 trillion.

Consequently, the share of the public commercial banks increased from 15.7 percent in 1396 year-end (March 2018) to 16.2 percent in end-1397 (March 2019). On the other hand, the share of the specialized banks decreased from 19.3 percent to 18.9 percent over the mentioned period and that of the private banks and non-bank credit institutions slightly decreased from 65.0 percent in March 2018 to 64.9 percent in March 2019.

Table 13.3. Outstanding Facilities Extended by Banking System to Non-public Sector [1]

(trillion rials)

	Year-end balance			Percentage change		Share (percent)	
	2016/17	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
Public commercial banks	1,270.3	1,532.2	1,857.1	20.6	21.2	15.7	16.2
Public specialized banks	1,644.3	1,888.0	2,165.3	14.8	14.7	19.3	18.9
Private banks and non-bank credit institutions	5,326.1	6,341.1	7,444.3	19.1	17.4	65.0	64.9
Total	**8,240.7**	**9,761.3**	**11,466.7**	**18.5**	**17.5**	**100.0**	**100.0**

[1] Excludes future profits and revenues.

The highest share (57.6 percent) of the increase in the net outstanding facilities extended by the banking system to the non-public sector was related to the "domestic trade, services, and miscellaneous" group, followed by "construction and housing", by 20.6 percent, "manufacturing and mining" by 13.8 percent, and "agriculture" by 8.0 percent. Meanwhile, the composition of the outstanding facilities extended by banks to the non-public sector according to Islamic contracts shows that partnership and installment sale held the highest shares by 31.3 and 29.5 percent, respectively.

Figure 13.2. Public & non-public sectors' debt to banks and non-bank credit institutions (excluding future profits and revenues)

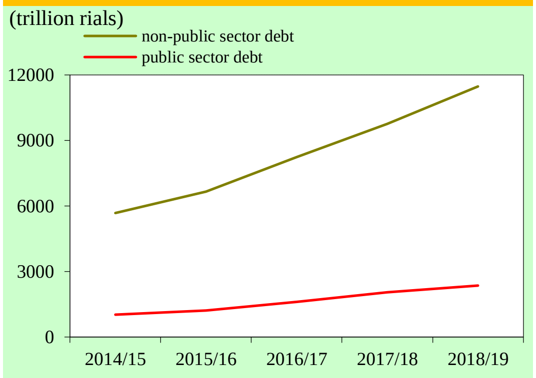


Table 13.4. Share of Economic Sectors in Increase in Net Outstanding Facilities[1] Extended by Banking System to Non-public Sector

(percent)

	2017/18			2018/19		
	Public banks	Private banks & non-bank credit institutions	Banking system	Public banks	Private banks & non-bank credit institutions	Banking system
Agriculture	17.1	0.0	6.4	20.2	1.3	8.0
Manufacturing and mining	21.8	12.0	15.7	18.1	11.5	13.8
Construction and housing	18.9	52.5	40.0	11.1	25.8	20.6
Exports	1.9	0.2	0.8	0.4	-0.3	0.0
Domestic trade, services, and miscellaneous	40.3	35.3	37.1	50.2	61.7	57.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[1] The net outstanding is calculated upon the deduction of the exchange rate differential, future profit and commission, receipts from Mudarabah, the banks' contributions to legal partnership accounts, and overdue profit and commission headings from the outstanding debts of customers and extended facilities. Net outstanding facilities include legal partnership and direct investment contracts.

The shares of facilities extended in the form of installment sale, Murabaha, Gharz-al-hasaneh, Ju'alah, forward transactions, hire purchase, and legal partnership were higher while those of partnership, Mudarabah, and direct investment were lower than 2017/18.

The ratio of the overdue and non-performing loans to the total rial facilities extended by banks and non-bank credit institutions to public and non-public sectors fell by 0.3 percentage point from 10.3 percent in March 2018 to 10.0 percent in March 2019. This ratio declined by 1.1 percentage points for public commercial banks and 0.4 percentage point for private banks and non-bank credit institutions while it rose by 0.9 percentage point for specialized banks.

Given the important role of the SMEs in job creation and realization of the objectives of the resistance economy, the Guideline on Financing the SMEs was drafted by the CBI in May 2016 and announced for implementation to the banking system[1]. Accordingly, as of the implementation of this guideline until March 2019, a sum of Rls. 552.2 trillion of facilities was allocated to 75.8 thousand eligible manufacturing establishments, within the framework of the provincial working groups' approvals and direct facilities extended by banks.

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

	2017/18	2018/19
Installment sale	26.5	29.5
Mudarabah	1.6	1.3
Partnership	37.8	31.3
Gharz-al-hasaneh	5.5	6.0
Hire purchase	0.3	0.6
Forward transactions	0.6	0.9
Legal partnership	2.9	3.0
Direct investment	0.7	0.6
Ju'alah	4.2	4.7
Murabaha	8.1	10.6
Others [1]	11.8	11.5
Total	**100.0**	**100.0**

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

Table 13.6. Ratio of Overdue and Non-performing Loans to Total Facilities Extended by Banking System to Public and Non-public Sectors (in rials) [1] (percent)

	2017/18	2018/19	Change (percentage points)
Public commercial banks	7.2	6.1	-1.1
Specialized banks	10.0	10.9	0.9
Private banks and non-bank credit institutions	11.3	10.9	-0.4
Banking system	**10.3**	**10.0**	**-0.3**

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

[1] Circular No. 95/27577 dated April 20, 2016.

Banks' and credit institutions' scheduled facilities reached Rls. 441.8 trillion in 2018/19, Rls. 178.3 trillion (40.4 percent) of which was related to Gharz-al-hasaneh facilities and Rls. 263.5 trillion was related to other uses. Of total Gharz-al-hasaneh facilities, Rls. 154.1 trillion (86.4 percent) was exclusively allocated as marriage facility and Rls. 24.2 trillion was extended for employment of help-seekers of welfare organizations, release of needy prisoners, and home-based businesses. A sum of Rls. 57.2 trillion of other scheduled facilities was related to the guaranteed purchase of wheat and other strategic agricultural products and Rls. 6.7 trillion was related to Mehr Housing Program[1].

Table 13.7. Banks' Performance on Scheduled Facilities in 2018/19 (trillion rials)

Purposes	Paid facilities in 2018/19
Gharz-al-hasaneh facilities	**178.3**
Marriage	154.1
Other	24.2
Other scheduled facilities	**263.5**
Guaranteed purchase of wheat and other strategic agricultural products	57.2
Rural housing	3.8
Mehr Housing Program	6.7
Old buildings	0.1
Veterans' Home Facility	6.5
Financing of SMEs	189.2
Total	**441.8**

Broad Money (M2) and Its Determinants

In 2018/19, broad money (M2) grew by 23.1 percent to reach Rls. 18,828.9 trillion, indicating 1.0 percentage point increase compared with 22.1 percent growth in the year before. The positive growth of broad money was mainly attributable to the 24.2 percent rise in the monetary base, which was in turn due to the increase in the net claims of the CBI on the public sector. Moreover, money multiplier reached 7.087 in 2018/19, down by 0.9 percent compared with the year before.

Figure 13.3. Growth of M2 and its determinants

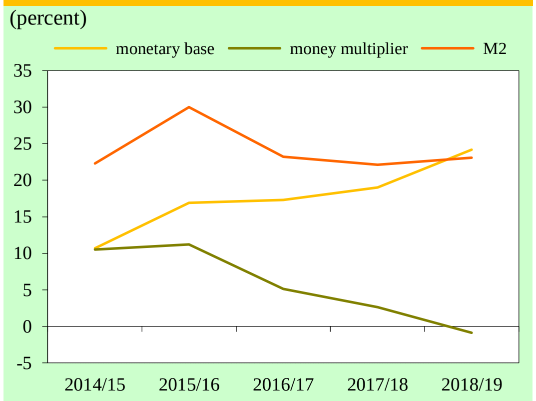


Table 13.8. M2 and its Determinants

	Year-end balance		Percentage change	
	2017/18	2018/19	2017/18	2018/19
Monetary base (trillion rials)	2,139.8	2,656.9	19.0	24.2
Money multiplier	7.150	7.087	2.6	-0.9
M2 (trillion rials)	15,299.8	18,828.9	22.1	23.1

[1] As per the MCC Approval dated September 22, 2015, the ceiling on Mehr housing facilities was set at Rls. 555.4 trillion, Rls. 524 trillion of which was allocated by March 2019. No separate quota was determined for 2018/19.

Among the factors affecting M2 growth, the net domestic assets of the banking system, with 25.2 percent growth compared with 2017/18, had an increasing share of 20.5 percentage points in raising M2. Among the items of net domestic assets, claims of the banking system on the non-public sector, with 17.5 percent growth and a positive share of 11.1 percentage points, and other items (net) with 101.9 percent growth and an increasing share of 5.7 percentage points, were the main contributing factors (excluding future profits and revenues). Banking system's net claims on the public sector had an increasing share of 3.7 percentage points in raising M2. The net foreign assets of the banking system, with 13.9 percent increase, had a positive share of 2.6 percentage points in M2 growth (including future profits and revenues).

Monetary Base and Its Determinants

The net claims of the CBI on the public sector, with 404.3 percent growth and an increasing share of 10.9 percentage points, were the most important factor behind the rise in monetary base which, compared with the previous year (a decreasing share of 8.0 percentage points in the 19.0 percent growth of monetary base), indicated 18.9 percentage points increase. This was attributable to 81.5 percent rise in the CBI claims on the public sector (with a positive share of 20.1 percentage points in the monetary base growth) as against the 41.7 percent increase in the deposits of public sector with the CBI (with a share of -9.2 percentage points in monetary base growth). The increase in the CBI claims on government in 2018/19 compared with 2017/18 was mainly due to the debt swap of part of the CBI claims on banks and credit institutions (subject to Paragraph F, Note 5 of the Budget Law for 2018/19), as well as the debt swap of the CBI claims on public institutions (subject to Article 6 of the Law on Facilitation of Competitive Production and Financial Sector Reform approved in 2015/16) to the CBI claims on the government.

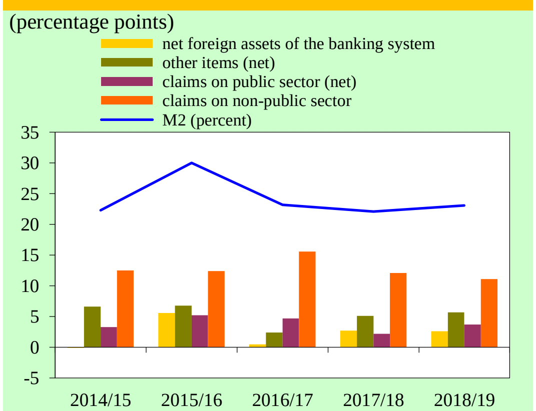
The net foreign assets of the CBI, with 11.9 percent increase compared with March 2018 and an increasing share of 12.0 percentage points, were the other factor positively affecting the monetary base. A major portion of the rise in the net foreign assets of the CBI was related to the increase in the exchange rate used for the revaluation of the foreign assets and liabilities of the Central Bank.

Table 13.9. Contribution of Factors Affecting M2 Growth (percentage points)

	2017/18	2018/19
Net foreign assets of the banking system	**2.7**	**2.6**
Net domestic assets of the banking system	**19.4**	**20.5**
Claims on public sector (net)	2.2	3.7
Government	2.5	3.8
Public corporations	-0.3	-0.1
Claims on non-public sector[1]	12.1	11.1
Other items (net)	5.1	5.7
M2 (percent)	**22.1**	**23.1**

[1] Excludes future profits and revenues.

Figure 13.4. Factors affecting M2 growth



The claims of the CBI on banks, with 4.7 percent (Rls. 61.4 trillion) increase compared with March 2018 and a positive share of 2.9 percentage points, was another factor responsible for the increase in the monetary base. This shows 15.1 percentage points decrease compared with the respective figure of 2017/8 (an increasing share of 18.0 percentage points in the 19.0 percent growth of the monetary base). The other items of the CBI (net), with 2.5 percent fall and a decreasing share of 1.6 percentage points, was the only factor adversely affecting the monetary base growth in 2018/19.

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

	2017/18	2018/19
CBI net foreign assets	13.1	12.0
CBI net claims on public sector	-8.0	10.9
CBI claims on banks	18.0	2.9
CBI other items (net)	-4.1	-1.6
Monetary base (percent)	**19.0**	**24.2**

Composition of Broad Money

The share of narrow money (M1) in M2 increased from 12.7 percent in March 2018 to 15.1 percent in March 2019, mainly due to the uncertainties regarding the foreign exchange market trends and the public tendency for broad money during January-March 2019. The share of quasi-money fell by 2.4 percentage points to 84.9 percent.

The share of one-year deposits in total long-term deposits increased by 2.8 percentage points from 94.7 percent in 2017/18 to 97.5 percent in 2018/19. The shares of three- and five-year deposits, however, fell by 0.1 and 2.7 percentage points from 0.1 and 4.8 percent to 0.0 and 2.1 percent, respectively and those of two- and four-year deposits remained unchanged. This was mainly attributable to the banning of opening deposits with more than one-year maturity as of May 2014.

Table 13.11. Composition of Long-term Deposits (percent)

	Year-end		
Deposits	2016/17	2017/18	2018/19
One-year	85.6	94.7	97.5
Two-year	0.9	0.3	0.3
Three-year	0.2	0.1	0.0
Four-year	0.2	0.1	0.1
Five-year	13.1	4.8	2.1

Table 13.12. Composition of Broad Money (trillion rials)

	Year-end balance			Percentage change		Share in M2 (percent)	
	2016/17	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
M1	**1,630.3**	**1,946.7**	**2,852.3**	**19.4**	**46.5**	**12.7**	**15.1**
Notes and coins with the public	393.3	442.7	547.5	12.6	23.7	2.9	2.9
Sight deposits of non-public sector	1,237.0	1,504.0	2,304.8	21.6	53.2	9.8	12.2
Quasi-money	**10,903.6**	**13,353.1**	**15,976.6**	**22.5**	**19.6**	**87.3**	**84.9**
Gharz-al-hasaneh savings deposits	602.9	801.9	1,026.5	33.0	28.0	5.2	5.5
Term investment deposits	10,123.1	12,339.1	14,646.0	21.9	18.7	80.7	77.8
Miscellaneous deposits	177.6	212.1	304.1	19.4	43.4	1.4	1.6
M2	**12,533.9**	**15,299.8**	**18,828.9**	**22.1**	**23.1**	**100.0**	**100.0**

Sources and Uses of Funds of Public Commercial Banks

The value of non-public sector's deposits with public commercial banks grew by 25.4 percent (Rls. 767.7 trillion) in 2018/19. Deposits of non-public sector held with commercial banks included sight deposits, the value of which rose Rls. 179.5 trillion and non-sight deposits whose value increased by Rls. 588.2 trillion. The non-usable resources of public commercial banks rose Rls. 101.2 trillion, mainly owing to Rls. 101.7 trillion increase of reserve requirement and Rls. 0.5 trillion decrease in notes and coins kept with commercial banks. Moreover, the balance of the capital account and the loans and deposits of the public sector decreased by Rls. 163.1 trillion and Rls. 3.5 trillion, respectively. Accordingly, the non-public sector indebtedness[1] went up by Rls. 324.9 trillion and the public sector indebtedness[2] increased by Rls. 117.8 trillion.

Sources and Uses of Funds of Specialized Banks

In 2018/19, the non-public sector's deposits held with specialized banks grew by Rls. 301.5 trillion. The value of sight deposits increased by Rls. 79.4 trillion and that of non-sight deposits rose by Rls. 222.1 trillion. In this year, the non-usable resources of specialized banks rose by Rls. 22.9 trillion, resulting from Rls. 23.3 trillion increase in reserve requirement and Rls. 0.4 trillion fall in the value of notes and coins. Free resources out of non-public sector's deposits held with specialized banks increased by Rls. 278.6 trillion. Total free credit resources of specialized banks, including other sources (debt to the Central Bank, external debt, debt to other banks, and other funds), increased by Rls. 342.8 trillion. This included the rise in non-public sector's debt to specialized banks by Rls. 277.3 trillion and the increase in public sector's debt by Rls. 65.5 trillion. The CBI's claims on specialized banks rose by 1.2 percent (Rls. 5.6 trillion) to Rls. 477.7 trillion in March 2019.

Sources and Uses of Funds of Private Banks and Non-bank Credit Institutions[3]

In 2018/19, the non-public sector's deposits with private banks and non-bank credit institutions rose by 23.0 percent (Rls. 2,355.1 trillion) compared with the year before. In this regard, the value of sight deposits increased by Rls. 541.9 trillion and that of non-sight deposits went up by Rls. 1,813.2 trillion. The non-usable resources of private banks and non-bank credit institutions increased by Rls. 277.1 trillion in 2018/19, mainly due to Rls. 279.6 trillion rise in reserve requirement and Rls. 2.5 trillion decline 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. 22.4 trillion compared with 2017/18 while public sector's loans and deposits with private banks and non-bank credit institutions decreased by Rls. 6.5 trillion in 2018/19. Consequently, private banks' and non-bank credit institutions' claims on the non-public sector increased by Rls. 1,105.8 trillion and public sector's debt to private banks and non-bank credit institutions rose by Rls. 181.1 trillion in 2018/19.

[1] Excludes future profits and revenues.

[2] Excludes participation papers issued by the government. Hence, the figure for public sector debt is different from the corresponding figure in "Summary of the Assets and Liabilities of Public Commercial Banks" Table in the Appendix.

[3] Includes banks privatized under Article 44 of the Constitution.

Banking Units and Personnel

In 2018/19, the number of banking units, including branches and counters in both domestic offices and representative offices abroad, fell by 2.0 percent to 22,548 units, 22,500 of which were located in Iran and the remaining were on foreign lands. Bank Melli Iran and Bank Saderat Iran held the highest shares in the number of domestic units by 14.4 and 12.2 percent, respectively. The number of banking system employees decreased by 3.1 percent to 210,433 persons, with the number of employees in public commercial banks, public specialized banks, and private banks and non-bank credit institutions falling by 4.3, 0.4 and 3.3 percent, respectively. The ratio of banking sector employees to banking units decreased by 1.1 percent to 9.3 persons on average while that of the total population to each domestic banking unit rose by 117 persons to about 3,648 persons.

Banking Sector Developments

The following includes the major banking measures adopted by the CBI for 2018/19.

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

- Guideline on changing the benchmark for the calculation of interest rate on short-term investment accounts from an average daily basis to a monthly one;

- Revised regulations and instructions on the issuance of guaranteed checks;

- Revised guideline on current accounts (in rials);

- Guideline on the establishment, operation, supervision, and closing of branches and representative offices of foreign banks in Iran;

- Guideline on the revenue recognition of credit institutions;

- Rules and regulations on the minimum and maximum amount of Gharz-al-hasaneh facilities extended by banks and non-bank credit institutions along with their term of repayment;

- Guideline on the acceptance of Islamic financial instruments as a guarantee for facility extension to contractors for development projects;

- Translation of the document on the main features of settlement systems effective for credit institutions;

Table 13.13. Number of Banking Units [1]

	2017/18	2018/19
Domestic branches	**22,962**	**22,500**
Commercial banks	5,452	5,308
Specialized banks	3,784	3,706
Private banks and non-bank credit institutions	13,726	13,486
Foreign branches	**47**	**48**
Total	**23,009**	**22,548**

[1] Excludes representative offices.

- Translation of Basel II and III Accords;

- Translation of the rules and regulations on credit risk management in development finance institutions (guidelines of the Central Bank of Malaysia).

Section Two- Major Measures on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)

- Comprehensive risk-based oversight on banks and their conduct of AML measures in terms of Know Your Customer (KYC) standards, reporting, documentation, and electronic money transfers;

- Case-by-case supervision on banks for ensuring compliance with the AML measures, implementation of various phases of the AML software, and revision of procedures;

- Tracking of the sources of initial capital for the establishment or capital increase of banks and credit institutions, according to the Approval of the Supreme National Security Council (3 cases);

- Tracking of the sources of initial capital for the establishment or capital increase of insurance companies, according to the Approval of the Anti-Money Laundering High Council (7 cases);

- Tracking of origins and beneficiaries of funds regarding 30 cases and files;

- Holding more than 15 elementary and advanced training courses on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) measures in the CBI, with due coordination of Training and Human Resource Department, Monetary and Banking Research Institution, and Iran Banking Institute of the CBI, comprising 5 courses on teacher training, 5 courses on the analysis of reports on suspicious transactions, 2 advanced courses on AML measures, as well as courses on recognition of foreign clients;

- Preparation and provision of reports on AML/CFT to competent international organizations;

- Establishment and implementation of NAHAB (Electronic Banking Authentication System), aimed at ensuring the sound observation of AML/CFT Law by banks and credit institutions based on the comprehensive authentication of banks' clients and issuance of more than 77 million online banking authentication codes for the clients;

- Participation in drafting and revision of bills of AML/CFT Law and Iran's joining with the CFT and the Palermo Convention in the specialized committee of AML/CFT Law held in the judiciary, bills commission of the Cabinet, specialized committees in the Parliament, and the Expediency Discernment Council.

Section Three- Bank Licensing[1]

In line with the Monetary and Banking Law of Iran, the Law on Rationalization of the Unorganized Money Market, and the five-year development plans of the country, the Central Bank has been vested with the mission to review the applications submitted by monetary foundations willing to start operating in the money market in the areas of establishment, operation, and registration. In this respect, the CBI issued establishment and operation licenses for 16 credit cooperatives, 18 Gharz-al-hasaneh Funds, 177 exchange bureaus, and 6 leasing companies in 2018/19. Meanwhile, the work permits for

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

a total of 199 institutions, which used to have temporary work permits, were renewed in 2018/19. Furthermore, the licenses of 2 Gharz-al-hasaneh funds, 3 leasing companies, and 13 exchange bureaus were revoked by March 2019.

Table 13.14. Number of Licenses Issued, Renewed, and Revoked for Institutions Active in Unorganized Money Market in 2018/19[1]

	Initial licenses		Renewed licenses	**Total**	Revoked licenses
	Establishment	Operation			
Credit cooperatives	5	11	25	**41**	0
Gharz-al-hasaneh Funds	2	16	16	**34**	2
Leasing companies	1	5	7	**13**	3
Exchange bureaus	76	101	151	**328**	13
Total	**84**	**133**	**199**	**416**	**18**

[1] Establishment licenses are issued at the initial phase to allow the establishment of the monetary foundations. Operation licenses allow the foundations to start operating.