CHAPTER THIRTEEN

MONETARY AND BANKING POLICY AND PERFORMANCE

The year 1381 (2002/03) witnessed attempts to prevent monetary expansion incompatible with the liquidity and inflation targets set in the 3rd Plan, while providing liquidity required for manufacturing and investment sectors. In this year, as a result of exchange rate unification, the policy of liquidity control deemed more essential than before. In this context, liquidity and inflation growth were set at 15.7 and 15.3 percent, respectively.

In the review year, the major monetary instrument to control liquidity growth was the use of CBI participation papers. In 1381, total participation papers offered by the CBI amounting to Rls. 9,445 billion, was substituted for the previous matured ones. Moreover, Rls. 7,606.8 billion new participation papers were issued, bringing the outstanding of CBI participation papers to Rls. 17,052 billion at the end of the review year. The provisional profit rate of CBI participation papers was set at 17 percent, in 1381.

On the basis of the 1381 Budget Law, the Central Bank is obliged to design and implement all banking facilities (in rial) extended by the banking system and the ratio of long-term to short-term credits and facilities, and credit and facilities plans of the banking system on the basis of current and term investment deposits, after deducting reserve requirements, in such a way that the targets of the 3rd Plan for economic growth and curbing inflation be realized. Moreover, according to the budget law, increase in the outstanding of directed credits in 1381, observing other objectives stipulated in development plans, was authorized upto Rls. 4,200 billion. It is to be mentioned that according to the 3rd Plan Law, the increase in the balance of directed credits is to decline by 10 percent per annum on the average during the course of the Plan, as compared to the figures approved for 1378.

In 1381, expected rates of return on banking facilities for economic sectors edged down by one percentage point as compared with 1380.

Banking System Performance

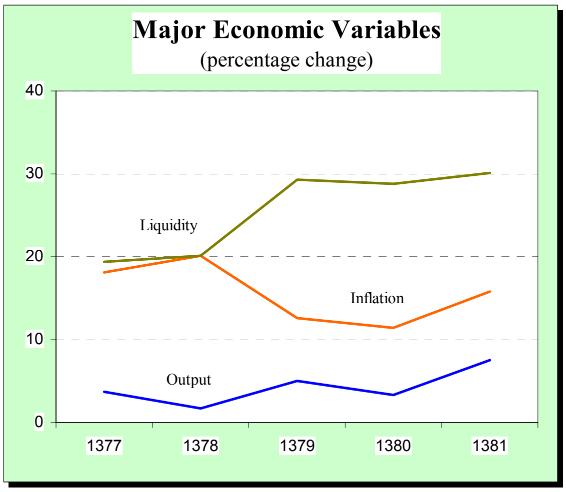
Following exchange rate unification, the conversion rate of banking system's foreign assets and liabilities (including foreign exchange deposits) changed from Rls. 1,750/1USD in 1380 to Rls. 8,083/1USD in 1381. This led to a rise of 65.9 percent in banking system's assets and liabilities. In banking system's assets side, the gargantuan rise of 431.7 percent in foreign assets was the major reason behind the rise in assets.

In the liabilities side, the effective factor for increase in liabilities was the rise in non-public sector deposits and foreign exchange liabilities. The remarkable surge of 410 percent in foreign exchange liabilities compared to 25.6 percent growth in the previous year was attributable to the rise in foreign exchange conversion rate. Therefore, net foreign assets of the banking system rose to Rls. 61,034.8 billion.

EXPECTED RATE OF RETURN ON BANKING FACILITIES

(percent per annum)

	1380	1381
Agriculture	14-15	13-14
Manufacturing and mining	16-18	15-17
Housing and construction		
Bank Maskan Housing Savings Fund		
Housing consumption pattern	15	14
Out of housing consumption pattern	16	15
Others	17-19	16-18
Trade and services	23 (min.)	22 (min.)
Exports	18	17



MAJOR ITEMS IN THE ASSETS AND LIABILITIES OF THE BANKING SYSTEM

(billion rials)

	Year-end balance			Percentage change	
	1379	1380	1381(1)	1380	1381
Assets	**500,097.3**	**633,186.6**	**1,050,686.7**	**26.6**	**65.9**
Foreign assets	32,832.8	44,397.9	236,073.7	35.2	431.7
Central Bank	23,566.8	31,809.5	175,854.7	35.0	452.8
Commercial and specialized banks	9,262.7	12,564.3	60,038.9	35.6	377.9
Private banks and non-bank credit institutions (2)	3.3	24.1	180.1	⊡	⊡
Claims on public sector	122,785.3	138,457.2	206,216.9	12.8	48.9
Claims on non-public sector	180,870.7	242,542.6	327,072.9	34.1	34.9
Others	163,608.5	207,789.0	281,323.2	27.0	35.4
Liabilities	**500,097.3**	**633,186.6**	**1,050,686.7**	**26.6**	**65.9**
Liquidity (M2)	249,110.7	320,957.3	417,524.0	28.8	30.1
Public sector deposits and funds	36,563.7	37,969.7	69,321.1	3.8	82.6
External debts and deposits	27,322.6	34,322.8	175,038.9	25.6	410.0
Central Bank	15,990.0	20,068.7	94,467.2	25.5	370.7
Banks	11,329.6	14,247.0	80,463.7	25.8	464.8
Private banks and non-bank credit institutions (2)	3.0	7.1	108.0	136.7	⊡
Others (3)	187,100.3	239,936.9	388,802.7	28.2	62.0

(1) Since Farvardin, 1381 figures have been revised on the basis of exchange rate unification.

(2) Includes Karafarin, Saman-e-Eghtesad, Eghtesad-e-Novin and Parsian private banks and Credit Institution for Development since Shahrivar, 1381.

(3) Includes capital account of the banking system and public sector LC prepayments.

Banking System and the External Sector

In 1381, banking system's net foreign assets enjoyed a gargantuan rise of 505.8 percent (Rls. 50,959.7 billion) owing to Rls. 69,646.7 billion increase in CBI's foreign assets (net) and Rls. 18,687 billion decrease in the net foreign assets of banks and non-bank credit institutions. The major reason behind the surge in the net foreign assets of the banking system was exchange rate unification.

Effects of Exchange Rate Unification on CBI Balance Sheet

Following the exchange rate unification, the conversion rate of CBI's foreign assets and liabilities increased from Rls. 1,750/1 USD official rate to Rls. 8,000/1USD. The impact of this change on CBI's opening balance sheet in 1381 is shown in the following table:

CBI OPENING BALANCE SHEET IN 1381 (billion rials)

	End-1380	Opening-1381	Changes
CBI's foreign assets (net)	**11,740.8**	**52,929.8**	**41,189.0**
Foreign assets	31,809.5	143,254.3	111,444.8
Foreign exchange liabilities	20,068.7	90,324.5	70,225.8
CBI's claims on the public sector (net)	**48,225.4**	**74,255.1**	**26,029.7**
Claims	82,357.7	108,387.4	26,029.7
Public sector deposits with the CBI	34,132.3	34,132.3	0
CBI's claims on banks	**12,076.7**	**12,076.7**	**0**
Others (net)	**25,141.9**	**-42,076.8**	**-67,218.7**
Monetary base	**97,184.8**	**97,184.8**	**0**

All the changes in foreign assets and foreign exchange liabilities in the above-mentioned balance sheet result from change in exchange rate. Yet, the reasons for rise in CBI's claims on public sector as a result of exchange rate unification mainly are as follows:

Part of the increase in CBI's claims on public sector is related to foreign exchange facilities which went up after exchange rate unification. Another part corresponds to CBI's miscellaneous assets. It is to be noted that prior to exchange rate unification, the CBI purchased part of government foreign exchange at CD rate and the differential of official and CD rate appeared under "other assets". Following exchange rate unification and revaluation of CBI's foreign reserves, miscellaneous assets were to be transferred to the relevant heading. Since the increase in foreign assets was less than miscellaneous assets due to repayment of government external debt by the CBI, this differential was added to government indebtedness. Moreover, revaluation of government obligations to the CBI for Iran quota in IMF and the World Bank raised government indebtedness.

Banking System and the Public Sector

The net claims of banking system on public corporations and institutions fell from Rls. 15,634 billion in 1380 to Rls. 9,813.9 billion. This was due to 18.1 percent growth in banks' claim on public corporations and institutions, 12.6 percent rise in CBI's claim on public corporations and institutions and 29.4 percent rise in their deposit with the CBI. During this period, government deposit with the CBI grew by 53.8 percent to Rls. 46,233.5 billion and government indebtedness recorded 72.7 percent increase to reach Rls. 111,620.3 billion, 27.9 percent (Rls. 31,102.7 billion) of which was related to the deficit in foreign exchange obligations account (in relation to exchange rate unification in 1372). The deficit in foreign exchange obligations account plunged by Rls. 215.4 billion. Government indebtedness to the CBI at the end of 1381 surged by Rls. 46,984 billion compared to the end of the previous year. The major reasons for this increase are:

- Following the exchange rate unification and due to inclusion of differential of official and import certificate rate prior to unification in miscellaneous assets, part of foreign exchange purchased at import certificate rate was deducted from miscellaneous assets and added to CBI's foreign assets. This differential raised CBI's claims on government by Rls. 12,609 billion.

- Part of facilities extended by the CBI to the government was in foreign exchange, which increased government indebtedness by Rls. 4,161.9 billion due to exchange rate unification.

- According to the Budget Law for 1381, Iran's Eurobonds were issued in this year, increasing government indebtedness by Rls. 8,546 billion.

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

(billion rials)

	1380	1381
Public sector	**14,266.0**	**36,408.3**
Central Bank (1)	6,914.5	31,847.9
Commercial & specialized banks	6,744.7	3,187.3
Private banks and non-bank credit institutions	606.8	1,373.1
Government	**-1,368.1**	**26,594.4**
Central Bank (2)	-1,645.9	30,817.7
Commercial & specialized banks	-329.0	-5,596.2
Private banks and non-bank credit institutions	606.8	1,372.9
Public corporations & institutions	**15,634.0**	**9,813.9**
Central Bank	8,560.3	1,030.2
Commercial & specialized banks (4)	7,073.7	8,783.5
Private banks and non-bank credit institutions	0	0.2

(1) Advance payments on public sector LCs are not deducted from public sector indebtedness to become net.

(2) Includes deficit in foreign exchange obligations account.

(3) Includes public sector participation papers only.

(4) Includes indebtedness for exchange rate differential.

- Government indebtedness to the CBI for foreign borrowing (subject of the Budget Law for 1380) surged by Rls. 8,319.7 billion. Part of this increase was attributable to revaluation of the mentioned indebtedness after exchange rate unification and other part to its reclassification.

- As a result of revaluation of government obligations to the CBI for Iran's quota in IMF and World Bank due to exchange rate unification, government promissory notes without maturity blocked in note cover went up by Rls. 11,728.7 billion.

CBI's claim on public corporations and institutions grew by 12.6 percent to reach Rls. 19,948.7 billion and their deposit with the CBI with 29.4 percent rise amounted to Rls. 5,262.2 billion. Thus, CBI's net claims on public sector picked up by Rls. 31,847.9 billion.

During this period, change in commercial and specialized banks' net claim on the public sector equaled Rls. 3,187.3 billion and that of private banks and credit institutions Rls. 1,373.1 billion. Government indebtedness to banks with 129.3 percent rise amounted to Rls. 17,318.2 billion mostly due to purchase of public sector participation papers by banks[1]. According to the law, banks are obliged to repurchase public sector participation papers before their maturity on request of holders. Banks' claims on public corporations and institutions rose by 18.1 percent. Overall, banking system's net claim on the public sector rose by Rls. 36,408.3 billion. In this year, part of banking resources was allocated to the extending of facilities in the framework of budgetary notes.

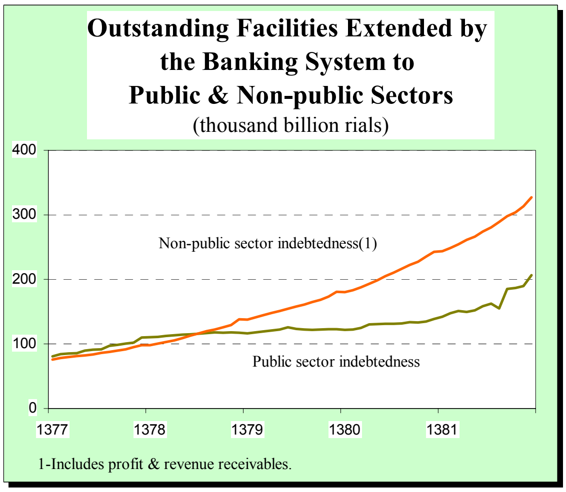
Banks and the Non-Public Sector

Banks' credit performance shows that the outstanding facilities[2] extended by banks to the non-public sector (excluding profit and revenue receivables) with Rls. 73,785.8 billion (36.2 percent) rise amounted to Rls. 277,578 billion. Banks' claim on the non-public sector for exchange rate differential declined by Rls. 538.4 billion. Facilities extended to the non-public sector out of the

(1) Includes CBI Participation Papers as well.

(2) Includes current and non-current (matured and overdue claims) facilities.

total facilities was 78.8 percent(1), indicating a remarkable share of this sector. Part of these facilities are extended as directed credits. According to the Budget Law for 1381, the ceiling for change in outstanding of directed credits extended to public and non-public sectors by public banks was determined at Rls. 4,200 billion. According to the respective by-law the approved change in the outstanding of banks' directed credits was determined at Rls. 1,698.2 billion, while amounted to Rls. 1,548.2 billion practically.



DIRECTED CREDITS EXTENDED ACCORDING TO THE BUDGET LAW FOR 1381 (billion rials)

	Change in outstanding		
	Budget ceiling	Approved	Performance
Social and cultural	250.0	121.7	121.7
Job creation	2,235.0	922.0	876.0
Market regulation	88.0	32.0	32.0
Productive and infrastructure	1,627.0	622.5	518.5
Total	**4,200.0**	**1,698.2**	**1,548.2**

OUTSTANDING FACILITIES EXTENDED BY BANKS TO THE NON-PUBLIC SECTOR (1) (billion rials)

	Outstanding at the end of year			Percentage change		Share (percent)	
	1379	1380	1381	1380	1381	1380	1381
Commercial banks	109,352.1	148,538.5	203,505.1	35.8	37.0	72.9	73.3
Specialized banks	41,800.2	54,294.8	70,679.3	29.9	30.2	26.6	25.5
Private banks and credit institutions	392.6	958.9	3,393.6	144.2	253.9	0.5	1.2
Total	**151,544.9**	**203,792.2**	**277,578.0**	**34.5**	**36.2**	**100.0**	**100.0**

(1) Excludes profit and revenue receivables.

In the review year, outstanding facilities extended by commercial and specialized banks to the non-public sector (excluding profit and revenue receivables) increased by 37 and 30.2 percent, respectively, and that of private banks and credit institutions by 253.9 percent to reach Rls. 3,393.6 billion. The share of private banks and credit institutions rose from 0.5 percent in 1380 to 1.2 percent in 1381.

In 1381, banks were authorized to extend 25 percent of the increase in the outstanding facilities free from sectoral allocations. In other words, the relative share of increase in outstanding facilities extended to the non-public sector was considered on the basis of 75 percent of banks' uses of funds after deducting the facilities extended out of Gharz-al-hasaneh deposits. Thus, considering banks' freedom in free uses, the share of the performance of facilities to all sectors (except for exports sector) became more than approved shares. It is to be mentioned that private banks and credit institutions are not required to observe sectoral allocation.

(1) Facilities extended to the non-public sector exclude, and those extended to the public sector include, profit and revenue receivables.

SHARE OF SECTORS IN INCREASE IN OUTSTANDING OF BANKING FACILITIES EXTENDED TO THE NON-PUBLIC SECTOR (1) (share percent)

	1380				1381			
	Approved		Performance		Approved		Performance	
	75%	100%	Banks (2)	Credit institutions	75%	100%	Banks (2)	Private banks and credit institutions
Agriculture	25.0	18.8	19.0	0.6	25.0	18.8	21.8	0
Manufacturing & mining	33.5	25.1	38.9	52.9	33.0	24.7	38.0	44.0
Construction & housing	29.0	21.8	26.3	30.7	28.5	21.4	29.2	33.0
Exports	8.0	6.0	1.8	0	9.5	7.1	-3.7	0.1
Domestic trade, services & miscellaneous (3)	4.5	3.4	14.0	15.8	4.0	3.0	14.7	22.9
Free uses		25.0				25.0		
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

(1) Excludes profit and revenue receivables. Excludes private banks and credit institutions.

(2) Includes commercial and specialized banks.

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

Total matured and overdue claims of commercial and specialized banks on non-public sector grew by 32.4 percent, showing a remarkable reduction compared to the growth of the previous year. Of this increase, 71.2 percent was related to matured claims and 28.8 percent to overdue claims. The share of matured and overdue claims on non-public sector out of total claims with a slight reduction reached 6.2 percent. This share showed an increase for commercial and a decrease for specialized banks.

NON-PERFORMING CLAIMS

	Percentage change			Share in total claims of banks on non-public sector (percent)		
	1379	1380	1381	1379	1380	1381
Commercial banks	24.4	42.8	48.8	4.9	5.1	5.6
Specialized banks	51.8	59.4	11.1	7.3	9.1	7.9
All banks	**34.3**	**49.5**	**32.4**	**5.6**	**6.3**	**6.2**

Composition of outstanding facilities extended by banks to the non-public sector according to Islamic contracts indicates that the major part of these facilities (62.7 percent) was extended under "installment sale" contract. All facilities extended for housing are also classified under this group.

COMPOSITION OF OUTSTANDING FACILITIES EXTENDED BY BANKS TO NON-PUBLIC SECTOR (1) (share percent)

	Commercial banks		Specialized banks		Private banks and credit institutions		All banks	
	1380	1381	1380	1381	1380	1381	1380	1381
Installment sale	57.8	58.7	73.3	73.4	43.6	38.1	62.5	62.7
Mozarebeh	6.8	6.9	2.5	2.7	8.1	5.7	5.5	5.7
Civil partnership	9.3	6.7	7.1	5.8	3.8	4.8	8.6	6.4
Gharz-al-hasaneh	5.8	9.0	1.6	3.0	0.2	0.2	4.5	7.2
Hire purchase	0.7	0.6	0.6	1.6	2.4	12.5	0.7	1.1
Forward transactions	8.9	7.9	4.2	3.7	7.1	9.6	7.5	6.7
Legal partnership	1.9	1.2	1.0	1.4	2.0	3.4	1.6	1.3
Direct investment	1.2	1.1	0.4	0.2	0	0.3	0.9	0.8
Joalah	2.1	1.7	0	0	30.5	21.2	1.6	1.4
Others (2)	5.5	6.2	9.3	8.2	2.3	4.2	6.6	6.7
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

In 1381, liquidity (M_2) increased by 30.1 percent (against 28.8 percent in 1380) to Rls. 417,524 billion, which was due to the growth in monetary base and money multiplier. Monetary base grew markedly by 23.1 percent as compared with 15.2 percent growth in 1380. This was mostly due to rise in CBI net foreign assets. Money multiplier registered a milder growth in this year as compared with the previous year and with 5.7 percent rise reached 3.491.

LIQUIDITY ACCORDING TO ITS DETERMINANTS

	Outstanding at the end of the year			Percentage change	
	1379	1380	1381	1380	1381
Monetary base (billion rials)	84,398.1	97,184.8	119,615.9	15.2	23.1
Money multiplier	2.952	3.303	3.491	11.9	5.7
Liquidity (billion rials)	**249,110.7**	**320,957.3**	**417,524.0**	**28.8**	**30.1**

Review of the factors affecting changes in liquidity based on domestic and external factors shows that surge in liquidity was mostly attributable to domestic factors, in that 76.4 percent of change in liquidity in 1381 was due to the change in net claims of banking system on the non-public sector.

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

	1379	1380	1381
Change in liquidity	**56,421.5**	**71,846.6**	**96,566.7**
Effects of the domestic sector	**30,884.7**	**66,555.7**	**111,658.8**
Changes in claims of the banking system on non-public sector (1)	35,704.0	52,247.3	73,785.9
Changes in net claims of the banking system on pubic sector (2)	-4,819.3	14,308.4	37,872.9
Effects of the external sector	**3,115.4**	**7,030.0**	**71,376.0**
Net foreign exchange receipts of non-public sector	-16,580.7	-6,509.0	-44,651.0
Net foreign exchange receipts of public sector	19,696.1	13,539.0	116,027.0
Others (net)	**22,421.4**	**-1,739.1**	**-86,468.1**

(1) Excludes profit and revenue receivables.

(2) Includes prepayments on public sector LCs.

The major factor responsible for rise in liquidity (considering the 1380 figures with effects of exchange rate unification on it) was banks' net claim on the non-public sector which caused 23 percentage points of this growth. Banking system's net claim on public sector with 3.7 percentage points share in liquidity growth was among other significant factors.

FACTORS AFFECTING LIQUIDITY GROWTH (share percent)

	1379	1380	1381	1381(1)
Banks' claim on the non-public sector (2)	**18.5**	**21.0**	**23.0**	**23.0**
Banks' claim on the public sector (net)	**-2.6**	**5.8**	**11.9**	**3.7**
Government	-4.8	-0.5	8.3	1.4
Public corporations and institutions	2.0	6.3	3.1	1.8
Less:				
Prepayments on public sector LCs	-0.2	0	-0.5	-0.5
Net foreign assets of the banking system	**1.1**	**1.8**	**15.9**	3.0
Others (net)	**12.3**	**0.2**	**-20.7**	**0.4**
Liquidity	**29.3**	**28.8**	**30.1**	**30.1**

(1) Effects of exchange rate unification in 1381 are considered in end-1380 CBI figures. This column includes end-1380 figures including exchange rate unification effects.

(2) Excludes profit and revenue receivables.

Monetary Base

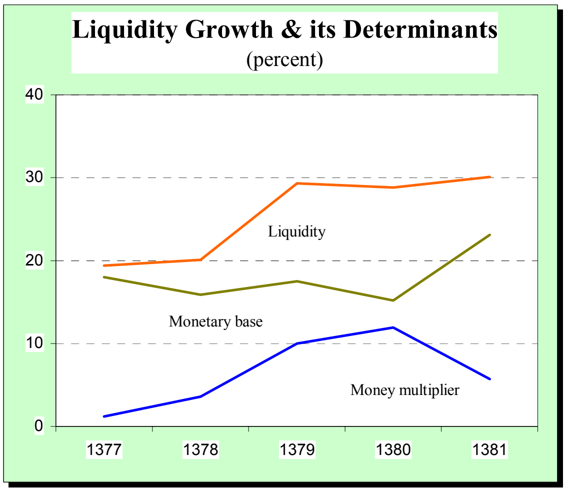
The monetary base with a growth of 23.1 percent amounted to Rls. 119,615.9 billion in the review year.

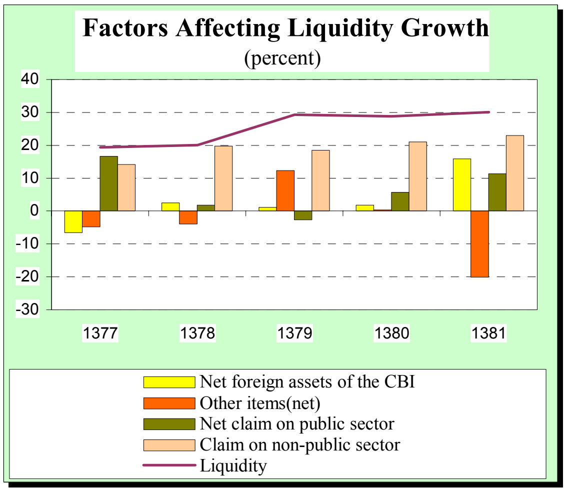
MONETARY BASE AND ITS COMPONENTS (billion rials)

	Year-end outstanding			Percentage change		
	1379	1380	1381	1380	1381(1)	1381(2)
Monetary base	**84,398.1**	**97,184.8**	**119,615.9**	**15.2**	**23.1**	**23.1**
CBI net foreign assets	7,576.8	11,740.8	81,387.5	55.0	593.2	53.8
CBI net claims on public sector	41,311.0	48,225.4	80,073.3	16.7	66.0	7.8
CBI claims on banks	23,553.4	12,076.7	24,308.4	-48.7	101.3	101.3
Other items (net)	11,956.9	25,141.9	-66,153.3	110.3	-263.1	-57.2

(1) Includes exchange rate unification effects.

(2) Excludes exchange rate unification effects.





As is shown in the following table, inclusion and exclusion of exchange rate unification effects indicates different figures and shares. Considering these figures, increase in monetary base was due to the rise in CBI's net foreign assets. Moreover, repurchase of foreign exchange proceeds from oil export at market rate by the CBI raised the monetary base. CBI's claims on banks with a share of 12.6 percent was among other major factors responsible for rise in monetary base. This was due to banks' overdraft from their current account with the CBI.

CONTRIBUTION OF FACTORS AFFECTING MONETARY BASE GROWTH (percent)

	1379	1380	1381	1381(1)
Monetary base growth	**17.5**	**15.2**	**23.1**	**23.1**
CBI net foreign assets	4.4	4.9	71.7	29.3
CBI net claims on public sector	-17.6	8.2	32.8	6.0
CBI claims on banks	3.8	-13.6	12.6	12.6
Other items (net)	26.9	15.7	-93.9	-24.8

(1) Effects of exchange rate unification in 1381 are considered in end-1380 CBI figures. This column includes end-1380 figures including exchange rate unification effects.

Money Multiplier

Money multiplier grew by 5.7 percent in 1381 to reach 3.491. This growth was less than that of the previous year. Reduction in the weighted ratio of reserve requirement to total deposits was the main factor behind increase in money multiplier. This was due to the change in the composition of deposits which has a share of 0.1134 percentage point in the growth of money multiplier. Reduction in the ratio of notes and coins with the public to demand deposits was the other factor responsible for raising money multiplier which had a share of 0.0619 percentage point in increase in money multiplier. Extensive use of banking checks in lieu of notes and coins was the main reason behind reduction in the ratio of notes and coins with the public to money and liquidity. The ratio of excess reserves to total deposits and ratio of non-demand deposits to demand deposits with negative and positive effects on money multiplier had positive shares in the growth of money multiplier.

FACTORS AFFECTING MONEY MULTIPLIER

	1379	1380	1381	Contribution to growth in 1381
Money multiplier	**2.952**	**3.303**	**3.491**	**0.1880**
Currency in circulation/demand deposits	0.282	0.257	0.235	0.0619
Reserve requirement/total deposits	0.231	0.174	0.163	0.1134
Excess reserves/total deposits	0.033	0.059	0.058	0.0065
Non-demand deposits/demand deposits	1.509	1.565	1.588	0.0062

Composition of Liquidity

In the review year, the growth pace of volume of money speeded up, while that of quasi-money fell down. However, the share of money in liquidity declined from 44.5 percent at the end of 1380 to 43.7 percent at the end of 1381, while the share of quasi-money increased to 56.3 percent.

COMPOSITION OF LIQUIDITY (billion rials)

	Outstanding at the end of the year			Percentage change		Share (percent)	
	1379	1380	1381	1380	1381	1380	1381
Money	**114,420.5**	**142,956.7**	**182,652.7**	**24.9**	**27.8**	**44.5**	**43.7**
Notes & coins with the public	25,158.3	29,188.7	34,780.1	16.0	19.2	9.1	8.3
Demand deposits	89,262.2	113,768.0	147,872.6	27.5	30.0	35.4	35.4
Quasi-Money	**134,690.2**	**178,000.6**	**234,871.3**	**32.2**	**31.9**	**55.5**	**56.3**
Gharz-al-hasaneh savings deposits	22,014.4	29,847.5	38,108.0	35.6	27.7	9.3	9.1
Term investment deposits	103,363.6	141,066.5	185,862.4	36.5	31.8	44.0	44.5
Other deposits	9,312.2	7,086.6	10,900.9	-23.9	53.8	2.2	2.6
Liquidity	**249,110.7**	**320,957.3**	**417,524.0**	**28.8**	**30.1**	**100.0**	**100.0**

Non-public sector demand and non-demand deposits with banks and private banks and credit institutions with 31.2 percent rise amounted to Rls. 382,743.9 billion in the review year. Of this amount, Rls. 234,871.3 billion was in the form of non-demand deposits.

In 1381, the provisional profit rate of term-investment deposits remained unchanged. The composition of long-term investment deposits shows that the share of five-year deposits in comparison to other term-investment deposits was still increasing, due mainly to the higher profit rate offered. It is to be mentioned that the share of five-year and one-year deposits fell down, while the share of other deposits went up.

PROVISIONAL PROFIT RATE OF TERM-INVESTMENT DEPOSITS (1)

(% per annum)

	1379	1380	1381
Short-term	**8**	**7**	**7**
Short-term (special)	**10**	**9**	**9**
Long-term			
One-year	14	13	13
Two-year	15	13-17	13-17
Three-year	16	13-17	13-17
Four-year	17	13-17	13-17
Five-year	18.5	17	17

(1) These rates apply to public banks only. Moreover, 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)

(share percent)

	1379	1380	1381
One-year	15.0	13.3	11.8
Two-year	2.8	3.7	6.0
Three-year	2.9	3.6	4.4
Four-year	0.2	0.4	0.7
Five-year	79.1	79.0	77.1
Total	**100.0**	**100.0**	**100.0**

(1) Includes non-bank credit institutions.

Sources and Uses of Commercial Banks Funds

The volume of the non-public sector deposits with commercial banks recorded a rise of Rls. 73,446.7 billion (28.8 percent), 40.3 percent of which was related to demand and 59.7 percent to non-demand deposits.

In the review year, commercial banks' blocked sources as reserve requirement surged by Rls. 10,391.3 billion. During this year, commercial banks' capital account decreased by Rls. 323.8 billion, while public sector deposits and funds with these banks rose by Rls. 12,519.2 billion. The upshot was Rls. 75,250.8 billion rise in their free sources. Out of these sources commercial banks' claims on the non-public sector (excluding profit and revenue receivables) and on the public sector increased by Rls. 54,966.6 and 15,385.3 billion, respectively. Therefore, the surplus in commercial banks' sources went up by Rls. 4,898.9 billion compared to the previous year.

Sources and Uses of Specialized Banks Funds

Non-public sector deposits with specialized banks rose by Rls. 13,306.4 billion, 25.1 percent of which was related to the increase in demand and 74.9 percent to increase in non-demand deposits. Blocked sources went up by Rls. 1,301.2 billion primarily due to reserve requirement deposit with the Central Bank.

In the review year, free sources out of non-public sector deposits with specialized banks surged by Rls. 12,005.2 billion. Considering the change in other sources such as claims on other banks by Rls. 7,764 billion, the total free credit sources of specialized banks increased by Rls. 18,174.5 billion, out of which claim on the non-public sector rose by Rls. 16,384.5 billion.

Banking Developments

Important measures adopted in the area of banking developments in 1381 are as follows:

1. Private banks were vested with setting profit rate on deposits and expected rate of return on facilities. However, it was highly recommended to set the rates at the maximum of 2-3 percent above the rates approved by Money and Credit Council for public banks.

2. In order to improve banking services the following measures were adopted:

- Rendering payment system services
- Operating telephonebank services
- Facilitating extension of credits

- Operation of e-banking, developing local area network (LAN) and on-line interbank network, issuing credit and debit cards, increasing number of ATMs and establishment of parallel networks.

Number of Banking Units

In 1381, the total number of banking units, including branches, counters and representative offices grew by 0.8 percent to 16,671 units. Bank Saderat Iran and Bank Melli Iran with respective shares of 19.6 and 19 percent of these units accounted for the most domestic banking units.

In the review year, number of banks' employees grew by 1.7 percent to 165,787 persons.

BANKING UNITS

	1379	1380	1381
Domestic units	**15,676**	**16,480**	**16,615**
Commercial banks	13,204	13,896	13,911
Specialized banks	2,472	2,580	2,663
Private banks and credit institutions	0	4	41
Foreign units	**56**	**57**	**56**
Melli Iran	20	20	19
Saderat Iran	23	23	25
Tejarat	3	3	3
Mellat	5	6	5
Sepah	5	5	4
Total	**15,732**	**16,537**	**16,671**

Central Bank Participation Papers

In 1373, participation papers were designed to enhance public contribution to economic activities, diversify financial instruments and provide financial resources for establishment, completion and expansion of private and public profitable projects through non-bank resources. In 1376, the Law on Issuance of Participation Papers was approved by the Parliament. Therefore, participation papers were made available to the public with the aim of financing. In most countries, the interest accrued to these papers is fixed and predetermined, while in Iran it is in accordance with Islamic Sharia. According to the 3^{rd} FYDP, the CBI was authorized to issue participation papers with Money and Credit Council's approval to mop up excess liquidity. The MCC approved issuance of CBI Participation Papers at the end of 1379 considering CBI's assets. In Esfand, 1379, the CBI issued Rls. 3 trillion participation papers with six-month maturity and a provisional profit rate of 19 percent in order to manage liquidity.

Offering CBI participation papers is one of the instruments of contractionary monetary policy and implementation of open market operations, which reduces the amount of liquidity (currency with the public and demand and non-demand deposits). Monetary base is also reduced by issuance of these papers due to increasing CBI's liabilities and decreasing other items (net) in return. By and large, the issuance of these papers resulted in a reduction of liquidity growth through both mechanisms of immediate and lagged (liquidity and monetary base) which successfully control liquidity.