

CHAPTER THIRTEEN

MONETARY AND BANKING POLICY AND PERFORMANCE

In the fourth year of the 3rd FYDP, attempts were made to provide the required liquidity for production and investment in a way that liquidity and inflation targets set in the Plan would be met. On this ground, the target for liquidity growth and rate of inflation in the framework of the approved monetary policy set in the Plan was 14.2 and 14 percent, respectively.

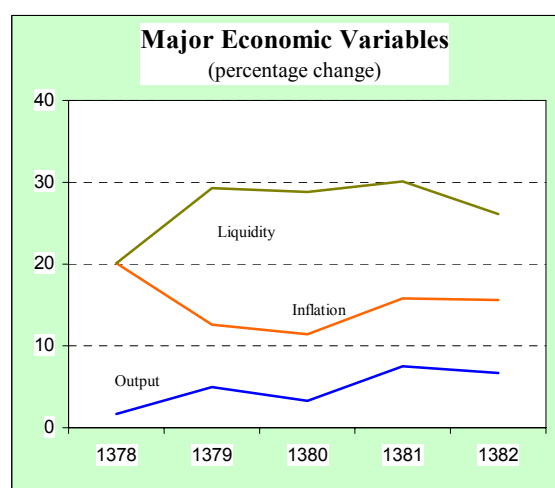
Issuance of the CBI participation papers was considered as the most important instrument for controlling liquidity in 1382. However, due to high costs of issuance, the CBI, despite its authorization to issue Rls. 10,000 billion new participation papers did not issue new papers. As a result, outstanding of CBI participation papers at the end of 1382 was Rls. 16,649.7 billion. The provisional profit rate for these papers was 17 percent per annum.

According to 1382 Budget Law, the CBI was required to formulate credits and facilities of the banking system and the ratio of long-term to short-term credits and facilities to meet the economic growth and inflation targets set in the 3rd Plan. Moreover, according to the Plan, increase in the outstanding of directed credits extended by banks in 1382, observing other obligations stipulated in development plans, was authorized upto ceiling of Rls. 3,600 billion; Rls. 600 billion less than the previous year. The share of public sector out of increase in the outstanding facilities was 25 percent, and that of cooperative and private sectors was 75 percent. It was stipulated that 65 percent of the share of cooperative and private sectors be distributed among provinces for extending job creation facilities in less developed regions. According to the 3rd Plan Law, the increase in the balance of directed credits be reduced by 10 percent per annum on the average during the Plan compared to approved figures for 1378.

SECTORAL ALLOCATION OF FACILITIES TO NON-PUBLIC SECTOR (approved)

Economic sector	1382	
	65%	100%
Agriculture (1)	25.0	25.0
Manufacturing and mining	33.0	17.6
Housing	20.0	10.7
Construction	8.5	4.5
Exports	9.5	5.1
Domestic trade, services & miscellaneous	4.0	2.1
Free uses		35.0
Total	100.0	100.0

(1) The share of agriculture sector is based on the figure envisaged in the 3rd Plan Law.



The expected rate of return on banking facilities in 1382 changed as is shown in the respective table:

Banking System Performance ⁽¹⁾

Banking system's assets and liabilities grew by 28.5 percent in 1382. The main reason behind this growth was 39.1 percent rise in the non-public sector indebtedness in the assets side and 30.2 percent increase in other liabilities in the liabilities side. The net foreign assets of the banking system increased to Rls. 62,249.7 billion.

EXPECTED RATE OF RETURN ON BANKING FACILITIES (% per annum)		
	1381	1382
Agriculture	13-14	13.5
Manufacturing and mining	15-17	16
Bank Maskan Housing Savings Fund	14	15
Housing (without down payment)	16-18	18
Trade, services, miscellaneous and construction	22 (min.)	21 (min.)
Exports	17	15 ⁽¹⁾

(1) The expected rate of return on facilities extended to exports sector was determined at 16 percent at the beginning of the year. However, it was reduced by one percentage point since Mehr, 1382.

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

(billion rials)

	Year-end balance			Percentage change	
	1380	1381	1382	1381	1382
Assets	633,186.7	1,050,686.7	1,350,239.3	65.9	28.5
Foreign assets	44,397.9	236,073.7	294,009.1	431.7	24.5
Central Bank	31,809.5	175,854.7	214,498.3	452.8	22.0
Public banks	12,564.3	60,038.9	79,126.6	377.9	31.8
Private banks and non-bank credit institutions (2)	24.1	180.1	384.2	▣	113.3
Claims on public sector	138,457.2	206,216.9	221,900.6	48.9	7.6
Claims on non-public sector	242,542.6	327,072.9	454,799.8	34.9	39.1
Others	207,789.0	281,323.2	379,529.8	35.4	34.9
Liabilities	633,186.7	1,050,686.7	1,350,239.3	65.9	28.5
Liquidity (M2)	320,957.3	417,524.0	526,596.4	30.1	26.1
Public sector deposits and funds	37,969.7	69,321.1	85,583.1	82.6	23.5
External debts	34,322.8	175,038.9	231,759.4	410.0	32.4
Central Bank	20,068.7	94,467.2	96,455.7	370.7	2.1
Public banks	14,247.0	80,463.7	133,991.8	464.8	66.5
Private banks and non-bank credit institutions (2)	7.1	108.0	1,311.9	▣	▣
Others (3)	239,936.9	388,802.7	506,300.4	62.0	30.2

(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, public sector LC prepayments and import order registration deposits of the non-public sector.

Banking System and the External Sector

The net foreign assets of the banking system increased by 2 percent due to Rls. 36,655.1 billion rise in Central Bank's net foreign assets and Rls. 35,440.2 billion decline in net foreign assets of banks and non-bank credit institutions. The major reason for the rise in CBI's net foreign assets was the increase in foreign exchange kept with the CBI as a result of purchase of foreign exchange from government for the provision of rial resources of the budget.

Banking System and the Public Sector

Banking system's claim on the public sector declined by Rls. 578.3 billion to reach Rls. 136,317.5 billion. Central Bank's claim on the public sector increased by 3.4 percent as a result of 4.9 percent growth in government indebtedness and 5.3 percent decline in public corporations and institutions' indebtedness to the CBI.

(1) Banking system includes Central Bank, public commercial and specialized banks, private banks and non-bank credit institutions.

Out of total claims of CBI on government 29.7 percent, or Rls. 34,755.4 billion, is related to the deficit in foreign exchange obligations account which increased by Rls. 3,652.7 billion compared to the previous year. Public sector deposits with the CBI went up by 12.8 percent as a result of 10.5 percent growth in government deposits and 32.3 percent rise in public corporations and institutions' deposits.

In the review year, government indebtedness to banks and non-bank credit institutions went up by 49.5 percent to reach Rls. 25,889.3 billion, Rls. 3,121.1 billion of which was related to rise in their claims on government for increasing the profit receivables on government obligation by Rls. 2,616 billion. Another part of this increase, i.e. Rls. 5,450 billion, was due to increase in the stock of public sector participation papers⁽¹⁾.

In this year, part of banking system's resources was allocated to the extending of facilities in the framework of budget notes.

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

	(billion rials)	
	1381	1382
Public sector	36,408.3	-578.3
Central Bank (1)	31,847.9	-2,096.0
Commercial & specialized banks	3,187.3	2,157.5
Private banks and non-bank credit institutions	1,373.1	-639.8
Government	26,594.4	-467.7
Central Bank (2)	30,817.7	656.2
Commercial & specialized banks	-5,596.2	-484.3
Private banks and non-bank credit institutions (3)	1,372.9	-639.6
Public corporations & agencies	9,813.9	-110.6
Central Bank	1,030.2	-2,752.2
Commercial & specialized banks (4)	8,783.5	2,641.8
Private banks and non-bank credit institutions	0.2	-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.

DIRECTED CREDITS EXTENDED ACCORDING TO THE 1382 BUDGET LAW

	(billion rials)		
	Change in outstanding		
	Budget ceiling	Approved	Performance
Social and cultural	225	115	115
Job creation	2,070	880	754
Market regulation	88	81	81
Production and infrastructure	1,217	409	406
Total	3,600	1,485	1,356

Banks and the Non-public Sector

Banking system credit performance in 1382 shows that banking system facilities⁽²⁾ extended to the non-public sector, excluding profit and revenue receivables, increased by Rls. 110,645.7 billion (39.9 percent). It is to be mentioned that, banks' claim on the non-public sector for exchange rate differential declined by Rls. 823.2 billion. In this year, share of facilities extended by banks to the non-public sector constituted 83.8 percent of total facilities extended by them, which indicates considerable share of this sector⁽³⁾, part of which was in the form of directed credits.

Outstanding facilities extended by commercial and specialized banks to the non-public sector, excluding profit and revenue receivables, grew by 40.7 and 26.1 percent, respectively. Outstanding facilities extended by private banks and non-bank credit institutions enjoyed a gargantuan rise of 275.3 percent to reach Rls. 12,735.9 billion. On this basis, the share of private banks and non-bank credit institutions of the total facilities extended to the non-public sector increased noticeably from 1.2 percent at the end of 1381 to 3.3 percent at the end of 1382.

(1) Includes CBI Participation Papers as well.

(2) Includes non-performing facilities.

(3) Excludes profit and revenue receivables.

FACILITIES EXTENDED BY BANKS AND NON-BANK CREDIT

INSTITUTIONS TO THE NON-PUBLIC SECTOR (1)

(billion rials)

	Year-end balance			Percentage change		Share (percent)	
	1380	1381	1382	1381	1382	1381	1382
	Commercial banks	148,538.5	203,505.1	286,339.0	37.0	40.7	73.3
Specialized banks	54,294.8	70,679.3	89,148.8	30.2	26.1	25.5	23.0
Private banks and non-bank credit institutions	958.9	3,393.6	12,735.9	253.9	275.3	1.2	3.3
Total	203,792.2	277,578.0	388,223.7	36.2	39.9	100.0	100.0

(1) Excludes profit and revenue receivables.

Considering the 35 percent share of banking system free resources as approved by the Cabinet in 1382, facilities extended by public banks to the non-public sector were distributed in a way that manufacturing and mining, construction and housing, domestic trade and services and miscellaneous sectors received the approved amount as well as part of banks' free uses, while other sectors received less than the approved amount.

SHARE OF ECONOMIC SECTORS IN INCREASE IN OUTSTANDING FACILITIES EXTENDED BY BANKS AND NON-BANK CREDIT INSTITUTIONS TO THE NON-PUBLIC SECTOR (1)

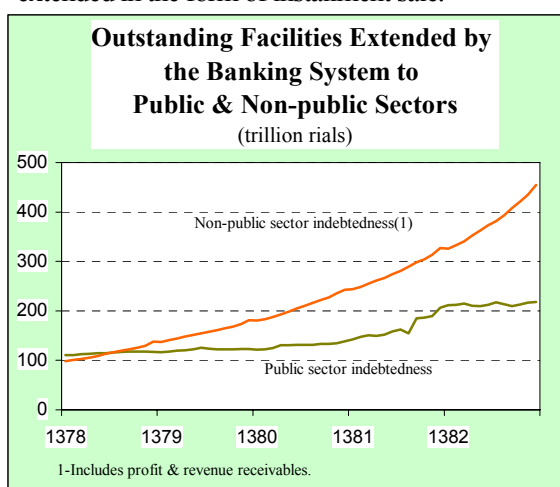
(percent)

	1381				1382			
	Approved		Performance		Approved		Performance	
	75%	100%	Public banks	Private banks and non-bank credit institutions	65%	100%	Public banks	Private banks and non-bank credit institutions
Agriculture	25.0	18.8	21.8	0	25.0	25.0	16.3	0
Manufacturing & mining	33.0	24.7	38.0	44.0	33.0	17.6	39.6	30.1
Construction & housing	28.5	21.4	29.2	33.0	28.5	15.2	20.0	41.6
Exports	9.5	7.1	-3.7	0.1	9.5	5.1	2.2	0
Domestic trade, services & miscellaneous (2)	4.0	3.0	14.7	22.9	4.0	2.1	21.9	28.3
Free uses		25.0				35.0		
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(1) Excludes profit and revenue receivables. The approved shares deal with performance of commercial and specialized banks and exclude private banks and credit institutions.

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

Review of the composition of outstanding facilities extended by banks and non-bank credit institutions in the form of Islamic contracts shows that 52.8 percent of these facilities are extended in the form of installment sale.



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

	Banks and non-bank credit institutions	
	1381	1382
Installment sale	62.7	52.8
Mozarebeh	5.7	6.2
Civil partnership	6.4	10.9
Gharz-al-hasaneh	7.2	6.0
Hire purchase	1.1	2.7
Forward transactions	6.7	6.1
Legal partnership	1.3	1.6
Direct investment	0.8	0.9
Joalah	1.4	6.4
Others (2)	6.7	6.4
Total	100.0	100.0

(1) Includes profit and revenue receivables.

(2) Includes debt purchase and non-performing claims and properties under transaction.

Liquidity

Liquidity (M_2) as a result of increase in monetary base and money multiplier went up by 26.1 percent to Rls. 526,596.4 billion in 1382, while it declined compared to its growth in the previous year (30.1 percent). Monetary base grew by 11.5 percent owing to the rise in CBI's net foreign assets, while its growth was less than that of the previous year. However, money multiplier recorded a higher growth of 13.1 percent as compared to the previous year and reached 3.947.

LIQUIDITY AND ITS DETERMINANTS (1)

	Year-end balance			Percentage change	
	1380	1381	1382	1381	1382
Monetary base (billion rials)	97,184.8	119,615.9	133,424.3	23.1	11.5
Money multiplier	3.303	3.491	3.947	5.7	13.1
Liquidity (billion rials)	320,957.3	417,524.0	526,596.4	30.1	26.1

(1) Includes non-bank credit institutions.

Among the factors affecting liquidity growth, claims on the non-public sector had a noticeable share of 26.5 percentage points, and banking system's net foreign assets had a share of 0.3 percentage point in raising liquidity. Among the constituents of net domestic assets, net claims on the public sector had a decreasing effect of 0.8 percentage point and others (net) had an increasing effect of 0.1 percentage point on raising liquidity.

FACTORS AFFECTING LIQUIDITY GROWTH

(percent)

	1380	1381	1382
Banks' and non-bank credit institutions' claim on the non-public sector(1)	21.0	23.0	26.5
Banks' claim on the public sector (net)	5.8	11.9	-0.8
Government	-0.5	8.3	-0.1
Public corporations and institutions (1)	6.3	3.1	-0.7
Less:			
Prepayments on public sector LCs	0	-0.5	0
Net foreign assets of the banking system	1.8	15.9	0.3
Others (net)	0.2	-20.7	0.1
Liquidity	28.8	30.1	26.1

(1) Excludes profit and revenue receivables.

Monetary Base

Monetary base grew by 11.5 percent in 1382 to reach Rls. 133,424.3 billion. The main driving force behind increase in monetary base was CBI's net foreign assets with a share of 30.6 percentage points. Reduction in other items (net) by 20.6 percentage points had also the highest share in reducing monetary base. The major factor for the decline in other items (net) was the rise in the reserves for conversion of CBI's foreign assets and liabilities⁽¹⁾. In the year under review, CBI's foreign assets increased due to foreign exchange purchases from the government to finance rial resources of budget, while part of it was not sold in the market. CBI's foreign liabilities went up by Rls. 1,988.5 billion, owing to the increase in government organizations' demand deposits in foreign exchange. These factors increased CBI's net foreign assets. Moreover, CBI's claims on banks had 3.3 percentage points contribution in monetary base growth.

(1) This account is used for registering the net increase in foreign exchange assets and liabilities resulted from change in exchange rate.

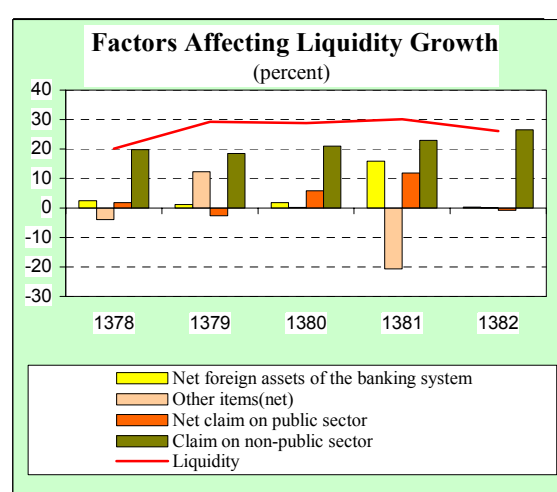
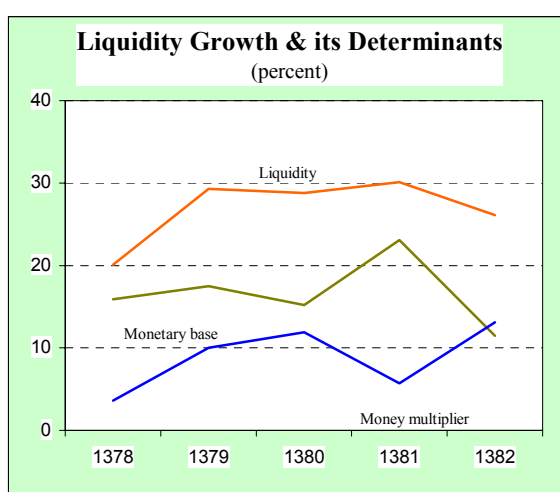
MONETARY BASE AND ITS COMPONENTS

(billion rials)

	Year-end balance			Percentage change	
	1380	1381	1382	1381	1382
Monetary base	97,184.8	119,615.9	133,424.3	23.1	11.5
CBI net foreign assets	11,740.8	81,387.5	118,042.6	⊞	45.0
CBI net claims on public sector	48,225.4	80,073.3	77,977.3	66.0	-2.6
CBI claims on banks	12,076.7	24,308.4	28,255.6	101.3	16.2
Other items (net)	25,141.9	-66,153.3	-90,851.2	⊖	⊖

CONTRIBUTION OF FACTORS AFFECTING MONETARY BASE GROWTH (percent)

	1380	1381	1382
Monetary base	15.2	23.1	11.5
CBI net foreign assets	4.9	71.7	30.6
CBI net claims on public sector	8.2	32.8	-1.8
CBI claims on banks	-13.6	12.6	3.3
Other items (net)	15.7	-93.9	-20.6


Composition of Liquidity

The share of money in the liquidity declined from 43.7 percent at the end of 1381 to 41.3 percent at the end of 1382, while the share of quasi-money increased to 58.7 percent.

COMPOSITION OF LIQUIDITY

(billion rials)

	Year-end balance			Percentage change		Share (percent)	
	1380	1381	1382	1381	1382	1381	1382
Money	142,956.7	182,652.7	217,356.8	27.8	19.0	43.7	41.3
Notes & coins with the public	29,188.7	34,780.1	38,732.5	19.2	11.4	8.3	7.4
Demand deposits	113,768.0	147,872.6	178,624.3	30.0	20.8	35.4	33.9
Quasi-money	178,000.6	234,871.3	309,239.6	31.9	31.7	56.3	58.7
Gharz-al-hasaneh savings deposits	29,847.5	38,108.0	45,706.0	27.7	19.9	9.1	8.7
Term investment deposits	141,066.5	185,862.4	251,738.2	31.8	35.4	44.5	47.8
Miscellaneous deposits	7,086.6	10,900.9	11,795.4	53.8	8.2	2.7	2.2
Liquidity (M2)	320,957.3	417,524.0	526,596.4	30.1	26.1	100.0	100.0

Non-public sector's deposit with banks (including demand and non-demand deposits) and non-bank credit institutions grew by 27.5 percent and reached Rls. 487,863.9 billion. Of this amount, Rls. 309,239.6 billion was in the form of non-demand deposits.

The provisional profit rate of term-investment deposits with public banks remained unchanged in 1382 as compared to 1381. Among term-investment deposits, 5-year deposits, due to more reasonable profit rate, had the highest share as in the previous year.

	PROVISIONAL PROFIT RATE OF TERM- INVESTMENT DEPOSITS (1)		
	(% per annum)		
	1380	1381	1382
Short-term	7	7	7
Short-term (special)	9	9	9
Long-term			
One-year	13	13	13
Two-year	13-17	13-17	13-17
Three-year	13-17	13-17	13-17
Four-year	13-17	13-17	13-17
Five-year	17	17	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)		
	Year-end		
	1380	1381	1382
One-year	13.3	11.8	11.1
Two-year	3.7	6.0	10.9
Three-year	3.6	4.4	4.9
Four-year	0.4	0.7	1.6
Five-year	79.0	77.1	71.5
Total	100.0	100.0	100.0

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

Sources and Uses of Commercial Banks Funds

Non-public sector deposits with commercial banks went up by Rls. 79,409 billion (24.2 percent) in the review year, 35.1 percent of which was related to demand deposits and 64.9 percent to non-demand deposits. Commercial banks' blocked resources surged by Rls. 12,135.5 billion due mainly to the reserve requirement. Moreover, commercial banks increased their capital by Rls. 309 billion and public sector deposits and funds also grew by Rls. 7,710.7 billion in the review year. Out of these sources, public sector indebtedness increased by Rls. 5,036.3 billion and that of non-public sector by Rls. 82,833.9 billion. As a result, commercial banks' excess resources declined by Rls. 12,576.6 billion compared to the previous year.

Sources and Uses of Specialized Banks Funds

Non-public sector deposits with specialized banks in 1382 went up by Rls. 15,171.2 billion, 15.2 percent of which was related to the increase in demand deposits and 84.8 percent to non-demand deposits. Their blocked resources, due to reserve requirement went up by Rls. 1,410.5 billion. Their free resources out of non-public sector deposits with these banks rose by Rls. 13,760.7 billion. Considering other resources including indebtedness to other banks by Rls. 4,472.6 billion, total free credit resources surged by Rls. 19,934.7 billion, of which public and non-public sector indebtedness increased by Rls. 1,465.2 and 18,469.5 billion, respectively.

Banking System Developments

Major activities of the banking system in 1382 are as follows:

1. Announcement of guidelines for conversion of banks foreign exchange accounts
2. Announcement of the mechanism for calculating actual profit rate

3. Granting establishment permit, confirmation of compliance and procedures of banks foreign exchange operation in the free-trade zones, and Central Bank's agreement in principal for the establishment of Standard Chartered Bank branch.

4. Announcement of new contingency regulations to the banking system.

Number of Banking Units

Number of banking units, including branches, counters and representative offices inside the country and abroad grew by 2.2 percent and reached 17,032 units. Bank Saderat Iran and Bank Melli Iran with respective shares of 19.9 and 18.9 percent of these units had the highest shares of domestic banking units.

Number of banks' employees with 1.6 percent growth reached 168,408 persons.

BANKING UNITS			
	1380	1381	1382
Domestic branches	16,476	16,615	16,980
Commercial banks	13,896	13,911	14,164
Specialized banks	2,580	2,663	2,742
Private banks	0	41	74
Foreign branches	57	56	52
Melli Iran	20	19	20
Saderat Iran	23	25	22
Tejarat	3	3	2
Mellat	6	5	5
Sepah	5	4	3
Total	16,533	16,671	17,032