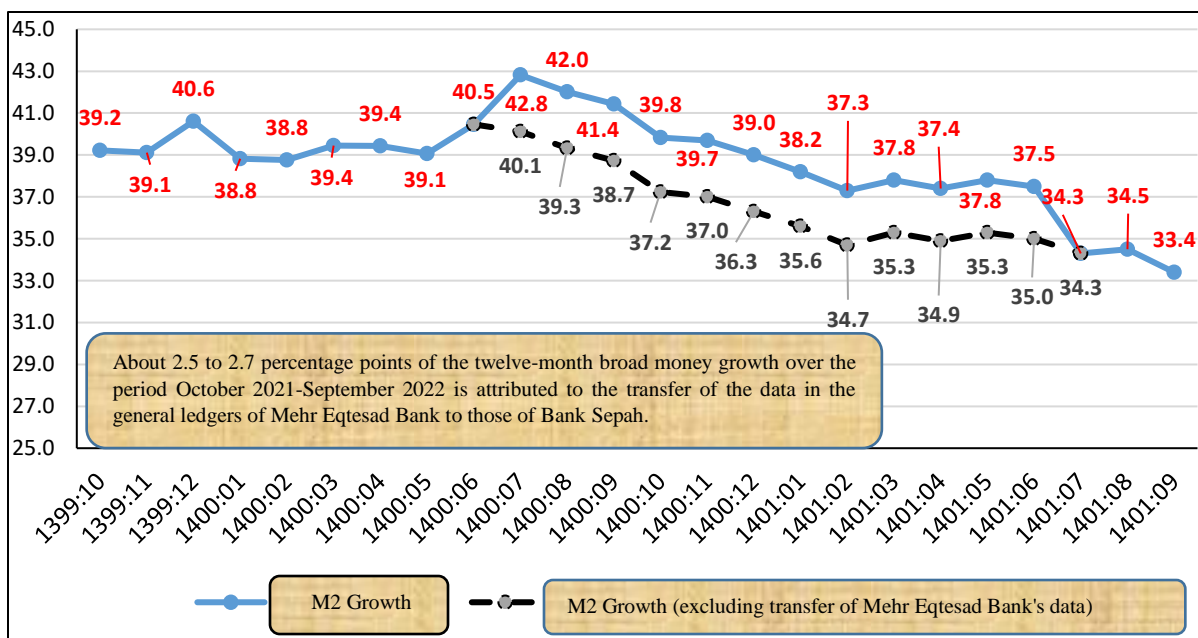


Selected Economic Indicators

Analysis on Developments of Monetary and Credit Aggregates

➤ **Broad Money (M2):** A review of broad money developments in Azar 1401 (December 2022) points to the continuing downward trend of broad money growth as in previous months. The volume of broad money grew by 22.2 percent to 59,056.1 trillion rials in December 2022 as compared with March 2022. The twelve-month growth rate of broad money decreased from 41.4 percent at the end of Azar 1400 (December 2021) to 33.4 percent in December 2022. Given that 2.7 percentage points of the twelve-month growth of broad money in December 2021 was the result of the transfer of the data in the general ledgers of Mehr Eqtesad Bank to those of Bank Sepah, the twelve-month growth of M2 in December 2022 is still indicative of a notable decline compared with the respective period in 2021. The mentioned data transfer occurred as a result of the merger of five banks affiliated to the armed forces with the publically-owned Bank Sepah. Preliminary data for January 2023 indicate that the said trend has not yet stopped. The CBI's making a concerted effort to implement policies aimed at limiting growth in banks' balance sheets and increasing the reserve requirement ratio for banks violating the determined ratios, has led to the containment of money creation by banks as well as broad money growth.



➤ **Monetary Base:** The monetary base increased by 26.9 percent to 7,663.1 trillion rials at the end of Azar 1401 (December 2022) as compared with March 2022. In addition, the growth of monetary base during the twelve-month period covering Azar 1400-Azar 1401 (December 2021-December 2022) shows a rise of 36.6 percent, indicating a decline of 1.0 percentage point compared with the growth figure of the corresponding period of the previous year (37.6 percent). It is important to note that due to the government's systematic approach to financing, coupled with the CBI's appropriate monetary and supervisory policies, the twelve-month growth of monetary base indicated a notable decline from 42.6 percent at the end of Tir 1400 (July 2021) to 36.6 percent in December 2022. Over the recent months, however, an increasing trend has been witnessed in monthly growth figures of the monetary base, mainly attributable to the rise in banks' use of CBI's overdraft facility. This is in turn due to the fact that banks have been under heavy pressure to fulfill loan requirements and to cover the deficit of Bank Sepah's reserves which occurred as a result of the merger of five banks affiliated to the armed forces with Bank Sepah. Unbalanced balance sheets of some banks and credit institutions due to their unhealthy financial situation and corporate governance, as well as the moral hazard leading to an inefficient allocation of resources and the continuous use of the CBI's resources, are among other factors leading to the increase in the use of overdraft facility. The CBI's provision of foreign currency to the Ministries of Agriculture-Jahad and Health and Medical Education, with the aim of compensating for the adverse effects of the elimination of the preferential exchange rate for the imports of agricultural inputs, basic goods, and medicines, following the implementation of the new Subsidy Plan¹, was also an influential factor on monetary base growth.

Prepared by the Economic Research and Policy Department, CBI

¹ Elimination of the preferential exchange rate (42,000 rials per one US dollar), allocated to the imports of essential goods, and paying cash handouts to households based on income deciles.