CHAPTER 13

MONETARY AND BANKING POLICY AND PERFORMANCE

13.1. Key Aspects of Monetary Policy Approved for 2019/20

The country's economic situation in 2019/20 was adversely affected by the escalation of harsh international sanctions as well as the miasma of COVID-19 as of December 2019. However, the policies and initiatives adopted by the CBI, aimed at stabilizing the economy and controlling the fluctuations in the foreign exchange market, led to a decrease in the point-to-point inflation rate during the period June 2019-March 2020. Accordingly, a reduction in the average twelve-month inflation rate during the second half of the year (October 2019-March 2020) was realized. In addition, the strengthening of economic stability and the implementation of monetary and credit policies, aimed at boosting production and economic growth, caused the non-oil GDP to increase in 2019/20.

Taking into account the volatile economic situation of the country, the CBI put on its agenda the implementation of the Open Market Operations (OMOs) under its monetary policymaking framework in 2019/20, with the aim of stabilizing macroeconomic indicators as well as controlling inflation. Accordingly, in its 1268th Meeting on April 16, 2019 and the subsequent Meeting on December 24, 2019, the Money and Credit Council (MCC) approved the Guideline on "Implementation of the OMOs and Allocation of Credit against Collateral by the CBI". On this basis, appropriate measures were taken by the CBI for the formulation of relevant rules and regulations, executive bylaws, and required legal contracts, including repurchase agreements (repos) and the necessary executive, technical, and operational infrastructure. The OMOs were put into full operation in January 2020, aimed at managing broad money, adjusting the interest rate with the policy rate in the interbank market, facilitating the liquidation of the government's debt instruments, and improving banks' balance sheets.

Meanwhile, the CBI continued its policy of managing banks' debt as one of the sources of monetary base in 2019/20. The measures adopted for the reduction of banks' debt to the CBI included the deepening of the interbank market, negotiations with indebted banks, and the establishment of supervisory boards by the CBI to monitor the activities of unsound banks and credit institutions. The settlement of banks' debt through installment payments and organization of overdrafts, and the transfer of part of "banks' and credit institutions' debt to the CBI" to the "government debt to the CBI" category in accordance with Paragraph (F), Note (5), Budget Laws for 2018-2020 were the other important measures in this regard. Moreover, the new approach of the CBI in monetary policymaking provided an applicable framework to extend credit to banks and credit institutions against collateral, benefitting from the OMOs and the appropriate utilization of the standing facilities.

Another measure adopted by the CBI concerning monetary policy in 2019/20 was the formulation and approval of a new mechanism for the calculation and maintenance periods of the reserve requirement. Accordingly, in order to increase the predictability of the inflow and outflow of reserves, reduce the interest rate fluctuations in the interbank market, and facilitate the intraday liquidity management, calculation and maintenance of the reserve requirement with the CBI are to be done based on the average of the remaining days of each period. Calculation and maintenance periods shall each last for 14 days (including holidays).

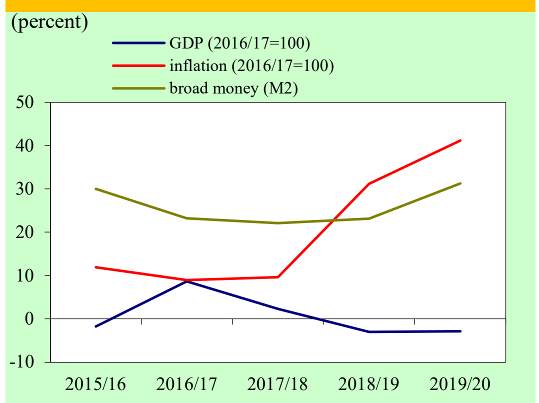
With regard to the credit policy formulation, a series of measures were adopted, with priority given to the facilitation of the financing of production and the allocation of banking resources to the productive sectors of the economy in order to support production and employment. The measures taken in this regard were aimed at providing the working capital of production units, financing the SMEs, supporting major industries capable of propelling economic growth and enjoying priority in terms of receiving facilities as well as supply chains in the automotive industry, and extending facilities to knowledge-based companies. The development of the Generative Letters of Credit Plan (GAM), aimed at the opening of LCs for the injection of liquidity to productive units, was another important measure in the field of credit policy in 2019/20. This was an innovation in terms of establishing a non-inflationary financing mechanism in the form of supply chain, characterized by its market-oriented nature and transferability in money and capital markets. The reason behind the utilization of GAM Plan was the removal of financial barriers to production, the directing of financial resources to productive activities, and the provision of working capital to production units in appropriate proportions, directed toward certain causes. In terms of financing the housing sector, the CBI raised the ceiling on facilities extended for the construction and purchase as well as Ju'alah facilities. The CBI also increased individual ceilings on Mehr housing facilities to expedite the construction and completion of semi-finished buildings. In order to preserve and develop production and employment in the agriculture sector, certain credit policies were implemented, including the rendering of Letters of Credit and debt rescheduling and waiver for farmers suffering from natural disasters. Other relevant measures included supporting sustainable employment and development in rural and nomadic areas, determining the share of agent banks in extending facilities to companies and public institutions affiliated to the Ministry of Agriculture-Jahad for the guaranteed purchase of primary and strategic agricultural products (wheat, corn, and barley), and supplying inputs and fertilizers required by the agriculture sector. Extending Gharz-al-hasaneh and subsidized facilities as compensation for those adversely affected by natural disasters including the devastating flooding of April 2019 as well as Gharz-al-hasaneh facilities for the agriculture sector, and the reconstruction of residential areas were among the other measures adopted in 2019/20. Following the outbreak of COVID-19 in December 2019 and its quick spread in Iran as of February 2020, a number of measures were adopted to financially support those households, businesses, and production units adversely affected, through the extension of the repayment period for the received as well as Gharz-al-hasaneh facilities, the facilitation of debt settlement for the debtors to the banking network, and the rescheduling of the Non-performing Loans (NPLs) of production units.

Considering the internationally imposed financial and trade sanctions, the CBI put on its agenda the adoption and implementation of a series of measures to stabilize the foreign exchange market, to effectively manage the supply *of* and the demand *for* the foreign exchange, and to facilitate international trade and financial transactions. Among the measures taken were the provision of the required foreign exchange for the imports of basic goods, medicines, and medical equipment as well as raw materials and intermediate goods needed by the manufacturing sector, and the revision of foreign exchange policies and regulations to offset the adverse effects of sanctions. The implementation of a variety of policy and supervisory measures aimed at limiting speculative activities in the foreign exchange market through managing the flow of liquidity was another important measure in this regard. Other policy measures included the devising of the system for settling the importers' foreign exchange obligations, development of the system for the monitoring and control of the exchange rate (SANA), the initiation of Iran's Integrated System of Foreign Exchange Management (NIMA), dialogues with business partners on foreign trade mechanisms, and the establishment of the organized market of foreign exchange transactions.

13.2. Performance of the Banking System

The assets and liabilities of the banking system[1] increased by 22.3 percent to amount to Rls. 47,435.5 trillion in March 2020. The non-public debt (including future profits and revenues), with an increase of 23.6 percent (equal to a rise of Rls. 3,094.1 trillion), was the main factor responsible for raising the assets. Foreign assets, with a growth rate of 26.3 percent, and other assets, with a rise of 17.5 percent (an increase of Rls. 2,409.0 trillion in foreign assets and a rise of Rls. 2,307.0 trillion in other assets), were the next two important factors raising the banking system's assets. Broad money (M2), with an increase of 31.3 percent (a rise of Rls. 5,892.6 trillion), and other liabilities (including the capital account of the banking system and advance payments on LCs by public sector), with a growth rate of 9.7 percent (an increase of Rls. 1,276.6 trillion), were the most important factors contributing to the rise of the banking system's liabilities.

Figure 13.1. Growth in Major Economic Variables



13.2.1. Banking System and the External Sector

In March 2020, the net foreign assets (NFAs) of the banking system increased by 42.4 percent (Rls. 1,379.7 trillion) compared with the year before to reach Rls. 4,632.3 trillion. This was attributable to the increase in the NFAs of the CBI by Rls. 1,059.2

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

trillion on the one hand and that in the NFAs of public commercial and specialized banks, private banks, and non-bank credit institutions by Rls. 320.5 trillion on the other. The reason behind the rise in the NFAs of the CBI was an increase of Rls. 713.3 trillion in its foreign assets as against a reduction of Rls. 345.9 trillion in its foreign liabilities. The increase in the NFAs of public commercial and specialized banks, private banks, and non-bank credit institutions was attributable to increases in their foreign assets and liabilities by Rls. 1,695.7 trillion and Rls. 1,375.2 trillion, respectively.

13.2.2. Banking System and the Public Sector

The public debt (net) to the banking system rose by Rls. 388.4 trillion compared with the year before, to reach Rls. 2,798.0 trillion in March 2020. The public debt to the CBI went up by 20.9 percent (Rls. 200.3 trillion), mainly due to an increase of 73.7 percent in public corporations' and institutions' debt to the CBI. A growth rate of 4.5 percent in the government debt to the CBI was the second important factor behind the rise in the public debt to the CBI.

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

	Balance			Percentage change	
	March 2018	March 2019	March 2020	March 2019	March 2020
Assets	**31,130.8**	**38,786.0**	**47,435.5**	**24.6**	**22.3**
Foreign assets	7,321.5	9,171.4	11,580.4	25.3	26.3
Central Bank	4,070.1	4,651.3	5,364.6	14.3	15.3
Public commercial and specialized banks	1,268.1	1,686.8	2,609.7	33.0	54.7
Private banks and non-bank credit institutions	1,983.3	2,833.3	3,606.1	42.9	27.3
Public debt	2,586.1	3,325.5	4,164.9	28.6	25.2
Non-public debt [2]	10,918.5	13,126.1	16,220.2	20.2	23.6
Other	10,304.7	13,163.0	15,470.0	27.7	17.5
Liabilities	**31,130.8**	**38,786.0**	**47,435.5**	**24.6**	**22.3**
Broad money (M2)	15,299.8	18,828.9	24,721.5	23.1	31.3
Deposits of public sector	742.4	915.9	1,366.9	23.4	49.2
Foreign liabilities	4,466.5	5,918.8	6,948.1	32.5	17.4
Central Bank	1,910.3	2,234.8	1,888.9	17.0	-15.5
Public commercial and specialized banks	951.5	1,312.6	2,087.0	38.0	59.0
Private banks and non-bank credit institutions	1,604.7	2,371.4	2,972.2	47.8	25.3
Other [3]	10,622.1	13,122.4	14,399.0	23.5	9.7

[1] Excludes below-the-line items. [2] Includes future profits and revenues. [3] Includes "capital account" and "advance payments on LCs by public sector".

Table 13.2. Increase/Decrease in Public Debt (Net) to the Banking System (trillion rials)

	March 2019	March 2020
Total public debt to the banking system	**565.9**	**388.4**
Central Bank	234.1	-135.7
Public commercial and specialized banks	170.3	140.3
Private banks and non-bank credit institutions	161.5	383.8
Government debt to the banking system	**585.1**	**207.2**
Central Bank [1]	277.4	-300.5
Public commercial and specialized banks	144.1	136.6
Private banks and non-bank credit institutions	163.6	371.1
Public corporations' and institutions' debt to the banking system	**-19.2**	**181.2**
Central Bank	-43.3	164.8
Public commercial and specialized banks [2]	26.2	3.7
Private banks and non-bank credit institutions	-2.1	12.7

[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.

Of total government debt to the CBI, Rls. 39.2 trillion (5.1 percent) was due to the deficit in the foreign exchange obligations account[1]. Meanwhile, Rls. 8.9 trillion was related to the unification of the exchange rate in 2002. The value of the deposits of the public sector with the CBI rose by 50.4 percent (Rls. 336.0 trillion) in March 2020, mainly attributable to the increase in government's deposits with the CBI by Rls. 333.6 trillion and the rise in the deposits of public corporations and institutions with the CBI by Rls. 2.4 trillion compared with March 2019.

The value of the public debt to banks and non-bank credit institutions (excluding the CBI) surged by 27.0 percent (Rls. 639.1 trillion), mainly due to an increase of 27.0 percent (a rise of Rls. 622.7 trillion) in the government debt to banks and non-bank credit institutions. The government debt to banks and non-bank credit institutions reached Rls. 2,932.8 trillion in March 2020.

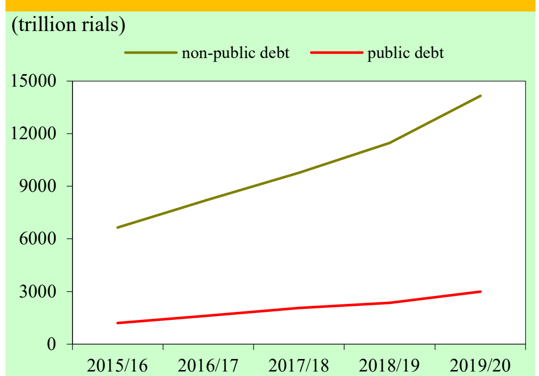
13.3. Banking Network[2] and the Non-public Sector [3]

In March 2020, the outstanding facilities[4] extended by the banking network to the non-public sector increased by 23.5 percent (Rls. 2,696.1 trillion) to Rls. 14,162.8 trillion. This shows an increase of 6.0 percentage points as compared with a growth rate of 17.5 percent in March 2019. The share of the facilities extended by the banking network to the non-public sector equaled 82.5 percent of the facilities extended to public and non-public sectors, indicating a decrease of 0.4 percentage point compared with the respective figure in the year before (82.9 percent).

[1] The foreign exchange obligations account was opened in 1993, upon the unification of the exchange rate.
[2] Includes public commercial and specialized banks, private banks, and non-bank credit institutions.
[3] Excludes future profits and revenues.
[4] Includes overdue and non-performing loans.

In March 2020, the outstanding facilities extended by the public commercial banks to the non-public sector increased by 25.8 percent (Rls. 478.4 trillion) to Rls. 2,335.5 trillion (excluding future profits and revenues). The outstanding facilities extended by the specialized banks to the non-public sector grew by 18.1 percent (Rls. 391.7 trillion) compared with March 2019 to reach Rls. 2,557.0 trillion. For the private banks and non-bank credit institutions, this variable grew by 24.5 percent (Rls. 1,826.0 trillion) to Rls. 9,270.3 trillion.

Figure 13.2. Public and Non-public Debt to Banks and Non-bank Credit Institutions
(excluding future profits and revenues)



The share of the public commercial banks in the outstanding facilities extended to the non-public sector increased from 16.2 percent in March 2019 to 16.5 percent in March 2020 and that of the private banks and non-bank credit institutions rose from 64.9 percent to 65.5 percent over the same period. On the other hand, the share of the specialized banks decreased from 18.9 percent in March 2019 to 18.1 percent in March 2020.

Table 13.3. Facilities Extended by Banking Network to Non-public Sector [1] (trillion rials)

	Outstanding			Percentage change		Share (percent)	
	March 2018	March 2019	March 2020	March 2019	March 2020	March 2019	March 2020
Public commercial banks	1,532.2	1,857.1	2,335.5	21.2	25.8	16.2	16.5
Public specialized banks	1,888.0	2,165.3	2,557.0	14.7	18.1	18.9	18.1
Private banks and non-bank credit institutions	6,341.1	7,444.3	9,270.3	17.4	24.5	64.9	65.5
Total	**9,761.3**	**11,466.7**	**14,162.8**	**17.5**	**23.5**	**100.0**	**100.0**

[1] Excludes future profits and revenues.

The highest share of the increase in the outstanding facilities (net) extended by the banking network to the non-public sector was related to "exports" and "domestic trade, services, and miscellaneous" sectors. The total share of these two groups amounted to 64.4 percent in March 2020. Ranking next were "construction and housing", "manufacturing and mining", and "agriculture" sectors by 14.6, 13.4 and 7.6 percent, respectively.

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

	March 2019			March 2020		
	Public commercial and specialized banks	Private banks and non-bank credit institutions	Banking network	Public commercial and specialized banks	Private banks and non-bank credit institutions	Banking network
Agriculture	20.2	1.3	8.0	19.7	2.0	7.6
Manufacturing and mining	18.1	11.5	13.8	20.5	10.1	13.4
Construction and housing	11.1	25.8	20.6	16.0	13.9	14.6
Exports	0.4	-0.3	0.0	3.6	0.1	1.3
Domestic trade, services, and miscellaneous	50.2	61.7	57.6	40.2	73.9	63.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[1] Outstanding facilities (net) are calculated upon the deduction of the outstanding debt of customers and extended facilities under the exchange rate differential, future profits, future profits and commissions, receipts from Mudarabah, partnership contracts (with the bank as partner), and outstanding profits and commissions headings. Outstanding facilities include legal partnership and direct investment contracts.

Reviewing the composition of the outstanding facilities extended by the banking network to the non-public sector shows that "installment sale" and "partnership" contracts held the highest shares by 27.5 and 25.2 percent, respectively. The shares of facilities in the form of Murabaha, Gharz-al-hasaneh, forward transactions, Ju'alah, legal partnership, and hire purchase were higher than those in March 2019, while the shares of partnership, installment sale, and direct investment were lower.

The ratio of the overdue and non-performing loans to the sum total of rial facilities extended by the banking network to public and non-public sectors decreased by 1.4 percentage points from 10.0 percent in March 2019 to 8.6 percent in March 2020. The said ratio declined by 0.9 percentage point for public commercial banks, 0.6 percentage point for public specialized banks, and 1.7 percentage points for private banks and non-bank credit institutions, compared with the year before.

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

	March 2019	March 2020
Installment sale	29.5	27.5
Mudarabah	1.3	1.1
Partnership	31.3	25.2
Gharz-al-hasaneh	6.0	7.2
Hire purchase	0.6	0.7
Forward transactions	0.9	1.2
Legal partnership	3.0	3.2
Direct investment	0.6	0.4
Ju'alah	4.7	4.9
Murabaha	10.6	17.5
Other [1]	11.5	11.1
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 Facilities Extended by Banking Network to Public and Non-public Sectors (in rials) [1] (percent)

	March 2019	March 2020	March 2020 compared with March 2019 (percentage points)
Public commercial banks	6.1	5.2	-0.9
Public specialized banks	10.9	10.3	-0.6
Private banks and non-bank credit institutions	10.9	9.2	-1.7
Banking network	**10.0**	**8.6**	**-1.4**

[1] Includes overdue and non-performing loans

Given the important role of the SMEs in job creation, and for the realization of the objectives of the resistance economy, the Guideline on Financing the SMEs was drafted by the CBI and announced for implementation to banks and non-bank credit institutions in April 2016[1]. With the implementation of this Guideline, a sum of Rls. 1,096.9 trillion worth of direct facilities was allocated to 113.2 thousand eligible manufacturing establishments until March 2020, within the framework of the provincial working groups' approvals. Meanwhile, banks' and credit institutions' scheduled facilities amounted to Rls. 1,269.7 trillion in March 2020, of which Rls. 517.8 trillion (40.8 percent) was related to "Gharz-al-hasaneh" facilities and Rls. 751.9 trillion was for "Other" uses. Of total Gharz-al-hasaneh facilities, Rls. 263.7 trillion (about 50.9 percent) was exclusively allocated as marriage facility and Rls. 254.1 trillion was extended for essential needs, employment of help-seekers of welfare organizations as well as war veterans, home-based businesses, and as aid to prisoners lacking the necessary financial resources to pay blood money. Moreover, a sum of Rls. 92.0 trillion out of the "other" uses was related to the purchase of wheat and other strategic agricultural products at guaranteed and agreed prices, with Rls. 63.0 trillion, Rls. 39.1 trillion, and Rls. 8.7 trillion being related to "natural disasters" (the flooding of April 2019, for instance), "rural housing", and "Mehr Housing Project" purposes, respectively[2].

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

[2] As per the MCC Approval dated September 22, 2015, the ceiling on Mehr housing facilities was set at Rls. 555.4 trillion, of which Rls. 532.7 trillion was allocated by March 2020. No separate quota was determined for 2019/20.

Table 13.7. Banks' Performance on Scheduled Facilities in March 2020

(trillion rials)

Purposes	Paid facilities in March 2020
Gharz-al-hasaneh facilities	**517.8**
Marriage	263.7
Other	254.1
Other scheduled facilities	**751.9**
Purchase of wheat and other strategic agricultural products at guaranteed and agreed prices	92.0
Rural housing	39.1
Mehr Housing Project	8.7
Old buildings	0.0
War veterans' housing facility	4.4
Natural disasters	63.0
Financing of the SMEs	544.7
Total	**1,269.7**

13.4. Broad Money (M2) and Its Determinants

In March 2020, broad money (M2) amounted to Rls. 24,721.5 trillion. The growth rate of M2 was 31.3 percent, indicating an increase of 8.2 percentage points compared with a growth rate of 23.1 percent in March 2019. The increase in broad money was mainly due to a rise of 32.8 percent in the monetary base, which was in turn due to the increase in the NFAs of the CBI. Moreover, money multiplier decreased by 1.1 percent to 7.006 in March 2020. Among the factors affecting M2 growth, the net domestic assets of the banking system, with a growth rate of 29.0 percent, had an increasing share of 24.0 percentage points in raising M2. Among the items of the net domestic assets, the non-public debt (excluding future profits and revenues), with an increase of 23.5 percent and a positive share of 14.3 percentage points, and other items (net), with a growth rate of 83.5 percent and an increasing share of 7.6 percentage points, were the main contributing factors. The public debt to the banking system (net) had an increasing share of 2.1 percentage points in raising M2. The NFAs of the banking system, with an increase of 42.4 percent, had a positive share of 7.3 percentage points in M2 growth.

Figure 13.3. Growth in Broad Money (M2) and Its Determinants

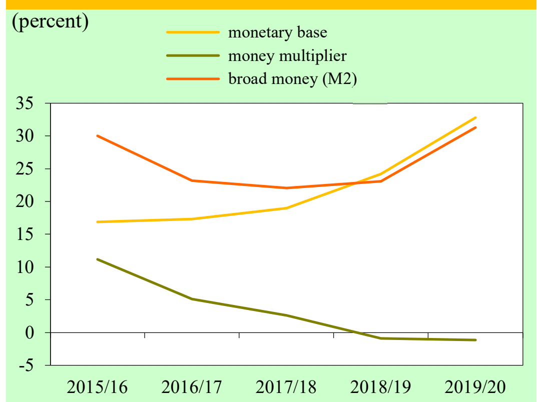


Table 13.9. Contribution of Factors Affecting Broad Money (M2) Growth (percentage points)

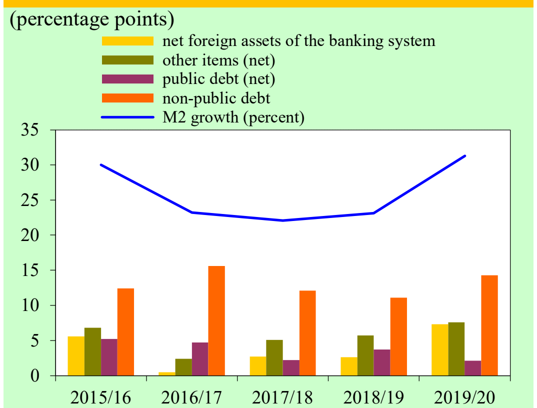
	March 2019	March 2020
Net foreign assets of the banking system	**2.6**	**7.3**
Net domestic assets of the banking system	**20.5**	**24.0**
Public debt (net)	3.7	2.1
Government	3.8	1.1
Public corporations and institutions	-0.1	1.0
Non-public debt [1]	11.1	14.3
Other items (net)	5.7	7.6
M2 (percent)	**23.1**	**31.3**

[1] Excludes future profits and revenues.

Table 13.8. Broad Money (M2) and Its Determinants

	Balance		Percentage change	
	March 2019	March 2020	March 2019 compared with March 2018	March 2020 compared with March 2019
Monetary base (trillion rials)	2,656.9	3,528.5	24.2	32.8
Money multiplier	7.087	7.006	-0.9	-1.1
M2 (trillion rials)	18,828.9	24,721.5	23.1	31.3

Figure 13.4. Factors Affecting Broad Money (M2) Growth



13.4.1. Monetary Base and Its Determinants

The NFAs of the CBI, with an increase of 43.8 percent compared with March 2019 and an increasing share of 39.9 percentage points, were the most important factor positively affecting the monetary base. The increase in the NFAs of the CBI was mainly due to the monetary effects of foreign exchange transactions (net) at NIMA rate, especially the rise in the value of the foreign exchange bought from the NDFI by Rls. 1,074.0 trillion. The value of the foreign exchange bought from the NDFI increased from Rls. 77.6 trillion in March 2019 to Rls. 1,151.6 trillion in March 2020.

The other items of the CBI (net), with an increase of 15.6 percent compared with March 2019 and an increasing share of 8.3 percentage points, were the second important factor positively affecting the monetary base growth in March 2020. This was mainly attributable to the increase in the CBI's other assets in March 2020 compared with March 2019, which was in turn due to the excess payment by the CBI to the government on tax and its share of the net profit in March 2019.

Banks' and non-bank credit institutions' debt to the CBI, with a decrease of 19.9 percent (a decline of Rls. 274.8 trillion) compared with March 2019, had a negative share of 10.3 percentage points in monetary base growth. This shows a decrease of 13.2 percentage points compared with the respective figure of March 2019 (an increasing share of 2.9 percentage points in the growth rate of the monetary base by 24.2 percent). One of the reasons behind the decrease in banks' debt to the CBI during the mentioned period was the transfer of part of "banks' and credit institutions' debt to the CBI" to "government debt to the CBI" category (equal to Rls. 64.1 trillion as principal and commission, subject to Paragraph (F), Note (5), Budget Law for 2019/20). The public debt to the CBI (net), with a decline of 46.5 percent (a fall of Rls. 135.7 trillion) compared with March 2019 and a decreasing share of 5.1 percentage points, was a negative factor in monetary base growth. Compared with the previous year (an increasing share of 10.9 percentage points in the growth rate of the monetary base by 24.2 percent), the mentioned share indicated a decrease of 16.0 percentage points. This was attributable to a rise of 20.9 percent in the public debt to the CBI (with a positive share of 7.5 percentage points in the monetary base growth) as against an increase of 50.4 percent in the deposits of the public sector with the CBI (with a share of -12.6 percentage points in monetary base growth).

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

	March 2019	March 2020
Net foreign assets (NFAs) of the CBI	12.0	39.9
Public debt to the CBI (net)	10.9	-5.1
Banks' and non-bank credit institutions' debt to the CBI	2.9	-10.3
CBI's other items (net)	-1.6	8.3
Monetary base (percent)	**24.2**	**32.8**

13.4.2. Money Multiplier and Its Determinants

The money multiplier decreased by 1.1 percent to 7.006 in March 2020. "The ratio of banks' excess reserves to total deposits" and "the ratio of reserve requirement to total deposits" rose by 44.4 and 0.9 percent, respectively, reducing money multiplier by 0.1978 and 0.0682 points. On the other hand, "the ratio of notes and coins with the public to total deposits" decreased by 16.7 percent, raising the money multiplier by 0.1852 point.

13.5. Composition of Broad Money (M2)

The share of money (M1) in broad money (M2) increased from 15.1 percent in March 2019 to 17.3 percent in March 2020, mainly attributable to uncertainties in the foreign exchange market and price adjustments to energy carriers as of November 2019. However, the outbreak of COVID-19 in December 2019 and its negative impacts on households and businesses as well as the relative decrease in public demand for certain goods and services slowed down the former uptrend in the share of M1 in M2. The share of quasi-money (non-sight deposits) decreased by 2.2 percentage points compared with March 2019, to reach 82.7 percent in March 2020.

Furthermore, the share of one-year deposits in total long-term deposits increased by 1.3 percentage points from 97.5 percent in March 2019 to 98.8 percent in March 2020, while the share of five-year deposits decreased by 1.3 percentage points from 2.1 percent in March 2019 to 0.8 percent in March 2020. The shares of two-, three-, and four-year deposits remained unchanged compared with March 2019, mainly attributable to a ban on the opening of deposits with more than one-year maturity as of May 2014.

Table 13.11. Composition of Broad Money (M2) (trillion rials)

	Balance			Percentage change		Share in M2 (percent)	
	March 2018	March 2019	March 2020	March 2019	March 2020	March 2019	March 2020
Money (M1)	**1,946.7**	**2,852.3**	**4,273.0**	**46.5**	**49.8**	**15.1**	**17.3**
Notes and coins with the public	442.7	547.5	611.4	23.7	11.7	2.9	2.5
Sight deposits of non-public sector	1,504.0	2,304.8	3,661.6	53.2	58.9	12.2	14.8
Quasi-money (non-sight deposits)	**13,353.1**	**15,976.6**	**20,448.5**	**19.6**	**28.0**	**84.9**	**82.7**
Gharz-al-hasaneh savings deposits	801.9	1,026.5	1,448.1	28.0	41.1	5.5	5.9
Term deposits	12,339.1	14,646.0	18,568.0	18.7	26.8	77.8	75.1
Miscellaneous deposits	212.1	304.1	432.4	43.4	42.2	1.6	1.7
Broad money (M2)	**15,299.8**	**18,828.9**	**24,721.5**	**23.1**	**31.3**	**100.0**	**100.0**

Table 13.12. Composition of Long-term Deposits (percent)

	March		
Deposits	2018	2019	2020
One-year	94.7	97.5	98.8
Two-year	0.3	0.3	0.3
Three-year	0.1	0.0	0.0
Four-year	0.1	0.1	0.1
Five-year	4.8	2.1	0.8

13.6. Sources and Uses of Funds of Public Commercial Banks

The deposits of non-public sector with public commercial banks grew by 26.0 percent (Rls. 986.1 trillion) in March 2020. Deposits of non-public sector held with commercial banks included sight deposits, the value of which rose by Rls. 244.5 trillion, and non-sight deposits whose value increased by Rls. 741.6 trillion. The non-usable sources of public commercial banks rose Rls. 117.4 trillion, mainly owing to an increase by Rls. 116.8 trillion in reserve requirement and a rise of Rls. 0.6 trillion in the value of notes and coins. Moreover, the balance of the "capital account" and the "deposits of public sector" increased by Rls. 5.9 trillion and Rls. 44.9 trillion, respectively. Accordingly, the non-public debt[1] went up by Rls. 478.4 trillion and the public debt[2] increased by Rls. 161.2 trillion.

13.7. Sources and Uses of Funds of Specialized Banks

In March 2020, the deposits of non-public sector held with specialized banks grew by Rls. 444.9 trillion. The value of sight deposits increased by Rls. 106.4 trillion and that of non-sight deposits rose by Rls. 338.5 trillion. The non-usable sources of specialized banks rose by Rls. 42.0 trillion, resulting from an increase by Rls. 42.6 trillion in reserve requirement and a decrease by Rls. 0.6 trillion in the value of notes and coins. Free sources out of non-public sector's deposits held with specialized banks increased by Rls. 402.9 trillion. Total free sources of specialized banks, including free sources out of non-public sector's deposits, capital account, debt to the CBI, debt to other banks, foreign liabilities, public sector's deposits, and other sources increased by Rls. 462.0 trillion. This included the rise in the non-public debt to specialized banks by Rls. 391.7 trillion and the increase in the public debt by Rls. 70.3 trillion. The specialized banks' debt to the CBI decreased by 1.5 percent (Rls. 7.1 trillion) to Rls. 470.6 trillion in March 2020.

13.8. Sources and Uses of Funds of Private Banks and Non-bank Credit Institutions

In March 2020, the deposits of non-public sector with private banks[3] and non-bank credit institutions increased by 34.9 percent (Rls. 4,397.7 trillion) compared with the year before. In this regard, the value of sight deposits increased by Rls. 1,005.9 trillion and that of non-sight deposits went up by Rls. 3,391.8 trillion compared with March 2019. The non-usable sources of private banks and non-bank credit institutions increased by Rls. 498.9 trillion compared with March 2019, mainly due to the rise in reserve requirement by Rls. 497.3 trillion, and an increase in the value of notes and coins with Rls. 1.6 trillion.

Furthermore, the balance of the capital account of private banks and non-bank credit institutions decreased by Rls. 890.6 trillion compared with March 2019, while the deposits of public sector with private banks and non-bank credit institutions increased by Rls. 16.1 trillion in March 2020. Therefore, the non-public debt to private banks and non-bank credit institutions increased by Rls. 1,823.8 trillion and the public debt to private banks and non-bank credit institutions increased by Rls. 248.9 trillion compared with the year before.

[1] Excludes future profits and revenues.

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

[3] Banks privatized under Article 44 of the Constitution.

13.9. Banking Units and Personnel

By March 2020, the number of banking units, including branches and counters in both domestic offices and representative offices abroad, decreased by 4.1 percent to 21,618 units, of which 21,570 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 11.9 percent, respectively. Moreover, the number of employees in the banking network decreased by 0.2 percent to 210,065 persons by March 2020, with the number of employees in private banks and non-bank credit institutions rising by 1.1 percent. The number of employees in public commercial banks, however, fell by 1.9 percent and that in public specialized banks decreased by 2.3 percent. The ratio of the employees in the banking network to banking units increased by 4.3 percent to 9.7 persons on average, and that of the total population to each domestic banking unit rose by 203 persons to about 3,851 persons.

13.10. Developments of the Banking System in 2019/20

13.10.1. Major Regulations, Bylaws, Guidelines, Circulars, and Amendments

- Formulation and communication of the Executive Guideline on debt rescheduling for credit institutions;

- Formulation and communication of the Amendment to the Guideline on calculation of the supervisory capital as well as the capital adequacy of credit institutions;

- Formulation and communication of the Guideline on establishing the capacity, removal from office, or change of directors and members of "risk", "internal audit", and "compliance of credit institutions with rules and regulations" committees;

- Formulation and communication of the 5th edition of the financial statements of credit institutions (sample);

- Formulation and communication of the By-law on how to manage advertisements in the monetary and banking sector;

- Formulation and communication of the Executive Guideline on the Law on Facilitation of Debt Settlement for Debtors to the Banking Network;

- Formulation and communication of the Guideline on the acquisition of shares of banks and non-bank credit institutions;

- Formulation and communication of the Executive By-law on the Addendum to the Law on Check Issuance, subject to Note (1), Article (5) of the same Law;

Table 13.13. Number of Banking Units [1]

	March 2019	March 2020
Domestic branches	**22,500**	**21,570**
Public commercial banks	5,308	5,027
Public specialized banks	3,706	3,604
Private banks and non-bank credit institutions	13,486	12,939
Foreign branches	**48**	**48**
Total	**22,548**	**21,618**

[1] Excludes representative offices.

- Submission of the proposal to the Money and Credit Council (MCC) on a three-month loan moratorium to businesses adversely affected by the outbreak of COVID-19, and communication thereof upon being approved by the MCC;

- Submission of the proposal to the MCC on the rise in the threshold required for the submission of audited financial statements to obtain facilities and open LCs, from Rls. 10 billion to Rls. 50 billion, and communication thereof upon being approved by the MCC;

- Formulation of the Draft Approval of the 1289th Meeting of the MCC on debt restructuring for production units whose indebtedness is either partially or completely non-current for once at most and a period of 5 years maximally. This is to be done after acquiring 7.5 percent of the outstanding debt with a six-month grace period, upon the customer's request and in accordance with the current rules and regulations;

- Submission of the proposal to the Cabinet on deletion of Clauses (3) and (4), Paragraph (C), pertaining to Cabinet Approval dated October 18, 2014 in line with the Circular dated February 20, 2020 on "Adoption of Policies on Non-inflationary Exit from Recession", stipulating a reduction in the proprietary ratio from 25 to 15 percent, and communication thereof upon being approved by the Cabinet; and

- Cancellation of the requirement for the submission of the certificate subject to Note (1), Article (186), Direct Tax Law on the extension of guarantees and LCs.

13.10.2. Major Anti-Money Laundering (AML) Measures

- Preparation of the inspection document on the observance of AML/CFT measures by banks and non-bank credit institutions with a risk-based approach, in implementation of the stipulated provisions of Articles (41) and (43), and Paragraph (9), Article (1), Executive By-law on Article (14), annexed to AML Law approved through the Cabinet Meeting on October 13, 2019;

- Implementation of periodical and case-by-case supervision on banks and non-bank credit institutions, exchange bureaus, Gharz-al-hasanah Funds, and leasing companies to ensure their compliance with the AML/CFT measures;

- Investigation on the source of funds deposited for the establishment and/or capital increase of banks and non-bank credit institutions, non-bank monetary institutions, and insurance companies; tracking the source of initial capital/capital increase of the above-mentioned as well as leasing companies, and any other institutions as requested by the competent authorities;

- Establishment, putting into operation, and expansion of the Electronic Banking Authentication System (locally known as NAHAB), aimed at ensuring the sound observation of the AML/CFT regulations by banks and non-bank credit institutions based on the full identification of banks' clients, issuance of more than 77 million online banking authentication codes for the clients, and blocking deposit accounts whose holders are without national codes in order to prevent banking offences and to identify account holders;

- Formulation of the "Guideline on Clarification of Banking Transactions" and the approval thereof in the 1289th Meeting of the MCC, dated February 18, 2020, which was announced to the banking network through the Circular No. 98/426351, dated February 27, 2020, in implementation of the provisions of Clause (3), Paragraph (H), Note (16), Budget Law for 2019/20;

- Formulation of the "By-law on Collection of Documents", subject to Note (2), Article (11) and Note (1), Article (12), Guideline on Clarification of Banking Transactions", which was declared to the banking network through Circular No. 98/446340 dated March 16, 2020;

- Monitoring and detecting account holders suspected of committing money laundering activities through the existing supervising systems in cases when there is a mismatch between the holders' jobs and their account balances, when the holder owns multiple accounts, or when unusual amounts of money are transacted;

- For the prevention of any type of bank account fraud, monitoring of bank accounts belonging to natural persons younger than 18 years of age was put on the agenda. Accordingly, new rules and regulations were devised for the oversight of these accounts;

- In compliance with the current rules and regulations emphasizing the significance of client identification, only foreign nationals holding a special residence permit or a valid passport were allowed to use banking services or to involve in any type of banking transaction. Those failing to provide the required documentation faced restrictions as they were not provided with bank cards or electronic services such as the use of POSs, internet banking, or mobile banking. In addition, in order to curtail the foreign nationals' illegal access to banking services, restrictions were placed on the provision of Pin pads to foreign clients and preparations for the identification of foreign clients through launching the Biometric Registration System (fingerprint biometrics) were put on the agenda;

- Declaration of the ban on the provision of banking services through powers of attorney within banks, in accordance with Circular No. 98/314039 dated December 5, 2019; and

- Communication to the banking network of the Approval by the Supreme Council of AML/CFT, eliminating the requirement for banks to receive copies from clients' identity certificates, in line with the optimization of the procedures and operations of the banking network.

13.10.3. Licensing of Banks[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. The relevant areas the CBI deals with in this regard include establishment, operation, and registration processes. The relevant adopted measures in 2019/20 were as follows:

- Issuance of the establishment and/or operation permits for 9 credit cooperatives, 5 Gharz-al-hasaneh Funds, 197 exchange bureaus, and 3 leasing companies. Meanwhile, the work permits for 275 financial institutions, which used to have temporary permits, were renewed in 2019/20;

- Revoking of the establishment and/or operation permits for 3 credit cooperatives, one leasing company, and 109 exchange bureaus;

[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 ledgers to the CBI for inclusion in the monetary and banking data.

- Review and confirmation of the changes and revisions made to the Board and General Assembly meeting minutes of monetary institutions (more than 887 cases), upon conducting the necessary inquiries. In case the conditions are met, competent authorities shall be informed for the due implementation of registration procedures, in line with Paragraph (A), Article (21), Permanent Provisions of the Country's Development Plans Act;

- Evaluation of the professional qualification of 287 persons introduced as Managing Director or Board Member of banks and credit institutions, of whom 120 persons met the committee requirements, in line with Paragraph (I), Article (21), Permanent Provisions of the Country's Development Plans Act and Clause (4), Paragraph (A), Article (14), 6th Five-Year Development Plan Act;

- CBI's agreement with the capital increase of Bank Maskan (in line with Paragraph (B), Note (8), Budget Law for 2019/20), Refah Kargaran Bank (out of the cash flow provided by shareholders upon the rise in the number of registered shares), Middle East Bank (out of accumulated profit and other reserves), and Mehr Iran Bank (out of accumulated profit, shareholders' claims, and other reserves);

- Adoption of the necessary measures for the capital increase of several banks including Bank Melli Iran (out of the excess funds resulted from the revaluation of assets), Bank Keshavarzi (the Agriculture Bank of Iran), Export Development Bank of Iran, and Bank of Industry and Mine (in implementation of Paragraph (F), Note (5), Budget Law for 2019/20); and

- Adoption of appropriate measures with the aim of facilitating the process of the merger of five banks and credit institutions affiliated to the armed forces with the publicly-owned Bank Sepah as of 2019.

Table 13.14. Number of Licenses Issued, Renewed, and Revoked for Institutions Active in Unorganized Money Market by March 2020[1]

	Initial licenses		Renewed licenses	Total	Revoked licenses
	Establishment	Operation			
Credit cooperatives	3	6	39	**48**	3
Gharz-al-hasaneh Funds	1	4	12	**17**	0
Leasing companies	0	3	29	**32**	1
Exchange bureaus	71	126	195	**392**	109
Total	**75**	**139**	**275**	**489**	**113**

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