CHAPTER 14

MONETARY AND BANKING POLICY AND PERFORMANCE

14.1. Key Aspects of Monetary Policy Approved for 2020/21

The country's economic situation in 2020/21 was afflicted by different shock waves. In addition to the outbreak of COVID-19 pandemic, which severely affected and disrupted economic activities locally and globally, the intensification of sanctions and the concomitant risks posed to the macroeconomic situation of the country adversely affected people's livelihood, business enterprises, and the government's budget. Under these circumstances, Iran's economic outlook was characterized by uncertainty and high inflation expectations. As a result, the foreign exchange market experienced turbulence. However, due to the formation of positive inflation expectations by economic players, the exchange rate was slightly controlled and started to follow a downward trend, which continued until the end of the year (March 2021). Accordingly, an uptrend in the inflation rate commenced as of October 2020.

Guided by the goal to offset the adverse effects of these developments and to stabilize the economic situation of the country, the CBI took different monetary, credit, and foreign exchange measures and implemented a series of regulatory actions in the banking network to control the inflation rate and to support production and economic growth. Thanks to all these measures, the oil and non-oil GDP growth rates experienced positive trends in 2020/21. Furthermore, to stabilize the macroeconomic situation (realization of price stability and economic growth), the CBI followed the successful experience of other countries for the first time to formulate its monetary policy by setting a target for the rate of inflation and channeling the interest rate through the interest rate corridor. Therefore, in execution of its new monetary policy approach, while developing appropriate infrastructure and fulfilling other requirements (particularly based on Islamic jurisprudence), the CBI put into implementation its indirect monetary policy tools in the interbank market, namely the Open Market Operations (OMOs) via repurchase agreements (repos) and reverse repurchase agreements, standing facilities, and regular depositing.

In 2020/21, Iran's economy experienced multiple challenges, attributable to the developments in interest rates and several other contributing factors. Accordingly, the weighted average of the interest rate on transactions in the interbank market declined from 18.34 percent in March 2020 to 16.68 percent in April 2020 and 11.71 percent in May 2020. This sharp decrease was mainly attributable to the forces of supply and demand as well as the unprecedented increase in the supply of funds in the interbank market. During the three-month period of April-June 2020, banks' excess reserves followed a sharp upward trend, affected by the manifestation of the monetary effects of the purchase of the government's foreign currencies at NIMA rate around March and April 2020, payment of the revolving funds of the treasury to the government, transfer of the funds of the government to banks' accounts (under government spending), payment of salaries, wages, and other expenses, allocation of cash subsidies in the framework of livelihood assistance programs to economically vulnerable families, and the extension of facilities in April 2021 to those groups adversely affected by the COVID-19 pandemic, as per the approvals of the National Taskforce for Fighting Coronavirus. In addition, due to the decrease in demand for banking facilities, affected by the emergence of uncertainties and risks posed to economic activities in the aftermath of the pandemic, as well as the reduction in banks' reserve requirement ratios, aimed at providing banks with facilities to financially support families and businesses adversely affected by COVID-19 in 2020, the demand for resources in the interbank market notably decreased. Consequently, the banks' excess reserves increased from Rls. 312.4 trillion in March 2020 to an unprecedented and remarkable figure of Rls. 713.8 trillion in June 2020, which in turn led to a decrease in interest rates in the interbank market. Therefore, the reduction in interest rates in the interbank market in April 2020 was primarily attributable to major developments in the supply *of* and and demand *for* resources in the interbank market and definitely off the CBI's agenda as it is not in line with the country's economic fundamentals. Under these circumstances, with the aim of reducing the width of the interest rate corridor and adjusting the interest rate with the policy rate, the CBI raised the deposit rates on banks' and non-bank credit institutions' accounts with the CBI at three different phases from first 10 to 12, then 12 to 13, and finally 13 to 14 percent. On this basis, the interest rate corridor was adjusted within the range of 14-22 percent. These developments urged the CBI to put on its agenda and communicate to the banking network the diversification of banking deposits and the increase in the ceiling on the provisional profit rate of term deposits, upon the approval of the Money and Credit Council (MCC). Therefore, the CBI set the ceilings on the provisional profit rate of ordinary short-term deposits, three-month special short-term deposits, six-month special short-term deposits, one-year deposits, and two-year deposits at respectively 10, 12, 14, 16 and 18 percent. The mentioned policy measures were driven by the objectives of strengthening the monetary transmission mechanism, preserving the value of the national currency, decreasing the liquidity flow, and stabilizing the monetary and financial system of the country. In addition, banks were authorized by the Central Bank to increase the issuance of the special-term general Certificates of Deposit (CDs) with an 18-percent interest rate. Banks were also instructed to set the ceiling on the issuance of the said certificates by September 2020 at a maximum of 20 percent of their long-term deposits in March 2020.

Among the other measures adopted by the CBI in 2020/21 was the initiation of a new mechanism based on the "averaging" method for the calculation and maintenance of reserve requirement with the aim of reducing interest rate fluctuations in the interbank market, improving the management of liquidity risk, and creating an incentive mechanism in banks to predict cash flow. On this basis, a 14-day period was considered for the maintenance of the reserve requirement, with its calculation to be based on the average of the maintenance period (including holidays).

In line with macroprudential regulations and in accordance with the approval of the MCC, the CBI took measures to improve the quality of the assets of banks and credit institutions. This policy measure obligated banks and credit institutions to maintain at least 3 percent of their total deposit balances in the form of Islamic financial instruments, issued by the Treasury General and tradable in the capital market. Furthermore, to contain growth of broad money and inflation, control money creation by banks, and build consistency between prudential and monetary policies, the CBI put on its agenda the "prudential policy of limiting growth in the balance sheets of banks and credit institutions", in line with the approval by the MCC, and communicated the "Guideline on Limiting the Quantity of the Assets and Liabilities of Banks and Credit Institutions" to the banking network. Accordingly, the allowed monthly growth limit (net) of all assets (excluding the items and headings as well as the increase in assets emanating from the mentioned guideline) was determined at 2.5 percent for public specialized banks and 2 percent for other banks and credit institutions. It should be noted that the CBI was authorized to adjust the determined limits with respect to systemic importance, performance assessment, and financial health indicators of credit institutions.

In addition to the said precautionary regulations, the CBI declared to the banking network the "Instructions on the Transfer of Redundant Assets of Credit Institutions" to the banking network to create a unified mechanism for the transfer of excess assets of banks and non-bank credit institutions, with the aim of improving the quality of banks' balance sheets. This will increase liquidity and help with reducing the freezing of banks' and credit institutions' assets.

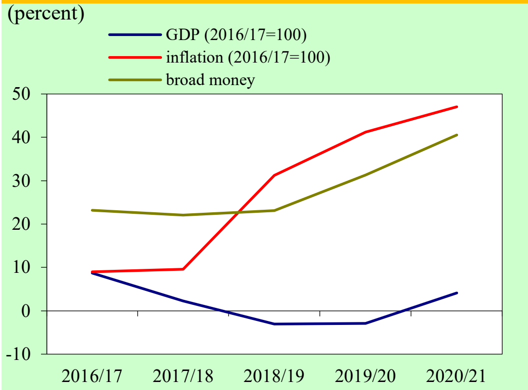
Meanwhile, the CBI established its brokerage firm for the sales of government debt instruments in initial public offering to banks (in the interbank market) and to the actors in the capital market (including natural and legal persons), with the aim of financing the government, preventing the monetization of government budget deficit and offsetting its inflationary effects, reducing transaction costs, facilitating banks' and non-bank credit institutions' access to government debt instruments and improving the quality of their balance sheets, deepening of the debt market, and formulating a practical method to extend credit to banks and credit institutions against collateral, utilizing the capacity of the Open Market Operations and standing facilities. Through the CBI's brokerage firm, 42 rounds of weekly auctions were held as of June 2, 2020 until March 20, 2021, with the total sales of government bonds at Rls. 1,257.4 trillion.

To fulfill its mandate regarding the control of banks' debt, the CBI took action to manage the banks' use of the overdraft facility of the CBI through strengthening the interbank market, implementing the OMOs, and offering credit against collateral. After two and a half years since the launch, the CBI finalized the comprehensive plan of the merging of banks and credit institutions affiliated with the armed forces (Ansar Bank, Mehr Eqtesad Bank, Bank Hekmat Iranian, Ghavamin Bank, and Kosar Credit Institution) with the publicly-owned Bank Sepah in 2020/21, aimed at organizing the money market, restructuring the banking sector, and increasing the supervisory power of the CBI.

In the field of the credit policy, the CBI issued for the first time in February 2021, GAM papers (LCs opened with the aim of the injection of liquidity to productive units) to the end of removing monetary obstacles to production growth, directing financial resources to economic generative activities, and providing sound and sustainable working capital to production units. Furthermore, to financially support households and businesses adversely affected by COVID-19, the CBI provided Rls. 750 trillion worth of facilities, one-third of which was financed out of lowering banks' reserve requirement ratio. To offset the monetary effects of this financial assistance, the reserve requirement ratio of banks and non-bank credit institutions was reduced, as of September 2020, to the level of the figures applied before the MCC's approval of May 2020.

Overall, the CBI's policy measures in the field of the credit policy were predicated on earmarking and directing financial resources to the generative sectors of the economy with the aim of supporting production, generating employment opportunities, and facilitating financing. On this basis, certain policy measures including financing the SMEs, supporting industries capable of propelling economic growth and production chains in the automotive industry, financing knowledge-based companies, allocating financial resources to the priorities of the "manufacturing and mining" and "construction and housing" sectors, raising the ceiling on employment-generation facilities for rural dwellers and war veterans, increasing the housing purchase and construction facilities for the elite, and extending Gharz-al-hasaneh facilities for difficult-to-treat and cancer patients as well as infertile couples were adopted. Other policy measures taken by the CBI included the announcement to the banking network to facilitate the repayment of installments for the received facilities, to allow banks' waiving of rights to take action against bounced checks, and to identify and record jobs and businesses, except those in the public sector, which have been adversely affected by COVID-19. In addition, the CBI formulated guidelines, instructions, and circulars, including the "Law on Facilitating the Debt Settlement of the Banking Network's Debtors", and extended loans and facilities to renters in need of rental assistance by virtue of facilities under the "Murabaha Contracts for the Purchase of Goods and Services".

Figure 14.1. Growth in Major Economic Variables



14.2. Performance of the Banking System

The assets and liabilities of the banking system[1] increased by 38.7 percent compared with March 2020, to amount to Rls. 65,802.0 trillion in March 2021. The non-public debt (including future profits and revenues), with an increase of 48.4 percent compared with March 2020 (equal to a rise of Rls. 7,845.2 trillion), was the main factor responsible for raising the assets of the banking system. Other assets, with a growth rate of 32.4 percent compared with the year before, and foreign assets, with a rise of 35.1 percent compared with March 2020 (equal to an increase of Rls. 5,013.1 trillion in other assets and a rise of Rls. 4,063.3 trillion in foreign assets), were the next two important factors raising the banking system's assets in March 2021. Broad money, with a growth rate of 40.6 percent compared with the year before (an increase of Rls. 10,040.2 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 33.5 percent compared with the year before (an increase of Rls. 4,820.5

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

trillion), were the most important factors contributing to the increase of the banking system's liabilities.

14.2.1. Banking System and the External Sector

In March 2021, the net foreign assets (NFAs) of the banking system increased by 26.9 percent (Rls. 1,245.2 trillion) compared with the year before to reach Rls. 5,877.5 trillion. This was attributable to the increase in the NFAs of the CBI by Rls. 1,228.0 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. 17.2 trillion on the other. The reason behind the rise in the NFAs of the CBI was an increase of Rls. 1,086.3 trillion in its foreign assets as against a reduction of Rls. 141.7 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. 2,977.0 trillion and Rls. 2,959.8 trillion, respectively.

14.2.2. Banking System and the Public Sector

The public debt (net) to the banking system rose by Rls. 757.2 trillion compared with the year before, to reach Rls. 3,555.2 trillion in March 2021. The public debt to the CBI went up by 28.9 percent (Rls. 334.8 trillion), mainly due to an increase of 50.8 percent in the government debt to the CBI as well as a negative growth rate of 13.5 percent in public corporations' and institutions' debt to the CBI. Of total government debt to the CBI, Rls. 39.2 trillion (3.4 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 increased by 71.4 percent (Rls. 715.9 trillion) compared with March 2020, mainly attributable to the increase in government's deposits with the CBI by Rls. 702.0 trillion and the rise in the deposits of public corporations and institutions with the CBI by Rls. 13.9 trillion compared with March 2020.

Table 14.1. Major Assets and Liabilities of the Banking System [1] (trillion rials)

	Balance			Percentage change	
	March 2019	March 2020	March 2021	March 2020	March 2021
Assets	**38,786.0**	**47,435.5**	**65,802.0**	**22.3**	**38.7**
Foreign assets	9,171.4	11,580.4	15,643.7	26.3	35.1
Central Bank	4,651.3	5,364.6	6,450.9	15.3	20.2
Public commercial and specialized banks	1,686.8	2,609.7	3,606.2	54.7	38.2
Private banks and non-bank credit institutions	2,833.3	3,606.1	5,586.6	27.3	54.9
Public debt	3,325.5	4,164.9	5,609.8	25.2	34.7
Non-public debt [2]	13,126.1	16,220.2	24,065.4	23.6	48.4
Other	13,163.0	15,470.0	20,483.1	17.5	32.4
Liabilities	**38,786.0**	**47,435.5**	**65,802.0**	**22.3**	**38.7**
Broad money	18,828.9	24,721.5	34,761.7	31.3	40.6
Deposits of public sector	915.9	1,366.9	2,054.6	49.2	50.3
Foreign liabilities	5,918.8	6,948.1	9,766.2	17.4	40.6
Central Bank	2,234.8	1,888.9	1,747.2	-15.5	-7.5
Public commercial and specialized banks	1,312.6	2,087.0	3,180.2	59.0	52.4
Private banks and non-bank credit institutions	2,371.4	2,972.2	4,838.8	25.3	62.8
Other [3]	13,122.4	14,399.0	19,219.5	9.7	33.5

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

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

The value of the public debt to banks and non-bank credit institutions (excluding the CBI) surged by 36.9 percent (Rls. 1,110.1 trillion), mainly due to an increase of 35.4 percent (a rise of Rls. 1,036.9 trillion) in the government debt to banks and non-bank credit institutions. The government debt to banks and non-bank credit institutions totaled Rls. 3,969.7 trillion in March 2021.

14.3. Banking Network[1] and the Non-public Sector [2]

In March 2021, the outstanding facilities[3] (net) extended by the banking network to the non-public sector increased by 48.4 percent (Rls. 6,850.9 trillion) to Rls. 21,013.7 trillion. This is indicative of an increase of 24.9 percentage points compared with a growth rate of 23.5 percent in March 2020. The share of the outstanding facilities extended by the banking network to the non-public sector equaled 83.6 percent of the total outstanding facilities extended to public and non-public sectors, indicating a rise of 1.1 percentage points compared with the respective figure in the year before (82.5 percent). In March 2021, the outstanding facilities (net) extended by the public commercial banks to the non-public sector rose 38.2 percent (Rls. 892.9 trillion) to Rls. 3,228.4 trillion (excluding future profits and revenues). The outstanding facilities extended by the specialized banks to the non-public sector grew by 21.7 percent (Rls. 554.3 trillion) compared with March 2020 to Rls. 3,111.3 trillion. For the private banks and non-bank credit institutions, this variable grew by 58.3 percent (Rls. 5,403.7 trillion) compared with March 2020, to reach Rls. 14,674.0 trillion.

Figure 14.2. Public and Non-public Debt to Banks and Non-bank Credit Institutions
(excluding future profits and revenues)

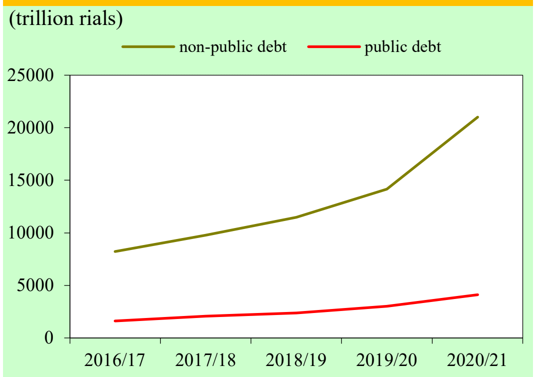


Table 14.2. Increase/Decrease in Public Debt (Net) to the Banking System (trillion rials)

	March 2020	March 2021
Total public debt to the banking system (net)	**388.4**	**757.2**
Central Bank	-135.7	-381.1
Public commercial and specialized banks	140.3	312.9
Private banks and non-bank credit institutions	383.8	825.4
Government debt to the banking system (net)	**207.2**	**751.0**
Central Bank [1]	-300.5	-314.1
Public commercial and specialized banks	136.6	254.0
Private banks and non-bank credit institutions	371.1	811.1
Public corporations' and institutions' debt to the banking system (net)	**181.2**	**6.2**
Central Bank	164.8	-67.0
Public commercial and specialized banks [2]	3.7	58.9
Private banks and non-bank credit institutions	12.7	14.3

[1] Includes the deficit in the foreign exchange obligations account, resulted from the unification of the exchange rate in 1993, as well as the 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.

[1] Includes public commercial and specialized banks, private banks, and non-bank credit institutions.
[2] Excludes future profits and revenues.
[3] Includes overdue and non-performing loans.

The share of the public commercial banks (net) in the outstanding facilities extended to the non-public sector decreased from 16.5 percent in March 2020 to 15.4 percent in March 2021 and that of the public specialized banks fell from 18.1 percent to 14.8 percent over the same period. However, the share of the private banks and non-bank credit institutions out of the total outstanding facilities extended by the banking network to the non-public sector rose from 65.5 percent in March 2020 to 69.8 percent in March 2021.

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 52.9 percent in March 2021. Ranking next were "manufacturing and mining", "construction and housing", and "agriculture" sectors by 32.7, 8.9 and 5.5 percent, respectively. Reviewing the composition of the outstanding facilities extended by banks and credit institutions to the non-public sector shows that Murabaha, "installment sale", and "partnership" contracts held the highest shares by respectively 28.1, 23.0 and 16.9 percent. By March 2021, the shares of facilities in the form of Murabaha, legal partnership, Gharz-al-hasaneh, and forward transactions rose, while those of partnership, installment sale, Ju'alah, and direct investment contracts decreased.

Table 14.3. Facilities Extended by Banking Network to Non-public Sector [1] (trillion rials)

	Outstanding (net)			Percentage change		Share (percent)	
	March 2019	March 2020	March 2021	March 2020	March 2021	March 2020	March 2021
Public commercial banks	1,857.1	2,335.5	3,228.4	25.8	38.2	16.5	15.4
Public specialized banks	2,165.3	2,557.0	3,111.3	18.1	21.7	18.1	14.8
Private banks and non-bank credit institutions	7,444.3	9,270.3	14,674.0	24.5	58.3	65.5	69.8
Total	**11,466.7**	**14,162.8**	**21,013.7**	**23.5**	**48.4**	**100.0**	**100.0**

[1] Excludes future profits and revenues.

Table 14.4. Share of Economic Sectors in Increase in Outstanding Facilities (Net)[1] Extended by Banking Network to Non-public Sector (percent)

	March 2020			March 2021		
	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	19.7	2.0	7.6	21.5	1.1	5.5
Manufacturing and mining	20.5	10.1	13.4	18.4	36.6	32.7
Construction and housing	16.0	13.9	14.6	7.0	9.5	8.9
Exports	3.6	0.1	1.3	0.9	0.0	0.2
Domestic trade, services, and miscellaneous	40.2	73.9	63.1	52.2	52.8	52.7
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.

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 2.4 percentage points from 8.6 percent in March 2020 to 6.2 percent in March 2021. The said ratio declined by 1.2 percentage points for public commercial banks, 1.5 percentage points for public specialized banks, and 3.0 percentage points for private banks and non-bank credit institutions, compared with the year before.

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 May 2016[1]. With the implementation of this Guideline and based on revised data, a sum of Rls. 1,953.4 trillion worth of direct facilities was allocated to 134.4 thousand eligible manufacturing establishments until March 2021, within the framework of the provincial working groups' approvals.

Banks' and credit institutions' scheduled facilities amounted to Rls. 1,620.0 trillion in March 2021, of which Rls. 515.2 trillion (31.8 percent) belonged to "Gharz-al-hasaneh" facilities and Rls. 1,104.8 trillion was related to "other scheduled" facilities. Out of total Gharz-al-hasaneh facilities, Rls. 430.0 trillion (83.5 percent) was exclusively allocated as marriage facility and Rls. 85.2 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.

Table 14.5. Composition of Outstanding Facilities Extended by Banking Network to Non-public Sector by Contract (percent)

	March 2020	March 2021
Installment sale	27.5	23.0
Mudarabah	1.1	1.2
Partnership	25.2	16.9
Gharz-al-hasaneh	7.2	8.5
Hire purchase	0.7	0.7
Forward transactions	1.2	1.8
Legal partnership	3.2	5.0
Direct investment	0.4	0.3
Ju'alah	4.9	4.4
Murabaha	17.5	28.1
Other [1]	11.1	10.1
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 14.6. Ratio of Overdue and Non-performing Loans to Facilities Extended by Banking Network to Public and Non-public Sectors (in rials) [1] (percent)

	March 2020	March 2021	March 2021 compared with March 2020 (percentage points)
Public commercial banks	5.2	4.0	-1.2
Public specialized banks	10.3	8.8	-1.5
Private banks and non-bank credit institutions	9.2	6.2	-3.0
Banking network	**8.6**	**6.2**	**-2.4**

[1] Includes overdue and non-performing loans of public and non-public sectors.

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

Moreover, a sum of Rls. 144.0 trillion out of the "other" uses was related to the purchase of wheat and other strategic agricultural products at guaranteed and agreed prices, Rls. 47.6 trillion was allocated to the projects of the National Headquarters for Fighting COVID-19, Rls. 36.3 trillion was extended for the provision of rural housing, Rls. 13.1 trillion was allocated for war veterans' housing facility, and Rls. 7.3 trillion was extended to the Mehr Housing Project[1].

Table 14.7. Banks' Performance on Scheduled Facilities in March 2021

(trillion rials)

Purposes	Paid facilities in March 2021
Gharz-al-hasaneh facilities	**515.2**
Marriage	430.0
Other	85.2
Other scheduled facilities	**1,104.8**
Purchase of wheat and other strategic agricultural products at guaranteed and agreed prices	144.0
Rural housing	36.3
Mehr Housing Project	7.3
War veterans' housing facility	13.1
Security deposit (approved by the National Headquarters for Fighting COVID-19)	47.6
Financing of the SMEs	856.5
Total	**1,620.0**

14.4. Broad Money and Its Determinants

In March 2021, broad money amounted to Rls. 34,761.7 trillion. The growth rate of broad money was 40.6 percent, indicating an increase of 9.3 percentage points compared with a growth rate of 31.3 percent in March 2020. The rise in broad money was mainly due to an increase of 30.1 percent in the monetary base, which was in turn due to the increase in the NFAs of the CBI. Moreover, money multiplier increased by 8.1 percent to 7.575 in March 2021. Among the factors influencing broad money growth, the net domestic assets of the banking system, with a growth rate of 43.8 percent, had an increasing share of 35.6 percentage points in raising broad money. Among the items of the net domestic assets, the non-public debt to banks and non-bank credit institution (excluding future profits and revenues), with an increase of 48.4 percent and a positive share of 27.7 percentage points, and other items (net), with a growth rate of 37.8 percent and an increasing share of 4.8 percentage points, were the main contributing factors. The public debt to the banking system (net) had an increasing share of 3.1 percentage points in raising broad money. The NFAs of the banking system, with an increase of 26.9 percent, had a positive share of 5.0 percentage points in growth of broad money.

Table 14.9. Contribution of Factors Affecting Broad Money Growth (percentage points)

	March 2020	March 2021
Net foreign assets of the banking system	**7.3**	**5.0**
Net domestic assets of the banking system	**24.0**	**35.6**
Public debt (net) to banking system	2.1	3.1
Government	1.1	3.1
Public corporations and institutions	1.0	0.0
Non-public debt to the banking system[1]	14.3	27.7
Other items (net)	7.6	4.8
Broad money (percent)	**31.3**	**40.6**

[1] Excludes future profits and revenues.

Table 14.8. Broad Money and Its Determinants

	Balance		Percentage change	
	March 2020	March 2021	March 2020 compared with March 2019	March 2021 compared with March 2020
Monetary base (trillion rials)□	3,528.5	4,588.9	32.8	30.1
Money multiplier	7.006	7.575	-1.1	8.1
Broad money (trillion rials)	24,721.5	34,761.7	31.3	40.6

[1] 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. 540.0 trillion was allocated by March 2021. No separate quota was determined for 2020/21.

Figure 14.3. Growth in Broad Money and Its Determinants

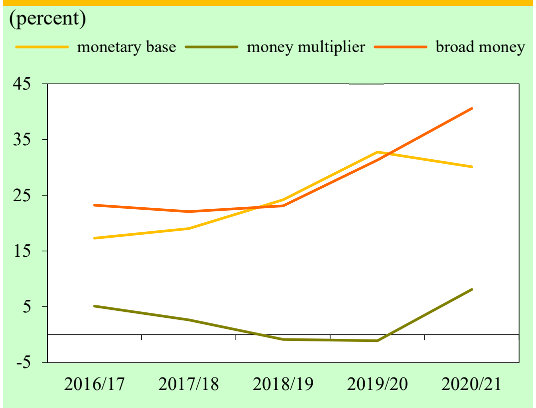
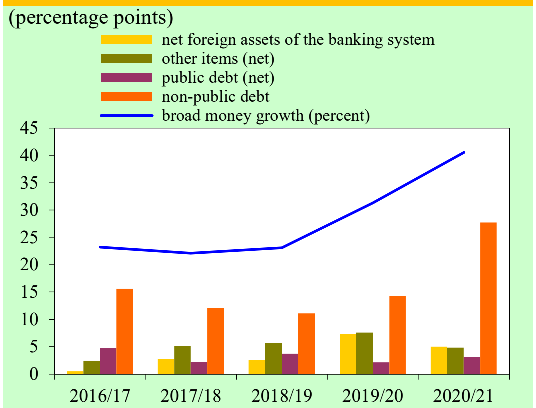


Figure 14.4. Factors Affecting Broad Money Growth



14.4.1. Monetary Base and Its Determinants

The NFAs of the CBI, with an increase of 35.3 percent compared with March 2020 and an increasing share of 34.8 percentage points, were the most important factor positively affecting the monetary base in March 2021. The increase in the NFAs of the CBI was mainly due to the monetary effects of the foreign exchange transactions (net) at NIMA rate, especially the rise in the value of the foreign exchange bought from the NDFI. The value of the foreign exchange bought from the NDFI rose by Rls. 1,072.2 trillion, from Rls. 1,151.6 trillion in March 2020 to Rls. 2,223.8 trillion in March 2021.

The other items of the CBI (net), with an increase of 12.3 percent compared with March 2020 and an increasing share of 4.3 percentage points, were the second important factor positively affecting the monetary base growth in March 2021. This was mainly attributable to the increase in the CBI's other assets in March 2021 compared with March 2020, which was in turn due to the increase in the balance of securities carried through the OMOs to Rls. 333.2 trillion in March 2021.

Banks' and non-bank credit institutions' debt to the CBI, with a rise of 5.8 percent (Rls. 64.5 trillion) compared with March 2020, had a positive share of 1.8 percentage points in growth of monetary base. This shows an increase of 12.1 percentage points compared with the respective share in March 2020 (-10.3 percentage points). Banks' and non-bank credit institutions' debt to the CBI had a decreasing share of 10.3 percentage points in the 32.8 percent growth of the monetary base in March 2020. The public debt to the CBI (net), with a decline of 243.8 percent (a fall of Rls. 381.1 trillion) compared with March 2020 and a decreasing share of 10.8 percentage points, was the only negative factor in monetary base growth. Compared with the year before (a decreasing share of 5.1 percentage points in the 32.8 percent growth of the monetary base in March 2020), the mentioned share indicated a decrease of 5.7 percentage points. This was attributable to an increase of 28.9 percent in the public debt to the CBI (with a positive share of 9.5 percentage points in growth of monetary base) as against an increase of 71.4 percent in the deposits of the public sector with the CBI (with a share of -20.3 percentage points in growth of the monetary base).

Table 14.10. Breakdown of Factors Affecting Monetary Base Growth (percentage points)

	March 2020	March 2021
Net foreign assets (NFAs) of the CBI	39.9	34.8
Public debt to the CBI (net)	-5.1	-10.8
Banks' and non-bank credit institutions' debt to the CBI	-10.3	1.8
CBI's other items (net)	8.3	4.3
Monetary base (percent)	**32.8**	**30.1**

14.4.2. Money Multiplier and Its Determinants

The money multiplier increased by 8.1 percent to 7.575 in March 2021. "The ratio of reserve requirement to total deposits", "the ratio of banks' excess reserves to total deposits", and "the ratio of notes and coins with the public to total deposits" fell by 3.4, 31.5 and 15.0 percent, respectively, raising money multiplier by 0.1895, 0.2094 and 0.1700 points, respectively.

14.5. Composition of Broad Money

The share of money in broad money increased from 17.3 percent in March 2020 to 19.9 percent in March 2021. This was mainly attributable to the imposition of US sanctions, the emergence of adverse shocks on the supply side, and the price effects of liquidity shocks with their consequent impact on the asset market. This caused the formation of inflation expectations and an increase of 2.6 percentage points in the share of money in broad money, to bring it to 19.9 percent in March 2021. However, the share of quasi-money in broad money declined by 2.6 percentage points, from 82.7 percent in March 2020 to 80.1 percent in March 2021.

A review of the composition of long-term deposits indicates that the share of one-year deposits in long-term deposits decreased by 24.4 percentage points from 98.8 percent in March 2020 to 74.4 percent in March 2021, while the share of two-year deposits rose by 24.9 percentage points from 0.3 percent in March 2020 to 25.2 percent in March 2021. The increase in the share of two-year deposits was in line with the CBI's objectives to preserve the value of the national currency and to diversify banking deposits. On this basis, the CBI introduced two-year deposits[1] upon the approval of the MCC through its 1297th Meeting. The shares of four- and five-year deposits decreased, while the share of three-year deposits remained unchanged compared with March 2020.

Table 14.11. Composition of Broad Money (trillion rials)

	Balance			Percentage change		Share in broad money (percent)	
	March 2019	March 2020	March 2021	March 2020	March 2021	March 2020	March 2021
Money	**2,852.3**	**4,273.0**	**6,909.6**	**49.8**	**61.7**	**17.3**	**19.9**
Notes and coins with the public	547.5	611.4	735.0	11.7	20.2	2.5	2.1
Sight deposits of non-public sector	2,304.8	3,661.6	6,174.6	58.9	68.6	14.8	17.8
Quasi-money (non-sight deposits)	**15,976.6**	**20,448.5**	**27,852.1**	**28.0**	**36.2**	**82.7**	**80.1**
Gharz-al-hasaneh savings deposits	1,026.5	1,448.1	2,268.2	41.1	56.6	5.9	6.5
Term deposits	14,646.0	18,568.0	24,945.0	26.8	34.3	75.1	71.8
Miscellaneous deposits	304.1	432.4	638.9	42.2	47.8	1.7	1.8
Broad money	**18,828.9**	**24,721.5**	**34,761.7**	**31.3**	**40.6**	**100.0**	**100.0**

[1] The main factor behind the increase in the share of one-year deposits and the decrease in the share of those with terms of more than a year until 2019/20, was the ban placed on deposits with terms of more than one year as of May 2014.

Table 14.12. Composition of Long-term Deposits (percent)

Deposits	March 2019	2020	2021
One-year	97.5	98.8	74.4
Two-year	0.3	0.3	25.2
Three-year	0.0	0.0	0.0
Four-year	0.1	0.1	0.0
Five-year	2.1	0.8	0.4

14.6. Sources and Uses of Funds of Public Commercial Banks

The deposits of non-public sector with public commercial banks grew by 34.8 percent (Rls. 1,660.0 trillion) in March 2021. Deposits of non-public sector held with commercial banks included sight deposits, the value of which increased by Rls. 563.1 trillion, and non-sight deposits whose value rose by Rls. 1,096.9 trillion. The non-usable sources of public commercial banks surged by Rls. 120.6 trillion, mainly owing to a rise by Rls. 126.7 trillion in reserve requirement and a fall of Rls. 6.1 trillion in the value of notes and coins. Moreover, the balance of the "capital account" and the "deposits of public sector" with commercial banks rose by Rls. 529.1 trillion and Rls. 48.4 trillion, respectively. Accordingly, the non-public debt[1] went up by Rls. 892.9 trillion and the public debt[2] increased by Rls. 241.8 trillion.

14.7. Sources and Uses of Funds of Specialized Banks

In March 2021, the deposits of non-public sector held with specialized banks increased by Rls. 888.4 trillion. The value of sight deposits rose by Rls. 197.7 trillion and that of non-sight deposits increased by Rls. 690.7 trillion. The non-usable sources of specialized banks rose by Rls. 81.5 trillion, resulting from a rise of Rls. 83.7 trillion in reserve requirement and a fall of Rls. 2.2 trillion in the value of notes and coins. Free sources out of the deposits of the non-public sector held with the specialized banks increased by Rls. 806.9 trillion. Total free sources of specialized banks, including debt to the CBI, foreign liabilities, debt to other banks, and other sources increased by Rls. 481.6 trillion. This included the rise in the non-public debt to specialized banks by Rls. 554.3 trillion and the decrease in the public debt by Rls. 72.7 trillion. The specialized banks' debt to the CBI decreased by 4.6 percent (Rls. 21.7 trillion) compared with March 2020 to Rls. 448.9 trillion in March 2021.

[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.

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

In March 2021, the deposits of the non-public sector with private banks[3] and non-bank credit institutions increased by 43.3 percent (Rls. 7,368.2 trillion) compared with March 2020. In this regard, the value of sight deposits increased by Rls. 1,752.2 trillion and that of non-sight deposits went up by Rls. 5,616.0 trillion. The non-usable sources of private banks and non-bank credit institutions increased by about Rls. 720.7 trillion compared with March 2020, mainly due to an increase in reserve requirement by Rls. 734.7 trillion, a decrease in the value of notes and coins with Rls. 14.1 trillion, and

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

a rise of Rls. 0.2 trillion in the government bonds of all private banks and non-bank credit institutions. Furthermore, the balance of the capital account of private banks and non-bank credit institutions decreased by Rls. 165.3 trillion compared with March 2020. Similarly, the deposits of the public sector with private banks and non-bank credit institutions decreased by Rls. 19.9 trillion in March 2021. Therefore, the non-public debt to private banks and non-bank credit institutions increased by Rls. 5,396.1 trillion and the public debt to private banks and non-bank credit institutions increased by Rls. 374.2 trillion compared with the year before.

14.9. Banking Units and Personnel

By March 2021, the number of banking units, including branches and counters in both domestic offices and representative offices abroad, increased by 2.5 percent to 22,159 units, of which 22,112 were located in Iran and the remaining were on foreign lands. Bank Sepah and Bank Melli Iran held the highest shares in the number of domestic units by 18.6 and 13.2 percent, respectively. The number of banks' employees increased by 2.0 percent compared with March 2020, to 214,289 persons by March 2021, with the number of employees in private banks and non-bank credit institutions rising by 3.4 percent. Similarly, the number of employees in public commercial banks increased by 1.0 percent, while the number of employees in public specialized banks decreased by 2.0 percent compared with the year before. The ratio of the employees in the banking network to banking units (domestic and foreign branches) remained almost unchanged at 9.7 persons on average, and that of the total population to each domestic banking unit fell by roughly 62 persons to almost 3,772 persons.

14.10. Major Regulations, Bylaws, Guidelines, Circulars, and Amendments in 2020/21

- Formulation and communication to the banking network of the Guideline on establishing the professional qualification of the directors of credit institutions or terminating the relevant license as per the approval of the MCC Meeting, dated February 4, 2020;

- Revision and announcement of the regulations on the qualification of applicants of managerial positions for the subsidiary offices of credit institutions inside or outside the country and for the branch or representative offices of foreign banks in Iran, as per the approval granted by the Committee on Regulation and Supervision of Credit Institutions through the Meeting held on May 11, 2020;

- Revision and announcement of the instruction on calculating the reserve assets of credit institutions, as per the approval by the MCC, dated September 22, 2020;

Table 14.13. Number of Banking Units [1]

	March 2020	March 2021
Domestic branches	**21,570**	**22,112**
Public commercial banks	5,027	7,445
Public specialized banks	3,604	3,552
Private banks and non-bank credit institutions	12,939	11,115
Foreign branches	**48**	**47**
Total	**21,618**	**22,159**

[1] Excludes representative offices.

- Revision and announcement of the Guideline on determining the revenue of credit institutions, as per the stipulations of the Meeting Minutes of the MCC, dated June 30, 2020 and September 22, 2020;

- Revision and announcement of the Executive Guideline on the rescheduling of credit institutions' claims, approved by the MCC through the Meeting held on September, 22, 2020;

- Formulation and announcement of the instruction for the transfer of the redundant assets of credit institutions, approved by the MCC in the Meeting dated June 16, 2020;

- Formulation and announcement of the Executive Guideline of Article (6), Addendum to the Law on Check Issuance for 2018/19, approved by the MCC in the Meeting dated December 15, 2020;

- Formulation and announcement of the Guideline on investing in securities, approved in the Meeting of December 15, 2020 by the MCC;

- Communication of the approvals of the National Taskforce for Fighting COVID-19 concerning financial assistance to households and businesses adversely affected by the outbreak of COVID-19;

- Announcement of the Circular on the increase in the proportion of loans granted by banks and credit institutions in each province to at least fifty percent of the total deposits to be allocated in that province, as per the Minutes of the Meeting dated April 13, 2020 by the Executive Board of the CBI;

- Announcement of the Circular on the Addendum to the executive regulations of Note (1), Article (186), Direct Tax Law;

- Issuance of the Circular on providing the option of using Edalat (Justice) Shares to serve as collateral for the issuance of Murabaha credit cards by banks and non-bank credit institutions;

- Communication of the Circular on the obligation of banks and credit institutions to maintain at least 3 percent of their outstanding deposits as Islamic financial instruments, tradable in the capital market, as per the approval by the MCC in the Meeting dated August 25, 2020;

- Announcement of the Circular on the increase in the ceiling on Gharz-al-hasaneh facilities granted by Gharz-al-hasaneh banks, approved by the Committee on Regulation and Supervision of Credit Institutions in the Meeting dated September 6, 2020;

- Announcement of the Circular on the requirement to provide customers with a copy of credit agreements; and

- Announcement of the Circular on the revision of the instruction on granting rewards to Gharz-al-hasaneh savings deposits, as per the approvals of the Meeting on February 14, 2021 by the Committee on Regulation and Supervision of Credit Institutions and the Meeting by the Executive Board of the CBI on February 24, 2021.

14.11. Major Anti-Money Laundering (AML) Measures

- Implementation of periodical and case-by-case supervision on banks and non-bank credit institutions to ensure their compliance with the AML/CFT measures and to ensure that the limited regulatory resources in the banking network are targeted at high-risk banks and credit institutions; this was in implementation of the stipulated provisions of Articles (41) and (43), Executive By-law on Article (14) annexed to the AML Law, and Paragraph (9), Article (1) of the said By-law, utilizing the inspection document on the observance of AML/CFT measures by banks and non-bank credit institutions with a risk-based approach;

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

- Investigation on the source of the funds deposited for the establishment and/or capital increase of banks and other non-bank monetary institutions; tracking the source of the initial capital/capital increase of banks and non-bank credit institutions, insurance companies, and leasing companies;

- 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;

- Monitoring and detection of 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;

- In compliance with the current rules and regulations highlighting the significance of client identification and in observance of the communicated Circular, only foreign nationals holding a special residence permit or a valid passport are allowed to use banking services or to involve in any type of banking transaction. Those failing to provide the required documentation face restrictions as they are 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 are placed on the provision of POSs to foreign clients; and

- Communication of the Circular to the banking network on 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 and in implementation of the Approval by the Supreme Council of the AML/CFT.

14.12. 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 or to request the renewal of their permits.

[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.

The areas the CBI deals with in this regard include establishment, operation, and registration processes. The relevant adopted measures in 2020/21 were as follows:

- Issuance of the establishment and/or operation permits for 8 credit cooperatives, 2 Gharz-al-hasaneh Funds, 51 exchange bureaus, and 3 leasing companies; renewal of the work permits for 325 financial institutions, which used to have temporary permits;

- In line with the stipulations of the Country's 6th Five-year Development Plan and Paragraph (A), Article (21), Permanent Decrees Act, the revisions to registration processes of the foundations supervised by the CBI, including the Board and General Assembly meeting minutes, are reviewed and submitted to the relevant bodies upon meeting the necessary conditions. Accordingly, 914 registration confirmations were issued by the Licensing Department of the CBI;

- In line with Paragraph (I), Article (21), Permanent Decrees of the Country's Development Plans Act, and Clause (4), Paragraph (A), Article (14), 6th FYDP Act, the Bank Licensing Department of the Central Bank evaluated the professional qualifications of 166 persons introduced as the Managing Director or the Board Member of banks and credit institutions, 99 of whom met the committee requirements;

- In implementing its duties, the Bank Licensing Department of the CBI adopted various measures to handle requests for the issuance of establishment and operation permits, organizing institutions in the money market, renewing operation permits, and suspending and revoking the issued permits and licenses;

- The Bank Licensing Department of the Central Bank reviewed the applications for the establishment of branch offices inside or outside the country and in free trade zones (issuance of agreements in principle or establishment and operation permits), issuing 621 operation permits for branches and 1,226 operation permits for banks and non-bank credit institutions; and

- The CBI agreed with the capital increase of several banks including Melli, Mellat, Sepah, Parsian, Eghtesad Novin, Sina (out of the excess funds resulted from the revaluation of assets), Keshavarzi, and the Export Development Bank (out of the excess funds resulted from the revaluation of assets, the implementation of Paragraph (F), Note (5), Budget Law for 2019/20, and Article (11), the Executive Bylaw of the same Law), the Bank of Industry and Mine (out of the implementation of Paragraph (F), Note (5), Budget Law for 2019/20 and Article (11), the Executive Bylaw of the same Law), Pasargad (out of transfer to other reserves resulting from the revaluation of foreign exchange), Middle East Bank (out of accumulated profit), Karafarin (out of other reserves and the excess funds resulted from the revaluation of assets), Mehr Iran Bank (out of other reserves, accumulated profit, and shareholders' claims), and Melal Credit Institution (out of the cash flow).

Table 14.14. Number of Licenses Issued, Renewed, and Revoked for Institutions Active in Unorganized Money Market by March 2021[1]

	Initial licenses		Renewed licenses	Total	Revoked licenses
	Establishment	Operation			
Credit cooperatives	4	4	61	**69**	1
Gharz-al-hasaneh Funds	2	0	15	**17**	0
Leasing companies	2	1	30	**33**	1
Exchange bureaus	12	39	219	**270**	98
Total	**20**	**44**	**325**	**389**	**100**

[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.