

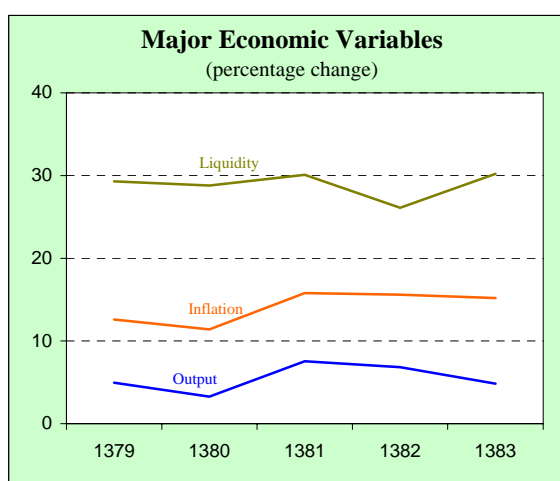
CHAPTER THIRTEEN

MONETARY AND BANKING POLICY AND PERFORMANCE

The targets for the liquidity growth and inflation rate in 1383, on the basis of the 3rd FYDP, were 13.1 and 13.0 percent, respectively. In this regard, in 1383 Budget Law, the CBI was obliged to formulate credits and facilities of the banking system and the ratio of long-term to short-term credits and facilities on the basis of current and term-investment deposits, after deducting reserve requirements and obligations, to meet the economic growth and inflation targets set in the Plan.

Accordingly, increase in the outstanding of directed credits extended by banks in 1383, observing other obligations stipulated in development plans, was authorized up to Rls. 3,000 billion; Rls. 600 billion less than that of the previous year. The share of public sector out of increase in outstanding facilities was 25 percent, and that of cooperative and private sectors was 75 percent. It was stipulated that 65 percent of the share of cooperative and private sectors be distributed among provinces for extending job creation facilities in less developed regions. According to the 3rd Plan Law, the increase in the outstanding of directed credits shall be reduced by 10 percent per annum on average during the Plan period compared to the approved figures for 1378.

According to the Money and Credit Council (MCC) and Cabinet approval, the public banks are authorized to extend up to 45 percent of the increase in the outstanding of non-public sector facilities free from sectoral allocations. The shares of various sectors of total increase in the outstanding facilities extended to non-public sector, after deducting free uses, legal obligations and Gharz-al-hasaneh facilities to meet urgent needs and create employment, are as follows:



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

Economic sector	(% per annum)	
	1383	
Economic sector	55%	100%
Agriculture (1)	25.0	25.0
Manufacturing and mining	32.0	17.6
Housing and construction	28.0	15.4
Exports	11.0	6.1
Domestic trade, services & miscellaneous	4.0	2.2
Free uses	0	33.7

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

The expected rate of return on banking facilities in 1383 changed as is shown in the respective table:

The most important monetary policies set for the last year of the 3rd FYDP were reduction in the expected rate of return on banking facilities, increase in the share of bank's free uses for extending banking facilities, issuance of new CBI participation papers, and renewal of the existing papers aimed at liquidity control.

**EXPECTED RATE OF RETURN ON
BANKING FACILITIES (% per annum)**

	1382	1383
Agriculture	13.5	13.5
Manufacturing and mining	16	15
Bank Maskan Housing Savings Fund	15	15
Housing (other)	18	18
Trade, services, miscellaneous and construction	21(min.)	21(min.)
Exports	15	14

Banking System Performance ⁽¹⁾

In 1383, banking system assets and liabilities grew by 32.8 percent. Foreign assets, with a noticeable rise of 101.6 percent in assets side, and liquidity, with 30.2 percent growth in liabilities side, contributed greatly to the rise in assets and liabilities, respectively.

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

(billion rials)

	Year-end balance			Percentage change	
	1381	1382 ▲	1383	1382	1383
Assets	1,050,686.7	1,345,525.9	1,787,300.5	28.1	32.8
Foreign assets	236,073.7	294,009.1	592,646.9	24.5	101.6
Central Bank	175,854.7	214,498.3	299,677.9	22.0	39.7
Public banks	60,038.9	79,126.6	289,365.2	31.8	265.7
Private banks and non-bank credit institutions (2)	180.1	384.2	3,603.8	113.3	☐
Claims on public sector	206,216.9	221,900.6	235,940.9	7.6	6.3
Claims on non-public sector	327,072.9	454,799.8	625,714.9	39.1	37.6
Others	281,323.2	374,816.4	332,997.8	33.2	-11.2
Liabilities	1,050,686.7	1,345,525.9	1,787,300.5	28.1	32.8
Liquidity (M2)	417,524.0	526,596.4	685,697.5	26.1	30.2
Public sector deposits and funds	69,321.1	85,583.1	97,773.4	23.5	14.2
External debts	175,038.9	231,759.4	385,919.7	32.4	66.5
Central Bank	94,467.2	96,455.7	116,398.5	2.1	20.7
Public banks	80,463.7	133,991.8	265,882.9	66.5	98.4
Private banks and non-bank credit institutions (2)	108.0	1,311.9	3,638.3	☐	177.3
Others (3)	388,802.7	501,587.0	617,909.9	29.0	23.2

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

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

(3) Includes capital account of the banking system, public sector LC prepayments and import order registration deposits of the non- public sector.

Banking System and the External Sector

The net foreign assets of the banking system grew markedly by 232.1 percent (Rls. 144,477.5 billion) to Rls. 206,727.2 billion. This remarkable rise was ascribable to Rls. 65,236.8 billion increase in Central Bank's net foreign assets and Rls. 79,240.7 billion rise in net foreign assets of banks and non-bank credit institutions. The main reason for the rise in CBI's net foreign assets was the increase in foreign exchange reserves of the CBI as a result of foreign exchange purchases from the government as envisaged in the budget.

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

Banking System and the Public Sector

Banking system's net claim on the public sector increased by Rls. 1,850 billion to Rls. 138,167.5 billion in the review year. During this period, Central Bank's claim on the public sector decreased by 2.7 percent, which was in turn due to 4.4 percent decline in the government indebtedness and 8.1 percent increase in public corporations and institutions' indebtedness.

Of the total CBI's claim on the government, 32.1 percent, or Rls. 35,955.7 billion, was related to the deficit in foreign exchange obligations account, which increased by Rls. 1,200.3 billion, compared to the previous year. Public sector deposits with the CBI went up by 14.3 percent, as a result of 16.2 percent growth in the government deposits and 0.7 percent rise in the public corporations and institutions' deposits.

In the review year, the government indebtedness to banks and non-bank credit institutions went up by 42.1 percent to Rls. 36,793.7 billion, showing Rls. 10,904.4 billion rise. This rise was partly due to increase in the profit receivables on government obligations by Rls. 1,813.0 billion and partly to increase in the stock of public sector participation papers by Rls. 8,015.7 billion.⁽¹⁾

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

	(billion rials)	
	1382	1383
Public sector	-578.3	1,850.0
Central Bank (1)	-2,096.0	-11,982.6
Commercial & specialized banks	2,157.5	13,918.3
Private banks and non-bank credit institutions	-639.8	-85.7
Government	-467.7	-6,452.5
Central Bank (2)	656.2	-13,470.7
Commercial & specialized banks	-484.3	7,103.9
Private banks and non-bank credit institutions (3)	-639.6	-85.7
Public corporations & institutions	-110.6	8,302.5
Central Bank	-2,752.2	1,488.1
Commercial & specialized banks (4)	2,641.8	6,814.4
Private banks and non-bank credit institutions	-0.2	0

(1) To net this item, advance payments on public sector LCs are not deducted from public sector indebtedness.

(2) Includes deficit in foreign exchange obligations account.

(3) Includes public sector participation papers only.

(4) Includes indebtedness for exchange rate differential.

DIRECTED CREDITS EXTENDED ACCORDING TO THE 1383 BUDGET LAW

	(billion rials)		
	Change in outstanding		
	Budget ceiling	Approved	Actual
Social & cultural	202	106	75.7
Job creation	1,670	641.8	455.3
Market regulation	88	31	16
Production & infrastructure	1,040	228.4	221.1
Total	3,000	1,007.2	768.1

Banks and the Non-public Sector

Banking system credit performance in 1383 shows that facilities⁽²⁾ extended to the non-public sector, excluding profit and revenue receivables, increased by Rls. 147,926.7 billion (38.1 percent). In the review year, non-public sector enjoyed the lion's share of 85.4 percent of total facilities extended by banks.⁽³⁾ Part of these facilities was in the form of directed credits.

Outstanding facilities extended by public commercial and specialized banks to the non-public sector, excluding profit and revenue receivables, grew by 34.5 and 28.2 percent, respectively. Outstanding facilities extended by private banks and non-bank credit institutions enjoyed a huge rise of 188.8 percent to reach Rls. 36,782.8 billion. On this basis, the share of private banks and non-bank credit institutions of the total facilities extended to the non-public sector increased noticeably from 3.3 percent at the end of 1382 to 6.9 percent at the end of 1383.

(1) Includes CBI participation papers as well.

(2) Includes matured and non-performing facilities.

(3) Excludes profit and revenue receivables.

FACILITIES EXTENDED BY BANKS AND NON-BANK CREDIT

INSTITUTIONS TO THE NON-PUBLIC SECTOR (1)

(billion rials)

	Year-end balance			Percentage change		Share (percent)	
	1381	1382	1383	1382	1383	1382	1383
	Commercial banks	203,505.1	286,339.0	385,069.0	40.7	34.5	73.7
Specialized banks	70,679.3	89,148.8	114,298.6	26.1	28.2	23.0	21.3
Private banks and non-bank credit institutions	3,393.6	12,735.9	36,782.8	275.3	188.8	3.3	6.9
Total	277,578.0	388,223.7	536,150.4	39.9	38.1	100.0	100.0

(1) Excludes profit and revenue receivables.

Considering the share of banking system free resources by 45 percent, as approved by the Cabinet, facilities extended by public banks to the non-public sector were distributed in a way that manufacturing and mining, domestic trade, services and miscellaneous sectors received more than the approved amount as well as part of banks' free uses, while other sectors received less than the approved amount.

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

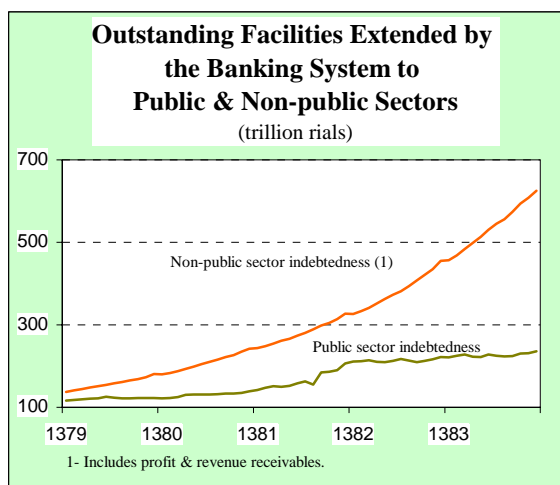
(percent)

	1382		1383	
	Performance		Performance	
	Public banks	Private banks and non-bank credit institutions	Public banks	Private banks and non-bank credit institutions
Agriculture	13.1	0	16.7	0.1
Manufacturing & mining	37.7	30.1	37.0	35.6
Construction & housing	19.4	41.6	16.8	29.8
Exports	2.0	0	3.0	0.9
Domestic trade, services and miscellaneous (2)	27.8	28.3	26.5	33.6
Total	100.0	100.0	100.0	100.0

(1) Excludes profit and revenue receivables.

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

Review of the composition of outstanding facilities extended by banks and non-bank credit institutions by Islamic contracts shows that 52.6 percent of these facilities are extended in the form of installment sale contract.



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

(percent)

	Banks & non-bank credit institutions	
	1382	1383
Installment sale	52.8	52.6
Mozarebeh	6.2	6.2
Civil partnership	10.9	10.3
Gharz-al-hasaneh	6.0	4.8
Hire purchase	2.7	3.2
Forward transactions	6.1	5.8
Legal partnership	1.6	2.4
Direct investment	0.9	1.0
Joaleh	6.4	6.8
Others (2)	6.4	6.9
Total	100.0	100.0

(1) Includes profit and revenue receivables.

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

Liquidity

In 1383, liquidity (M₂) grew by 30.2 percent, well above the target set in the 3rd FYDP Law. The respective figure for the previous year was 26.1 percent. Monetary base grew by 17.5 percent, against 7.6 percent in the previous year, mainly owing to the rise in CBI's net foreign assets. However, growth in money multiplier decelerated to 10.9 percent as compared to the previous year and reached 4.535.

LIQUIDITY AND ITS DETERMINANTS

	Year-end balance			Percentage change	
	1381	1382	1383	1382	1383
Monetary base (billion rials)	119,615.9	128,710.9	151,200.0	7.6	17.5
Money multiplier	3.491	4.091	4.535	17.2	10.9
Liquidity (billion rials)	417,524.0	526,596.4	685,697.5	26.1	30.2

Among the factors affecting liquidity growth, claims on the non-public sector had a noticeable share of 28.1 percentage points, and banking system's net foreign assets had a share of 27.4 percentage points in raising liquidity. Among the constituents of net domestic assets, net claims on the public sector had an increasing effect of 0.1 percentage point and others (net) had a decreasing effect of 25.4 percentage points on raising liquidity.

CONTRIBUTION OF FACTORS AFFECTING LIQUIDITY GROWTH

	(percent)		
	1381 ▲	1382	1383
Banks' and non-bank credit institutions' claim on the non-public sector (1)	23.0	26.5	28.1
Banks' claim on the public sector (net)	11.1	-0.8	0.1
Government	8.3	-0.1	-1.2
Public corporations and institutions (1)	2.3	-0.7	1.3
Less:			
Prepayments on public sector LCs	-0.5	0	0
Net foreign assets of the banking system	15.9	0.3	27.4
Others (net)	-19.9	0.1	-25.4
Liquidity	30.1	26.1	30.2

(1) Excludes profit and revenue receivables.

Monetary Base

Monetary base soared by 17.5 percent in 1383 to reach Rls. 151,200 billion. The main driving force behind increase in monetary base was CBI's net foreign assets with a share of 50.7 percentage points. Reduction in other items (net) by 22.3 percentage points had also the highest share in reducing monetary base. The major reason for the decline in other items (net) was the rise in the reserve for foreign exchange valuation adjustment of CBI's foreign exchange assets and liabilities⁽¹⁾ and issuance of CBI's participation papers. In the review year, CBI's foreign assets increased due to purchase of foreign exchange from the government to finance rial resources of budget, while part of it was not sold in the market. CBI's foreign liabilities went up by Rls. 19,942.8 billion. These factors pushed up CBI's net foreign assets. Moreover, CBI's claims on banks had a decreasing share of 1.6 percentage points in monetary base growth.

CONTRIBUTION OF FACTORS AFFECTING MONETARY BASE GROWTH

	(percent)		
	1381	1382 ▲	1383
Monetary base	23.1	7.6	17.5
CBI net foreign assets	71.7	30.6	50.7
CBI net claims on public sector	32.8	-1.8	-9.3
CBI claims on banks	12.6	-0.6	-1.6
Other items (net)	-94.0	-20.6	-22.3

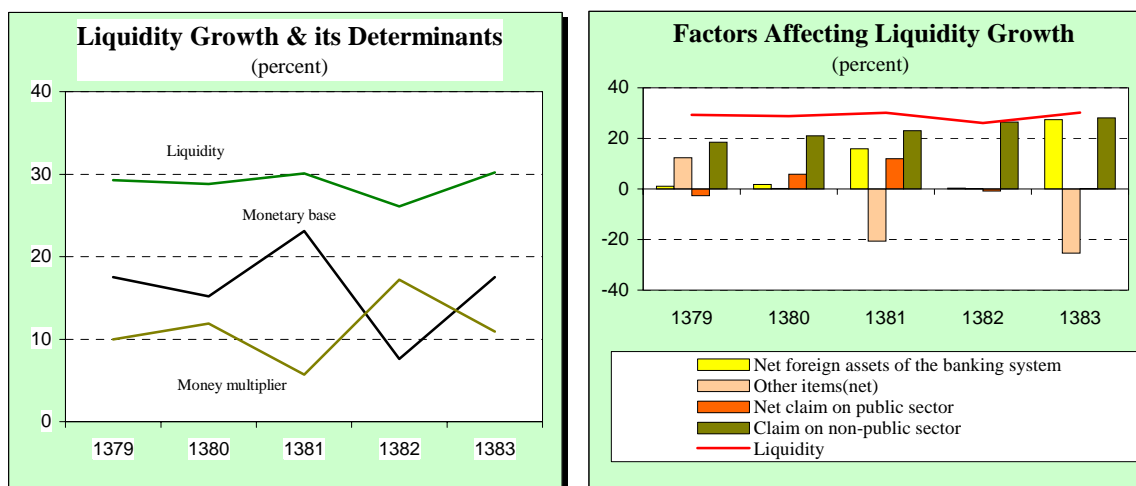
(1) This account is used for registering the net increase in foreign exchange assets and liabilities resulted from change in exchange rate.

MONETARY BASE AND ITS COMPONENTS

(billion rials)

	Year-end balance			Percentage change	
	1381	1382▲	1383	1382	1383
	Monetary base	119,615.9	128,710.9	151,200.0	7.6
CBI net foreign assets	81,387.5	118,042.6	183,279.4	45.0	55.3
CBI net claims on public sector	80,073.3	77,977.3	65,994.7	-2.6	-15.4
CBI claims on banks (1)	24,308.4	23,542.2	21,493.2	-3.2	-8.7
Other items (net)	-66,153.3	-90,851.2	-119,567.3	-37.3	-31.6

(1) As of 1382, figures represent total outstanding of bank accounts (net) with the CBI.



Composition of Liquidity

The share of money in liquidity declined from 41.3 percent at the end of 1382 to 36.8 percent at the end of 1383, while the share of quasi-money increased to 63.2 percent.

COMPOSITION OF LIQUIDITY

(billion rials)

	Year-end balance			Percentage change		Share (percent)	
	1381	1382	1383	1382	1383	1382	1383
	Money	182,652.7	217,356.8	252,645.4	19.0	16.2	41.3
Notes & coins with the public	34,780.1	38,732.5	44,772.0	11.4	15.6	7.4	6.5
Demand deposits	147,872.6	178,624.3	207,873.4	20.8	16.4	33.9	30.3
Quasi-money	234,871.3	309,239.6	433,052.1	31.7	40.0	58.7	63.2
Gharz-al-hasaneh savings deposits	38,108.0	45,706.0	69,806.2	19.9	52.7	8.7	10.2
Term-investment deposits	185,862.4	251,738.2	349,149.3	35.4	38.7	47.8	50.9
Miscellaneous deposits	10,900.9	11,795.4	14,096.6	8.2	19.5	2.2	2.1
Liquidity (M2)	417,524.0	526,596.4	685,697.5	26.1	30.2	100.0	100.0

Non-public sector's deposits with banks and non-bank credit institutions grew by 31.4 percent in the review year and reached Rls. 640,925.5 billion. Of this amount, Rls. 433,052.1 billion was in the form of non-sight deposits.

The provisional profit rates of term-investment deposits with public banks remained unchanged in 1383 as compared to 1382. Among term-investment deposits, 5-year deposits, owing to more reasonable profit rate, had the highest share. It is noteworthy that, over the last two years, the share of 5-year term-investment deposits out of long-term investment deposits has decreased and that of 2-year investment deposits has increased.

**PROVISIONAL PROFIT RATE OF TERM-
INVESTMENT DEPOSITS (1)**
(% per annum)

	1381	1382	1383
Short-term	7	7	7
Short-term (special)	9	9	9
Long-term			
One-year	13	13	13
Two-year	13-17	13-17	13-17
Three-year	13-17	13-17	13-17
Four-year	13-17	13-17	13-17
Five-year	17	17	17

(1) According to MCC approval, profit rates of short-term, short-term (special) and one-year deposits with Bank Maskan (Housing Bank) are higher by one percentage point.

**COMPOSITION OF LONG-TERM
INVESTMENT DEPOSITS(1)**
(percent)

	Year-end		
	1381	1382	1383
One-year	11.8	11.1	12.7
Two-year	6.0	10.9	15.1
Three-year	4.4	4.9	4.6
Four-year	0.7	1.6	1.0
Five-year	77.1	71.5	66.6

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

Sources and Uses of Commercial Banks Funds

In 1383, non-public sector deposits with commercial banks went up by 23.2 percent and amounted to Rls. 94,582 billion, 25.2 percent of which was in the form of sight deposits and 74.8 percent in non-sight deposits. Commercial banks' blocked resources, due mainly to the reserve requirement, surged by Rls. 10,767.8 billion. Moreover, commercial banks capital account increased by Rls. 22,131.4 billion, and public sector deposits and funds decreased by Rls. 281.4 billion. Out of these resources, public and non-public sectors indebtedness increased by Rls. 9,058.2 and 98,897.8 billion, respectively. As a result, commercial banks' excess resources declined by Rls. 3,291.8 billion, compared to the previous year.

Sources and Uses of Specialized Banks Funds

Non-public sector deposits with specialized banks rose by Rls. 30,439.9 billion, 10.7 percent of which was due to the increase in sight deposits and 89.3 percent to non-sight deposits. The specialized banks' blocked resources, due mostly to the reserve requirement, went up by Rls. 2,489.7 billion. Free resources out of non-public sector deposits with specialized banks rose by Rls. 27,950.2 billion. Including other sources, total free resources of specialized banks surged by Rls. 25,795.4 billion. Of this figure, specialized banks' claims on public and non-public sectors increased by Rls. 645.6 and 25,149.8 billion, respectively.

Banking System Developments

Main measures undertaken by the banking system in 1383 are as follows:

- A. Introduction of a mechanism for risk control and CBI supervision on banks
 - 1) Studying the activities of Leasing Companies,
 - 2) Studying the facilities extended to auto manufacturing, petrochemical and steel companies,
- B. Revision of rules and regulations
 - 1) Changing the method of calculating commissions on Gharz-al-hasanah facilities extended by banks,
 - 2) Prohibiting banks from extending facilities for the buying of shares in the Stock Exchange,
 - 3) Increasing Joaleh facilities for the repair and renovation of national, cultural, and architectural buildings.
- C. Issuance of establishment permit for Iran and Europe Commercial Bank in Kish FTZ, and issuing agreement in principle for establishing a branch of Standard Chartered Bank in Kish FTZ.

Number of Banking Units

The total number of domestic and foreign Iranian bank units, including branches, counters and representative offices grew by one percent to 17,201. Bank Saderat Iran and Bank Melli Iran, respectively, held 19.7 and 19 percent of these units, and together accounted for the highest number of domestic banking units.

The number of banking network employees grew by 0.3 percent and reached 168,973 persons. Number of commercial banks' employees declined by 0.2 percent and that of specialized banks by 0.1 percent. The average number of employees at each banking unit was 9.9 persons, and the ratio of population to each banking unit was 3,946.1 persons.

BANKING UNITS			
	1381	1382	1383
Domestic branches	16,615	16,980	17,145
Commercial banks	13,911	14,164	14,242
Specialized banks	2,663	2,742	2,774
Private banks	41	74	129
Foreign branches (1)	56	52	56
Total	16,671	17,032	17,201

(1) Only state-owned commercial banks