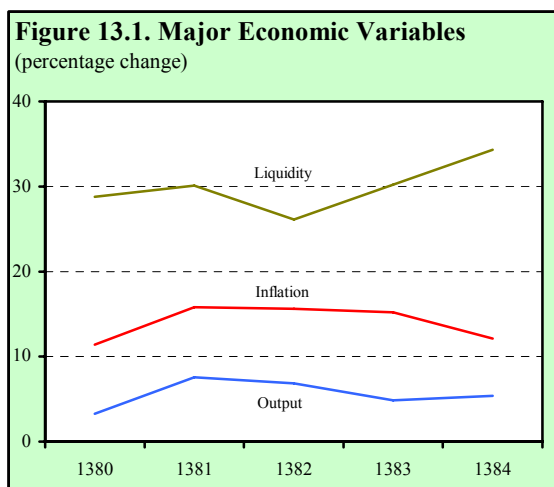


The 4<sup>th</sup> Plan of the FYDPs in the post-revolutionary era and the first of the four 20-Year Vision Plans has been put into effect since 1384. According to the 4<sup>th</sup> FYDP Law, allocation of banking facilities by the government in the form of sectoral or regional, as well as priorities concerning the sectors and regions shall be carried out through giving incentives to the banking system. Obligations of banks to provide facilities at lower rates are permissible provided that they are financed by the government subsidy or administered funds. In accordance with the 4<sup>th</sup> FYDP, at least 25 percent of the facilities extended by all banks shall be allocated to water and agriculture sector, and the increase in the outstanding directed facilities shall be reduced by 20 percent per annum on average over the Plan's period compared to the approved figure for 1383. Moreover, the government is obliged to reduce its indebtedness to Central Bank and banks through inclusion of the repayment amounts in annual budgets. According to quantitative targets of the 4<sup>th</sup> FYDP, the average rate of inflation and liquidity growth are set at 9.9 and 20.0 percent, respectively, over the Plan's period, therefore the inflation rate and liquidity growth for the first year of the Plan are set at 14.6 and 24.0 percent, respectively.



In implementation of the 4<sup>th</sup> FYDP Law, the Parliament authorized the CBI to issue participation papers worth Rls. 15 trillion (including the substituted and new papers) by the end of 1384 in order to implement monetary policies.

Accordingly, increase in the outstanding directed facilities extended by banks in 1384, observing other obligations stipulated in development Plans, was authorized up to Rls. 2,400 billion. The share of public sector out of increase in outstanding facilities was 25 percent and that of cooperative and private sectors 75 percent.

The most important monetary policies set by the Money and Credit Council (MCC) in 1384 are as follows:

a. According to the 4<sup>th</sup> FYDP Law and the Law on Usury-free Banking Operations, the minimum expected rate of return on banking facilities extended to all economic sectors was unified at 16 percent.

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b. The ceiling for issuance of participation papers by corporations remained unchanged at Rls. 12 trillion.

c. Central Bank was authorized to issue participation papers worth Rls. 7 trillion at the provisional profit rate of 15.5 percent, while substituting the existing papers.

**Banking System<sup>(1)</sup> Performance**

Banking system assets and liabilities increased by 32.0 percent to Rls. 2,359,396.4 billion. Claims on the non-public sector, with 38.3 percent growth in the assets side, and liquidity, with a rise of 34.3 percent in the liabilities side, contributed significantly to the rise in the assets and liabilities, respectively.

**MAJOR ITEMS IN THE ASSETS AND LIABILITIES OF THE BANKING SYSTEM**

(billion rials)

	Year-end balance			Percentage change	
	1382	1383 ▲	1384	1383	1384
<b>Assets</b>	<b>1,345,525.9</b>	<b>1,787,300.5</b>	<b>2,359,396.4</b>	<b>32.8</b>	<b>32.0</b>
Foreign assets	294,009.1	592,646.9	770,170.4	101.6	30.0
Central Bank	214,498.3	299,677.9	428,172.1	39.7	42.9
Public banks (1)	79,126.6	289,365.2	323,924.8	265.7	11.9
Private banks and non-bank credit institutions (2)	384.2	3,603.8	18,073.5	▣	401.5
Claims on public sector	221,900.6	235,940.9	235,607.7	6.3	-0.1
Claims on non-public sector	454,799.8	625,714.9	865,315.4	37.6	38.3
Others	374,816.4	332,997.8	488,302.9	-11.2	46.6
<b>Liabilities</b>	<b>1,345,525.9</b>	<b>1,787,300.5</b>	<b>2,359,396.4</b>	<b>32.8</b>	<b>32.0</b>
Liquidity (M2)	526,596.4	685,867.2	921,019.4	30.2	34.3
Deposits and funds of public sector	85,583.1	97,773.4	167,667.4	14.2	71.5
Foreign liabilities	231,759.4	385,919.7	471,435.8	66.5	22.2
Central Bank	96,455.7	116,398.5	170,605.1	20.7	46.6
Public banks	133,991.8	265,882.9	284,390.1	98.4	7.0
Private banks and non-bank credit institutions (2)	1,311.9	3,638.3	16,440.6	177.3	351.9
Others (3)	501,587.0	617,740.2	799,273.8	23.2	29.4

(1) As of Shahrivar 1384, it includes Post Bank.

(2) As of Shahrivar 1381, it includes Karafarin, Saman, Eghtesad-e-Novin and Parsian private banks and the Non-bank Credit Institution for Development. As of Bahman 1384, it includes Pasargad private bank.

(3) Includes capital account of the banking system, advance payments on public sector LCs and import order registration deposits of the non-public sector.

**Banking System and the External Sector**

Net foreign assets of the banking system went up by 44.5 percent (Rls. 92,007.4 billion) to Rls. 298,734.6 billion, due to a rise of Rls. 74,287.6 billion in CBI's net foreign assets and Rls. 17,719.8 billion growth in net foreign assets of banks and non-bank credit institutions. Increase in CBI's net foreign assets was largely attributable to the rising trend of foreign exchange reserves as a result of foreign exchange purchases from the government according to the Budget Law which could partly be sold in the market.

(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 claims on the public sector declined by Rls. 70,227.7 billion to Rls. 67,940.3 billion in 1384. Central Bank's claims on the public sector fell by 6.9 percent, owing to 9.5 percent reduction in the government indebtedness and 7.5 percent rise in the public corporations' and institutions' indebtedness.

Of the total CBI's claims on the government, 35.7 percent, or Rls. 36,120.3 billion, was related to the deficit in foreign exchange obligations account, which increased by Rls. 164.6 billion compared with the previous year. Public sector deposits with the CBI picked up by 72.6 percent owing to the 74.0 percent rise in the government deposits and 61.1 percent growth in the public corporations' and institutions' deposits.

Government indebtedness to banks and non-bank credit institutions decreased by 6.1 percent (Rls. 2,254.1 billion) to Rls. 34,539.6 billion in 1384, mainly due to reduction in the stock of public sector participation papers by Rls. 6,841.1 billion which was partly offset by the rise in other components of government indebtedness.

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

	(billion rials)	
	1383 ▲	1384
<b>Public sector</b>	<b>1,850.0</b>	<b>-70,227.2</b>
Central Bank (1)	-11,982.6	-57,342.6
Commercial & specialized banks	13,918.3	-16,126.8
Private banks and non-bank credit institutions	-85.7	3,242.2
<b>Government</b>	<b>-6,452.5</b>	<b>-78,543.8</b>
Central Bank (2)	-13,470.7	-54,589.1
Commercial & specialized banks	7,103.9	-27,196.9
Private banks and non-bank credit institutions (3)	-85.7	3,242.2
<b>Public corporations &amp; institutions</b>	<b>8,302.5</b>	<b>9,316.6</b>
Central Bank	1,488.1	-2,753.5
Commercial and specialized banks (4)	6,814.4	11,070.1
Private banks and non-bank credit institutions	0	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 FACILITIES EXTENDED ACCORDING TO THE 1384 BUDGET LAW

	(billion rials)	
	Change in outstanding	
	Budget ceiling	Approved (1)
Social and cultural	690	320
Job creation	1,202	623
Market regulation	88	88
Production and infrastructure	420	21
<b>Total</b>	<b>2,400</b>	<b>1,052</b>

(1) The approved figures are equal to actual figures.

### Banks and the Non-public Sector

Banking system credit performance in 1384 indicates that facilities<sup>(1)</sup> extended to the non-public sector, excluding profit and revenue receivables, increased by Rls. 208,877.8 billion (39.0 percent). Non-public sector enjoyed the lion's share of 88.3 percent of total facilities provided by banks,<sup>(2)</sup> part of which were in the form of directed facilities.

(1) Includes matured and non-performing claims.

(2) Excludes profit and revenue receivables.

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Outstanding facilities extended by public commercial and specialized banks to the non-public sector, excluding profit and revenue receivables, went up by 30.2 and 42.6 percent, respectively. Outstanding facilities extended by private banks and non-bank credit institutions experienced a surge of 119.2 percent to reach 80,622.4 billion. On this basis, the share of private banks and non-bank credit institutions in total facilities extended to the non-public sector grew markedly to 10.8 percent at the end of 1384 from 6.9 percent in 1383 year-end.

**OUTSTANDING FACILITIES EXTENDED BY BANKS AND NON-BANK CREDIT INSTITUTIONS TO NON-PUBLIC SECTOR (1)** (billion rials)

	Year-end balance			Percentage change		Share (percent)		
	1382	1383	1384	1383	1384	1382	1383	1384
Commercial banks	286,339.0	385,069.0	501,366.3	34.5	30.2	73.7	71.8	67.3
Specialized banks	89,148.8	114,298.6	163,039.5	28.2	42.6	23.0	21.3	21.9
Private banks and non-bank credit institutions	12,735.9	36,782.8	80,622.4	188.8	119.2	3.3	6.9	10.8
<b>Total</b>	<b>388,223.7</b>	<b>536,150.4</b>	<b>745,028.2</b>	<b>38.1</b>	<b>39.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

(1) Excludes profit and revenue receivables.

According to the 4<sup>th</sup> FYDP Law, at least 25 percent of banking facilities were allocated to water and agriculture sector. The highest amount of facilities extended to the non-public sector belonged to domestic trade, services and miscellaneous, manufacturing and mining, construction and housing, and agriculture sectors. The exports sector, on the other hand, received the lowest amount.

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

	1383			1384		
	Public banks	Private banks and non-bank credit institutions	Banks and credit institutions	Public banks	Private banks and non-bank credit institutions	Banks and credit institutions
Agriculture	16.7	0.1	13.9	18.0	0	14.3
Manufacturing and mining	37.0	35.6	36.8	25.5	32.6	27.0
Construction and housing	16.8	29.8	19.0	22.9	23.6	23.1
Exports	3.0	0.9	2.6	1.8	-0.1	1.4
Domestic trade, services and miscellaneous	26.5	33.6	27.7	31.8	43.9	34.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

(1) Excludes profit and revenue receivables, and includes increase in outstanding Gharz-al-hasaneh facilities extended to the non-public sector in 1384.

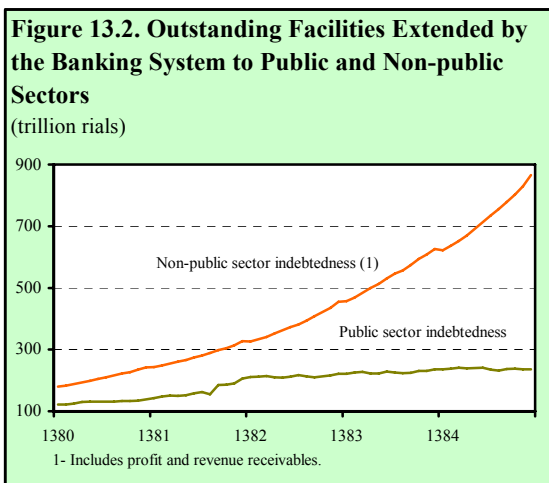
Composition of outstanding facilities extended by banks and non-bank credit institutions by Islamic contracts reveals extension of 49.9 percent of these facilities in the form of installment sale contracts.

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

	Banks and non-bank credit institutions	
	1383	1384
Installment sale	52.6	49.9
Mozarebeh	6.2	6.9
Civil partnership	10.3	11.2
Gharz-al-hasaneh	4.8	4.4
Hire purchase	3.2	3.7
Forward transactions	5.8	5.2
Legal partnership	2.4	2.5
Direct investment	1.0	1.0
Joaleh	6.8	6.3
Others (2)	6.9	8.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

(1) Includes profit and revenue receivables.

(2) Includes debt purchase, matured and non-performing claims, and machinery and housing units transacted under Islamic contracts.



## Liquidity

In 1384, liquidity (M2) grew by 34.3 percent, well above the target set in the 4<sup>th</sup> FYDP. The respective figure for the previous year was 30.2 percent. Monetary base rose by 45.9 percent, against 17.5 percent in 1383, mostly due to rise in CBI's net foreign assets. Conversely, money multiplier was reduced by 7.9 percent in comparison with the year before and reached 4.176 in 1384.

### LIQUIDITY AND ITS DETERMINANTS

	Year-end balance			Percentage change	
	1382	1383	1384	1383	1384
Monetary base (billion rials)	128,710.9	151,200.0	220,541.4	17.5	45.9
Money multiplier	4.091	4.536	4.176	10.9	-7.9
<b>Liquidity (billion rials)</b>	<b>526,596.4</b>	<b>685,867.2</b>	<b>921,019.4</b>	<b>30.2</b>	<b>34.3</b>

Among the factors affecting liquidity growth, claims on the non-public sector had a noticeable share of 30.5 percentage points and banking system's net foreign assets had a share of 13.4 percentage points in raising liquidity. Among the constituents of net domestic assets, net claims on the public sector had a decreasing effect of 10.6 percentage points while others (net) had an increasing effect of 1.0 percentage point on raising liquidity.

### CONTRIBUTION OF FACTORS AFFECTING LIQUIDITY GROWTH (percent)

	1382	1383▲	1384
<b>Banks' and non-bank credit institutions' claims on non-public sector (1)</b>	<b>26.5</b>	<b>28.1</b>	<b>30.5</b>
<b>Banks' claims on public sector (net)</b>	<b>-0.8</b>	<b>0.1</b>	<b>-10.6</b>
Government	-0.1	-1.2	-11.5
Public corporations and institutions (1)	-0.7	1.3	0.9
<b>Net foreign assets of the banking system</b>	<b>0.3</b>	<b>27.4</b>	<b>13.4</b>
<b>Others (net)</b>	<b>0.1</b>	<b>-25.4</b>	<b>1.0</b>
<b>Liquidity</b>	<b>26.1</b>	<b>30.2</b>	<b>34.3</b>

(1) Excludes profit and revenue receivables.

**Monetary Base**

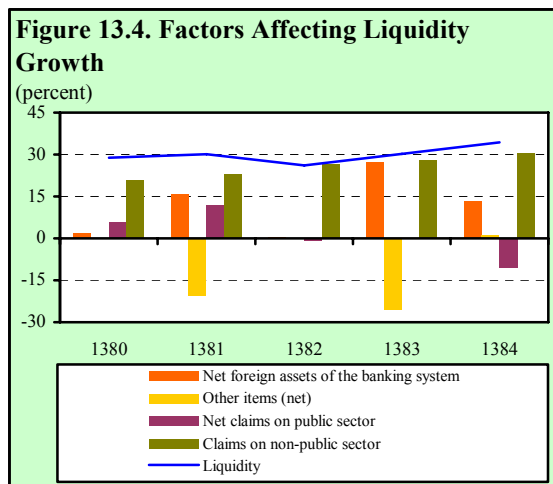
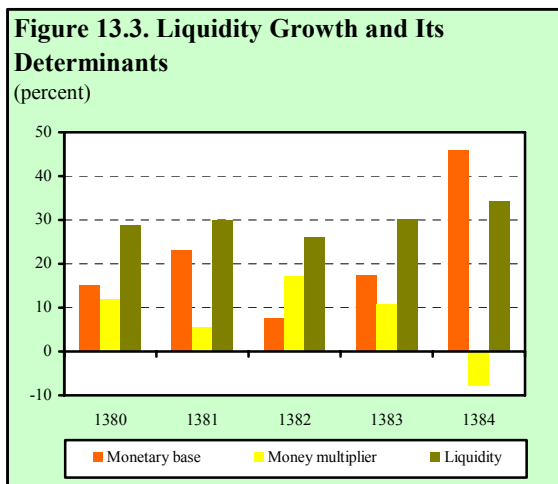
Monetary base surged by 45.9 percent to Rls. 220,541.4 billion in the review year, mostly owing to the CBI's net foreign assets which accounted for 49.1 percentage points of the rise in monetary base. Reduction in CBI's claims on the public sector (net) by 37.9 percentage points had the highest share in reducing monetary base. The major reason for the rise in other items (net) was the maturity of CBI's participation papers which were not substituted. Increase in CBI foreign assets (net) was mostly due to the CBI 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. 54,206.6 billion in this year. These factors pushed up CBI's net foreign assets. Furthermore, CBI's claims on banks had an increasing share of 9.5 percentage points in monetary base growth.

**CONTRIBUTION OF FACTORS AFFECTING MONETARY BASE GROWTH** (percent)

	1382	1383	1384
<b>Monetary base</b>	<b>7.6</b>	<b>17.5</b>	<b>45.9</b>
CBI net foreign assets	30.6	50.7	49.1
CBI net claims on public sector	-1.8	-9.3	-37.9
CBI claims on banks	-0.6	-1.6	9.5
Other items (net)	-20.6	-22.3	25.1

**MONETARY BASE AND ITS COMPONENTS** (billion rials)

	Year-end balance			Percentage change	
	1382	1383	1384	1383	1384
<b>Monetary base</b>	<b>128,710.9</b>	<b>151,200.0</b>	<b>220,541.4</b>	<b>17.5</b>	<b>45.9</b>
Net foreign assets	118,042.6	183,279.4	257,567.0	55.3	40.5
Net claims on public sector	77,977.3	65,994.7	8,652.1	-15.4	-86.9
Claims on banks	23,542.2	21,493.2	35,916.2	-8.7	67.1
Other items (net)	-90,851.2	-119,567.3	-81,593.9	-31.6	31.8
Participation papers	-16,649.7	-20,250.3	-10,769.1		



## Composition of Liquidity

The share of money in liquidity decreased from 36.9 percent at the end of 1383 to 34.5 percent at the end of 1384 while the share of quasi-money rose to 65.5 percent.

	COMPOSITION OF LIQUIDITY						(billion rials)	
	Year-end balance			Percentage change		Share (percent)		
	1382	1383	1384	1383	1384	1383	1384	
<b>Money</b>	<b>217,356.8</b>	<b>252,815.1</b>	<b>317,919.4</b>	<b>16.3</b>	<b>25.8</b>	<b>36.9</b>	<b>34.5</b>	
Notes and coins with the public	38,732.5	44,772.0	50,675.6	15.6	13.2	6.5	5.5	
Sight deposits	178,624.3	208,043.1	267,243.8	16.5	28.5	30.3	29.0	
<b>Quasi-money</b>	<b>309,239.6</b>	<b>433,052.1</b>	<b>603,100.0</b>	<b>40.0</b>	<b>39.3</b>	<b>63.1</b>	<b>65.5</b>	
Gharz-al-hasanah savings deposits	45,706.0	69,806.2	93,230.1	52.7	33.6	10.2	10.1	
Term investment deposits	251,738.2	349,149.3	489,693.2	38.7	40.3	50.9	53.2	
Miscellaneous deposits	11,795.4	14,096.6	20,176.7	19.5	43.1	2.1	2.2	
<b>Liquidity (M2)</b>	<b>526,596.4</b>	<b>685,867.2</b>	<b>921,019.4</b>	<b>30.2</b>	<b>34.3</b>	<b>100.0</b>	<b>100.0</b>	

Non-public sector's deposits with banks and non-bank credit institutions went up by 35.8 percent to Rls. 870,343.8 billion in 1384. Of this amount, Rls. 603,100.0 billion was in the form of non-sight deposits.

The provisional profit rates of term investment deposits with public banks remained unchanged in 1384 as compared with the previous year. Among term investment deposits, five-year deposits, owing to more profit rates, had the highest share. It is noteworthy that the share of five-year term investment deposits out of long-term investment deposits declined and that of one-year and two-year investment deposits increased during the last two years.

PROVISIONAL PROFIT RATE OF TERM INVESTMENT DEPOSITS WITH PUBLIC BANKS (1) (% per annum)	COMPOSITION OF LONG-TERM INVESTMENT DEPOSITS (1) (percent)						
	1382	1383	1384	Year-end			
				1382	1383	1384	
Short-term	7	7	7	One-year	11.1	12.7	14.7
Short-term (special)	9	9	9	Two-year	10.9	15.1	16.9
Long-term				Three-year	4.9	4.6	4.7
One-year	13	13	13	Four-year	1.6	1.0	1.4
Two-year	13-17	13-17	13-17	Five-year	71.5	66.6	62.3
Three-year	13-17	13-17	13-17				
Four-year	13-17	13-17	13-17				
Five-year	17	17	17				

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

(1) Includes non-bank credit institutions.

## Sources and Uses of Commercial Banks Funds

Non-public sector deposits with commercial banks grew by 26.3 percent to Rls. 132,192.3 billion, 41.6 percent of which was in the form of sight deposits and 58.4 percent in non-sight deposits. Commercial banks' blocked resources, due mostly to the reserve requirement, soared by Rls. 22,272.2 billion. Furthermore, commercial banks capital account increased by Rls. 44,123.1 billion, and public sector deposits and funds went up by Rls. 13,961.4 billion. Public and non-public sectors indebtedness grew by Rls. 15,155.2 and

116,382.6 billion, respectively. As a result, commercial banks' excess resources increased by Rls. 36,466.8 billion as compared with the preceding year.

### Sources and Uses of Specialized Banks Funds

Non-public sector deposits with the specialized banks grew by Rls. 37,734.3 billion, 8.0 percent of which was due to the rise in sight deposits and 92.0 percent to non-sight deposits. The specialized banks' blocked resources, due largely to the reserve requirement, increased by Rls. 2,465.8 billion. Free resources out of non-public sector deposits with specialized banks went up by Rls. 35,268.5 billion. Including other sources, total free resources of specialized banks rose sharply by Rls. 49,242.8 billion. Of this figure, specialized banks' claims on public and non-public sectors increased by Rls. 48,740.9 and 501.9 billion, respectively.

### Banking System Developments

Key policies and measures undertaken by the banking system in 1384 are as follows:

1. Setting a unified profit rate for banking facilities extended to all economic sectors. On this basis, the expected rate of return for public banks was set at 16 percent.
2. Obliging banks to change their accounting system and encouraging them to use the method for the gradual repayment of banking facilities in the housing sector.
3. Increasing the ceiling of facilities under Gharz-al-hasaneh savings deposits and purchasing housing units.
4. Implementing the 4<sup>th</sup> FYDP Law in sectoral distribution of facilities. In 1384, banks were bound to extend at least 25 percent of their facilities to water and agriculture sector.
5. Preparing the by-laws for unorganized money market.
6. Expanding banking system activities in neighboring countries, especially Iraq, to facilitate trade transactions. Moreover, the two private banks of Pasargad and Sarmayeh joined the banking system in 1384.

### Number of Banking Units

The total number of domestic and foreign Iranian banking units, including branches, counters and representative offices, grew by 1.7 percent to 17,486. Bank Saderat Iran and Bank Melli Iran held 19.5 and 19.1 percent of these units, respectively, and together accounted for the highest number of domestic banking units.

The number of banking network employees rose by 1.4 percent to 171,282 persons. Number of commercial banks' employees grew by 0.9 percent while that of the specialized banks declined by 2.6 percent. The average number of employees at each banking unit reached 9.8 persons, and the ratio of population to each banking unit was 3,931.7 persons.

	BANKING UNITS		
	1382	1383	1384
<b>Domestic branches</b>	<b>16,980</b>	<b>17,145</b>	<b>17,445</b>
Commercial banks	14,164	14,242	14,378
Specialized banks	2,742	2,774	2,859
Private banks	74	129	208
<b>Foreign branches</b>	<b>52</b>	<b>56</b>	<b>41</b>
<b>Total</b>	<b>17,032</b>	<b>17,201</b>	<b>17,486</b>