CHAPTER 14

MONETARY AND BANKING POLICY AND PERFORMANCE

Objectives Stipulated in the 4th FYDP

The year 1387 corresponds to the fourth year of the 4th Five-Year Development Plan in the context of the 20-Year Vision Plan. In accordance with the 4th FYDP Law, allocation of banking facilities by the government in the form of sectoral or regional, as well as priorities concerning sectors and regions shall be carried out by giving incentives to the banking system through cash subsidies and administered funds. Obligations of banks to provide facilities at lower rates, in the form of Islamic contracts, are permissible provided that they are financed by the government subsidy or administered funds. According to the 4th Plan, at least 25 percent of the facilities extended by all banks shall be allocated to water and agriculture sector, and the rise in outstanding scheduled facilities shall be reduced by 20 percent per annum, on average, during this Plan, when compared with the approved figure for 1383. Furthermore, the government is obliged to decrease its indebtedness to Central Bank and banks through inclusion of the repayment amounts in annual budgets. Based on the quantitative targets of the 4th FYDP, the average rate of inflation and liquidity growth are determined at 9.9 and 20 percent, respectively, during this Plan. Thus, inflation rate and liquidity growth for the fourth year of the 4th Plan are set at 7.9 and 18.0 percent, respectively.

Key Monetary Policies Approved in 1387

In 1387, for the first time, a collection of CBI's monetary, credit, and supervisory guidelines titled as "Supervisory-Policy Package of the Banking System" was declared to banks and credit institutions. Key monetary and credit policies of 1387 are:

Lending rate on the facilities extended by banks for transaction contracts was set at 12 percent. Lending rate on the banking facilities extended to SMEs and agricultural projects was set at 10 percent, and the government would pay 2 percent subsidy.

The minimum expected lending rate on facilities extended for participatory contracts by banks (both public and private) and credit institutions was determined at the rates set for transaction contracts. Furthermore, the real profit rates of participatory contracts would be determined at the end of the period.

The provisional profit rate of term investment deposits with banks and credit institutions was set within a range of 9 percent for ordinary short-term to 19 percent for five-year deposits[1]. Moreover, declaration of provisional deposit rates in excess of the ones approved by the CBI depends on presentation of the feasibility reports of the underlying projects and approval of the CBI.

[1] The provisional profit rates of term investment deposits according to the type of deposits are mentioned in the respective table.

The commission of the contracts is set at a maximum of 3 percent, and banks are authorized to reduce this rate and improve the quality of banking services.

In order to provide an appropriate instrument for public daily transactions and to reduce the effects of abundant liquidity resulting from issuance of interbank checks, according to the Cabinet approval, since Ordibehesht 1387, Iran-Checks are solely issued by the CBI and the printing costs will be paid by the Central Bank. The CBI will receive the 100 percent rial equivalent of the mentioned checks from commercial and specialized banks.

In order to increase share of banks' long-term deposits and strengthen sustainability of these deposits, the reserve requirement ratios of banks were determined based on the type of deposits[1] as follows: current and others 20 percent, Gharz-al-hasaneh 10 percent, short-term and one-year 17 percent, two- and three-year 15 percent, four-year 13 percent, and five-year 11 percent. Moreover, the excess reserves of the banks, after lowering the different reserve requirements of banks, will be used in priority order for the purpose of banks' debt payment to the CBI, loan for productive and investment projects and loan for working capital of production units.

Banking facilities, with the exception of facilities extended by Bank Maskan's Savings Fund and those allocated for low-income groups by other banks, shall not be extended for the purchase of housing units, both the site and the superstructure. The maximum loan facility and commitment for projects is set at Rls. 250 million (up to 70 percent of the estimated price) per residential unit for the duration of project execution.

[1] Previously, the reserve requirement ratios of deposits held with commercial and specialized banks were determined at 17 and 10 percent, respectively, while that of Bank Maskan's Savings Fund was set at 2 percent.

For better allocation of credits and attainment of a balanced growth, the extending of new loans and facilities to economic sectors was set as follows: agriculture, water, and processing industries 25 percent; manufacturing and mining 33 percent; construction and housing 20 percent; trade and services 15 percent; and exports 7 percent. Moreover, to attain a balanced growth and alleviate regional disparities, Central Bank, in coordination with the Ministry of Economic Affairs and Finance, Ministry of Labor and Social Affairs, as well as President Deputy for Strategic Planning and Control, will declare shares of provinces in credit allocation to banks.

According to CBI monetary policy and supervisory guidelines, the use of overdraft facilities of CBI by banks is restricted to resolving short-term liquidity positions by banks based on banks' provision of liquidity forecasts. The CBI will regulate and control banks' use of overdraft facilities through both price mechanisms and quantitative quotas. Banks are subject to 34 percent per annum penalty rate on using CBI overdraft facilities if these facilities pass certain threshold which is administered as a percentage of their savings deposits. Moreover, banks are prohibited from making any excess financial obligations beyond the financial resources that they mobilize and acquire from the market. Banks should not rely on CBI overdraft in their lending operations.

Banks receive Gharz-al-hasaneh deposits and extend Gharz-al-hasaneh loans worth Rls. 100 million per applicant for procurement of essential needs. The commission received by banks shall be a maximum of 3 percent per annum to finance the costs incurred by rendering services and rewarding depositors.

Banks are solely authorized to utilize Gharz-al-hasaneh deposits for Gharz-al-hasaneh facilities; therefore allocation of such deposits for investment purposes shall be prohibited.

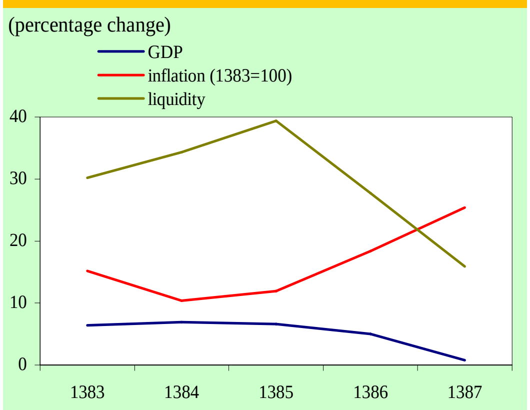
According to paragraph (h), Article 10, 4th Plan Law, issuance of participation papers by the Central Bank needs Parliament approval. Considering the limitations imposed on due implementation of open market operation of CBI by this Article, amendment of this provision and authorization of the CBI with regard to decision making on issuance of participation papers were deemed necessary. Thus, the change of authorization for the issuance of participation papers from Parliament to CBI was proposed and approved by Parliament on Aban 22, 1387 session. This legislation was also approved by the Guardian Council. According to this legislation, the MCC was designated as the authorized entity to give approval for the issuance of participation papers within the framework and principles of the Law for Usury (Interest) Free Banking approved in 1362 and on the occasions when the CBI deems it necessary to issue the papers for liquidity control and monetary policy purposes.

In light of issuance of CBI Iran-Checks, and banks' and credit institutions' obligation to purchase these Checks, and in order to encourage banks and credit institutions to supply money to the public; Central Bank, according to Circular No. MB/2412 dated Shahrivar 28, 1387, authorized banks and credit institutions to hold up to 2 percentage points of their required reserves in cash (including notes, coins, and CBI Iran-Checks).

Banking System[1] Performance

Banking system assets and liabilities increased by 12.3 percent to Rls. 4,582,488.0 billion. The major factors behind the increase in assets were the rise in other assets of banks by 26.9 percent (Rls. 255,732.7 billion) and increase in non-public sector indebtedness by 12.2 percent (Rls. 202,825.2 billion). On the liabilities side of the banking system, the rise in liquidity by 15.9 percent (Rls. 261,073.0 billion) was the major contributing factor to banks' liabilities growth.

Figure 14.1. Major economic variables



Banking System and the External Sector

In the review year, net foreign assets of the banking system picked up by 28.4 percent (Rls. 133,471.4 billion) to Rls. 604,250.9 billion. This was mostly owing to the rise in the net foreign assets of the CBI, and that of banks and credit institutions by respectively Rls. 124,033.5 billion and Rls. 9,437.9 billion. Frequent withdrawals from the OSF and foreign exchange purchases from the government, based on the budget law, which were partly sold in the market mostly contributed to increase in Central Bank's net foreign assets. Reduction of banks' and credit institutions' foreign exchange loans and deposits worth Rls. 8,861.9 billion raised their net foreign assets.

[1] Banking system includes Central Bank, public commercial and specialized banks, private banks, and credit institutions.

Major Items in Assets and Liabilities of the Banking System

(billion rials)

	Year-end balance			Percentage change	
	1385	1386	1387	1386	1387
Assets	**3,082,209.2**	**4,081,175.5**	**4,582,488.0**	**32.4**	**12.3**
Foreign assets	928,552.5	1,184,385.1	1,216,237.0	27.6	2.7
Central Bank	563,869.5	747,284.2	778,560.1	32.5	4.2
Public banks[1]	349,748.1	413,931.9	409,829.8	18.4	-1.0
Private banks and credit institutions[2]	14,934.9	23,169.0	27,847.1	55.1	20.2
Claims on public sector	256,219.8	280,636.7	291,539.4	9.5	3.9
Claims on non-public sector	1,226,201.0	1,663,725.7	1,866,550.9	35.7	12.2
Others	671,235.9	952,428.0	1,208,160.7	41.9	26.9
Liabilities	**3,082,209.2**	**4,081,175.5**	**4,582,488.0**	**32.4**	**12.3**
Liquidity (M2)	1,284,199.4	1,640,293.0	1,901,366.0	27.7	15.9
Deposits and funds of public sector	220,621.4	265,256.0	335,620.6	20.2	26.5
Foreign liabilities	503,521.7	713,605.6	611,986.1	41.7	-14.2
Central Bank	192,674.1	308,654.0	215,896.4	60.2	-30.1
Public banks[1]	295,374.7	372,893.5	352,091.6	26.2	-5.6
Private banks and credit institutions[2]	15,472.9	32,058.1	43,998.1	107.2	37.2
Others[3]	1,073,866.7	1,462,020.9	1,733,515.3	36.1	18.6

[1] Includes Gharz-al-hasaneh Mehr Iran Bank as of Esfand 1387. [2] Includes Karafarin Bank, Saman Bank, EN Bank, Parsian Bank, Bank Pasargad, Sarmayeh Bank, and the Credit Institution for Development. It also includes Sina Bank since Esfand 1387. [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 Public Sector

In 1387, banking system's net claims on the public sector fell by Rls. 59,461.9 billion to Rls. -44,081.2 billion. During the review year, Central Bank's claims on the public sector decreased by 1.1 percent, due to 6.6 percent reduction in government liabilities; however, public corporations' and institutions' indebtedness to the CBI rose 14.5 percent.

Of the total CBI's claims on the government, 39.5 percent (Rls. 36,126.8 billion) was related to the deficit in foreign exchange obligations account, which decreased by Rls. 4.8 billion compared with the figure for the preceding year. Public sector deposits with the CBI increased by 36.0 percent, owing to 40.8 percent growth of government deposits. Public corporations' and institutions' deposits with the CBI fell by 8.0 percent, however.

Government indebtedness to banks and credit institutions surged by 27.1 percent (Rls. 24,620.9 billion) to Rls. 115,502.5 billion in 1387. This was mostly due to banks' call on government guarantees on matured and overdue debt by Rls. 14,987.2 billion, and the rise in banks' and credit institutions' portfolio holdings of public sector participation papers by Rls. 9,633.7 billion.

Change in Net Claims of the Banking System on Public Sector

(billion rials)

	1386	1387
Public sector	**-20,217.7**	**-59,461.9**
Central Bank[1]	-26,480.5	-65,036.6
Commercial and specialized banks	14,289.9	2,121.8
Private banks and credit institutions	-8,027.1	3,452.9
Government	**-10,788.2**	**-53,565.2**
Central Bank[2]	-27,668.9	-71,357.5
Commercial and specialized banks	24,907.8	14,339.4
Private banks and credit institutions[3]	-8,027.1	3,452.9
Public corporations and institutions	**-9,429.5**	**-5,896.7**
Central Bank	1,188.4	6,320.9
Commercial and specialized banks[4]	-10,617.9	-12,217.6
Private banks and credit institutions	0.0	0.0

[1] 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.

Scheduled Facilities Extended according to Executive By-law on Extension of Banking Facilities in 1387 [1]

(billion rials)

	Change in outstanding	
	Budget ceiling	Approved [2]
Social and cultural	150	90
Production and infrastructure	1,000	250
Total	**1,150**	**340**

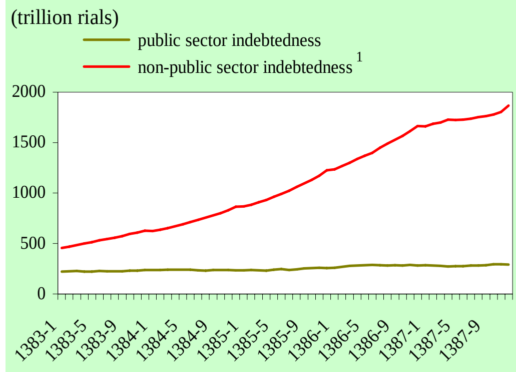
[1] Figures only point to change in outstanding facilities, not to the amount of extended facilities.
[2] The approved figures are equal to actual figures.

Banks and Non-public Sector

Banking system credit performance in 1387 reveals that facilities[1] extended to non-public sector, excluding profit and revenue receivables, rose by Rls. 196,891.6 billion (13.4 percent). Non-public sector enjoyed the highest share (91.6 percent) of total facilities extended by banks and credit institutions[2]. Of these facilities, Rls. 70 trillion (as approved) were extended on the basis of the executive by-law on expansion of SMEs.

Outstanding facilities extended by public commercial and specialized banks to the non-public sector, excluding profit and revenue receivables, rose by respectively 6.2 and 15.7 percent to Rls. 1,017,612.5 billion and Rls. 316,608.9 billion. Outstanding facilities extended by private banks and credit institutions increased remarkably by 39.7 percent to Rls. 330,968.2 billion. Thus, share of private banks and credit institutions in total facilities extended to non-public sector surged from 16.1 percent at end-1386 to 19.9 percent in 1387 year-end. Meanwhile, share of public commercial banks declined from 65.2 percent to 61.1 percent, and that of specialized banks rose slightly to 19.0 percent at end-1387 from 18.7 percent in the previous year-end. Growth rate of facilities extended by banks and credit institutions fell sharply from 37.7 percent in 1386 to 13.4 percent in 1387. This was mainly due to measures adopted by the CBI within the framework of the Supervisory-Policy Package of the Banking System to balance sources and uses of banks, and prevent their overdraft from the Central Bank.

Figure 14.2. Outstanding facilities extended by banking system to public & non-public sectors



[1] Includes profit and revenue receivables.

Outstanding Facilities Extended by Banks and Credit Institutions to Non-public Sector [1]

(billion rials)

	Year-end balance			Percentage change		Share (percent)		
	1385	1386	1387	1386	1387	1385	1386	1387
Commercial banks	701,574.1	957,826.6	1,017,612.5	36.5	6.2	65.8	65.2	61.1
Specialized banks	221,926.2	273,629.8	316,608.9	23.3	15.7	20.8	18.7	19.0
Private banks & credit institutions	143,048.2	236,841.6	330,968.2	65.6	39.7	13.4	16.1	19.9
Total	**1,066,548.5**	**1,468,298.0**	**1,665,189.6**	**37.7**	**13.4**	**100.0**	**100.0**	**100.0**

[1] Excludes profit and revenue receivables.

[1] Includes overdue and non-performing loans.
[2] Facilities extended to public and non-public sectors exclude profit and revenue receivables.

According to paragraphs (a) and (c), Article 10 of the 4th FYDP, at least 25 percent of banking facilities were allocated to water and agriculture sector. The largest amount of facilities extended to the non-public sector belonged to construction and housing, domestic trade, services and miscellaneous, manufacturing and mining, agriculture, and exports sectors.

Composition of outstanding facilities extended by banks and credit institutions based on Islamic contracts indicated that 45.1 percent of these facilities were extended in the form of installment sale contracts, as in the year before.

Composition of Outstanding Facilities Extended by Banks & Credit Institutions to Non-public Sector by Contracts[1]

(percent)

	Banking system	
	1386	1387
Installment sale	48.6	45.1
Mozarebeh	9.0	6.8
Civil partnership	16.0	16.9
Gharz-al-hasaneh	3.1	3.5
Hire purchase	1.8	1.4
Forward transactions	3.9	3.1
Legal partnership	1.4	1.5
Direct investment	0.9	0.7
Joaleh	4.4	4.3
Others[2]	10.9	16.7
Total	**100.0**	**100.0**

[1] Includes profit and revenue receivables.

[2] Includes debt purchase, overdue and non-performing loans, and machinery and housing units transacted under Islamic contracts.

Liquidity

Liquidity went up by 15.9 percent to Rls. 1,901,366.0 billion, showing 11.8 percentage points reduction compared with the liquidity growth of 1386 (27.7 percent). Liquidity growth was set at 20 percent over the course of the 4th Plan and 18 percent for 1387. Therefore, the figure of 1387 was 2.1 percentage points below the target set in the 4th Plan. In this year, monetary base surged by 47.6 percent compared with 30.5 percent growth in 1386, largely owing to the rise in net foreign assets of the Central Bank as well as CBI's claims on banks. Moreover, money multiplier decreased by 21.5 percent to 3.525 in 1387, compared with the previous year.

Among the factors affecting liquidity growth, claims on the non-public sector had the lion's share of 12.0 percentage points, and banking system's net foreign assets had an increasing share of 8.2 percentage points in the rise of liquidity. Among the constituents of net domestic assets, banks' net claims on the public sector and other items (net) had negative effects of 3.5 and 0.8 percentage points, respectively, on liquidity. It is noteworthy that lower liquidity growth in 1387, compared with the year before, was mainly due to sharp reduction in non-public sector debt to banks and credit institutions. This development was mostly due to measures and policies of CBI under the monetary

Share of Economic Sectors in Increase in Outstanding Facilities Extended by Banks and Credit Institutions to Non-public Sector[1]

(percent)

	1386			1387		
	Public banks	Private banks and credit institutions	Banking system	Public banks	Private banks and credit institutions	Banking system
Agriculture	17.0	0.2	14.1	13.9	2.3	11.0
Manufacturing and mining	23.6	16.1	22.3	22.0	21.7	21.9
Construction and housing	17.4	9.9	16.1	49.5	2.9	37.8
Exports	1.9	0.0	1.5	6.2	0.0	4.6
Domestic trade, services, and miscellaneous	40.1	73.8	46.0	8.4	73.1	24.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[1] Excludes profit and revenue receivables, and includes increase in outstanding Gharz-al-hasaneh facilities extended to non-public sector.

Liquidity and its Determinants

	Year-end balance			Percentage change	
	1385	1386	1387	1386	1387
Monetary base (billion rials)	279,975.1	365,499.0	539,405.9	30.5	47.6
Money multiplier	4.587	4.488	3.525	-2.2	-21.5
Liquidity (billion rials)	1,284,199.4	1,640,293.0	1,901,366.0	27.7	15.9

policy and the Supervisory-Policy Package which encouraged banks and credit institutions to balance their uses of funds with the financial resources that they mobilize from deposits or from the market.

Figure 14.3. Liquidity growth and its determinants

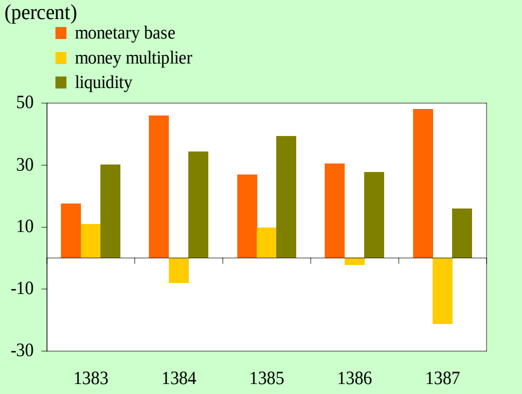
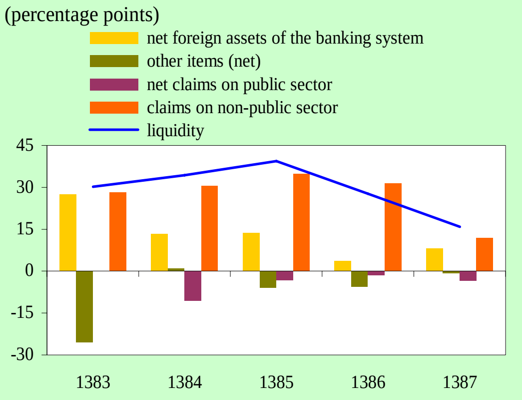


Figure 14.4. Factors affecting liquidity growth



Contribution of Factors Affecting Liquidity Growth

(percentage points)

	1385	1386	1387
Net foreign assets of banking system	**13.7**	**3.6**	**8.2**
Net domestic assets of banking system	**25.7**	**24.1**	**7.7**
Banks' claims on public sector (net)	-3.3	-1.5	-3.5
Government	-3.0	-0.9	-3.3
Public corporations	-0.3	-0.6	-0.2
Banks' and credit institutions' claims on non-public sector [1]	34.9	31.3	12.0
Others (net)	-5.9	-5.7	-0.8
Liquidity (percent)	**39.4**	**27.7**	**15.9**

[1] Excludes profit and revenue receivables.

Monetary Base

Monetary base rose by almost 47.6 percent to Rls. 539,405.9 billion by end-1387. This was mainly due to net foreign assets of CBI with a share of 33.9 percentage points which was 9.8 percentage points higher compared with the share of this variable in monetary base growth in 1386 (24.1 percentage points). The second contributing factor to monetary base growth was the CBI's claims on banks which accounted for 27.9 percentage points of monetary base growth, lower by 1.7 percentage points compared with the corresponding figure of the year before (29.6 percentage points). Other items (net) had an increasing effect of nearly 3.6 percentage points on the monetary base growth. Moreover, CBI's net claims on the public sector had a decreasing effect of 17.8 percentage points on the monetary base growth, which was mainly owing to rise in public sector deposits with the Central Bank.

Contribution of Factors Affecting Monetary Base Growth (percentage points)

	1385	1386	1387
CBI net foreign assets	51.5	24.1	33.9
CBI net claims on public sector	-12.3	-9.5	-17.8
CBI claims on banks	8.6	29.6	27.9
Other items (net)	-20.9	-13.7	3.6
Monetary base (percent)	**26.9**	**30.5**	**47.6**

Composition of Liquidity

The share of money in liquidity declined from 32.7 percent in 1386 year-end to 27.6 percent at end-1387, while share of quasi-money rose 5.1 percentage points to 72.4 percent compared with the previous year.

In 1387, non-public sector deposits with banks and credit institutions increased by 11.7 percent to Rls. 1,743,601.8 billion. Of this amount, Rls. 1,375,883.5 billion was in the form of non-sight deposits.

The provisional profit rates of term investment deposits with banks and credit institutions were set within a range of 9 percent for short-term to 19 percent for five-year deposits. Among term investment deposits, one-year deposits had the lion's share, while shares of two-, three-, four-, and five-year deposits in total term investment deposits were reduced. Rise in the share of one-year deposits was due to the issuance and sale of Rls. 98.3 trillion one-year general Certificates of Deposit with a provisional profit rate of 19 percent. It is worth mentioning that one-year Certificates of Deposit are classified as one-year deposits.

Composition of Long-term Investment Deposits[1] (percent)

	Year-end		
	1385	1386	1387
One-year	24.7	36.3	51.2
Two-year	14.4	9.8	4.5
Three-year	4.5	3.8	2.3
Four-year	1.1	1.1	0.9
Five-year	55.3	49.0	41.1

[1] Includes Credit Institution for Development.

Provisional Profit Rate of Term Investment Deposits[1] (% per annum)

	Year-end			
			1387	
	1385	1386	Public banks[2]	Private banks[3]
Short-term	**7**	**7**	**9 (max.)**	**9**
Short-term (special)	**7-16**	**7-16**	[4]	**16**
Long-term				
One-year	7-16	7-16	15 (max.)	17.25
Two-year	7-16	7-16	16 (max.)	17.5
Three-year	7-16	7-16	17 (max.)	18
Four-year	7-16	7-16	18 (max.)	18.5
Five-year	16	16	19 (max.)	19

[1] Profit rates of short-term, short-term (special) and one-year deposits with Bank Maskan are higher than other public banks by one percentage point.
[2] Effective as of Aban 1, 1387
[3] Effective as of Azar 5, 1387, based on letter No. NM/48164
[4] Based on bank recommendation and CBI confirmation

Monetary Base and its Components (billion rials)

	Year-end balance			Percentage change	
	1385	1386	1387	1386	1387
Monetary base	**279,975.1**	**365,499.0**	**539,405.9**	**30.5**	**47.6**
Net foreign assets	371,195.4	438,630.2	562,663.7	18.2	28.3
Net claims on public sector	-18,433.9	-44,914.4	-109,951.0	-143.7	-144.8
Claims on banks	54,887.3	137,694.0	239,696.4	150.9	74.1
Other items (net)	-127,673.7	-165,910.8	-153,003.2	-29.9	7.8
Participation papers	-21,565.5	-16,371.7	0.0		

Composition of Liquidity (billion rials)

	Year-end balance			Percentage change		Share (percent)	
	1385	1386	1387	1386	1387	1386	1387
Money	**414,544.9**	**535,707.3**	**525,482.5**	**29.2**	**-1.9**	**32.7**	**27.6**
Notes and coins with the public [1]	61,451.6	79,909.2	157,764.2	30.0	97.4	4.9	8.3
Sight deposits	353,093.3	455,798.1	367,718.3	29.1	-19.3	27.8	19.3
Quasi-money	**869,654.5**	**1,104,585.7**	**1,375,883.5**	**27.0**	**24.6**	**67.3**	**72.4**
Gharz-al-hasaneh savings deposits	133,522.4	152,305.0	153,946.7	14.1	1.1	9.3	8.1
Term investment deposits	707,100.5	915,984.5	1,177,644.1	29.5	28.6	55.8	62.0
Miscellaneous deposits	29,031.6	36,296.2	44,292.7	25.0	22.0	2.2	2.3
Liquidity (M2)	**1,284,199.4**	**1,640,293.0**	**1,901,366.0**	**27.7**	**15.9**	**100.0**	**100.0**

[1] In 1387, it includes the balance of CBI Iran-Checks with the public.

Sources and Uses of Commercial Banks Funds

Non-public sector deposits with commercial banks grew by 5.1 percent (Rls. 54,629.9 billion). Sight and non-sight deposits of commercial banks decreased by 22.0 percent, and increased by 21.7 percent, respectively. Commercial banks' blocked resources, mainly owing to Rls. 33,670.7 billion rise in notes and coins kept with commercial banks and Rls. 21,401.4 billion fall in the amount of reserve requirement held with the CBI, went up by Rls. 12,269.3 billion. This was due to Central Bank's Circular No. MB/2412 on Shahrivar 28, 1387, authorizing banks to keep up to 2 percentage points of their legal deposits held with the Central Bank in notes, coins and CBI Iran-Checks, and reduction of reserve requirement ratio for two- to five-year deposits and Gharz-al-hasaneh deposits. Moreover, commercial banks' capital account declined by Rls. 6,206.0 billion, and public sector deposits and funds rose by Rls. 4,912.8 billion. Non-public and public sector indebtedness went up by Rls. 59,861.4 billion and Rls. 1,798.2 billion, respectively. Thus, commercial banks' deficit reached Rls. 22,559.7 billion in 1387, up by Rls. 20,592.2 billion compared with the figure for 1386. This deficit, which was mostly financed through overdraft from the Central Bank, raised these banks' indebtedness to CBI by 89.2 percent (Rls. 74,491.8 billion) to Rls. 157,971.4 billion at end-1387, compared with the previous year.

Sources and Uses of Specialized Banks Funds

In 1387, non-public sector deposits with specialized banks increased by Rls. 10,031.9 billion. Sight and non-sight deposits with these banks declined by 8.6 percent and rose by 7.7 percent, respectively. The specialized banks' blocked resources, due largely to the rise in notes and coins kept with specialized banks, grew by Rls. 159.1 billion. Free resources out of non-public sector deposits with specialized banks went up by Rls. 9,872.8 billion. Total free resources of specialized banks, including other sources (indebtedness to the CBI and other banks), surged by Rls. 43,950.4 billion. Of this figure, specialized banks' claims on non-public and public sectors increased by Rls. 42,979.1 billion and Rls. 971.3 billion, respectively. Central Bank's claims on specialized banks rose 42.8 percent (Rls. 22,419.8 billion) to Rls. 74,810.5 billion at end-1387, compared with the preceding year.

Banking Sector Developments

The major developments in the banking sector in 1387 are:

Section one- Major developments regarding regulations, by-laws, guidelines, circulars, and amendments:

- CBI guideline on accounting procedures for Iran-Checks;
- Guideline on electronic wallet;
- Guideline on credit institutions' write-off;
- Guideline on syndicated loans and facilities;
- Guideline on the opening of current (checking) account for banks' customers;
- Guideline on Article 15 of CBI's Supervisory-Policy Package regarding the facilities adjustable (floating) rate in civil partnership contracts of banks and credit institutions;
- Guideline on paragraph 3, Article 6 of CBI's Supervisory-Policy Package of the Banking System regarding development banks;
- By-law regarding the establishment and operation of foreign banks' branches in Iran;
- Guideline regarding the establishment, operation, oversight, and the closure of foreign banks' branches in Iran;
- Guideline regarding the establishment, operation, oversight, and the closure of Iranian banks' subsidiaries abroad;
- Guideline regarding the establishment, operation, oversight, and the closure of Iranian banks' branches abroad;
- Guideline regarding the establishment, operation, oversight, and the closure of Iranian banks' representative offices abroad;
- Guideline regarding the establishment, operation, oversight, and the closure of foreign banks' representative offices in Iran;
- Amendment of the by-law regarding the credit institutions' resources of overdue, past due and doubtful loans and facilities;
- Amendment of the guideline regarding the accounting procedures for investment deposits' final profit with imputation for agency fees of banks in the utilization of deposits;
- Amendment of the guideline regarding documentation and registration of accounting records related to foreign exchange operations;
- Guideline on effective management of sovereign credit risks;
- Regulations on transformation of mortgage claims of credit institutions to mortgage-backed securities;
- Guideline on identification of credit institutions' clients and the amendment of the guideline on the requirements of the receipt of tax/economic code from legal entities;
- Regulations regarding the opening of bank accounts for foreign residents in Iran.

Section two- The major activities related to the issuance of license:

- Issuance of license for two newly established Iranian banks (Gharz-al-hasaneh Mehr Iran Bank and Sina Bank);

• Issuance of agreement in principle for the establishment of two banks (Tat Bank and Bank Day);

• Issuance of license for the establishment of two credit institutions (Shahr Credit Institution and Sina);

• Issuance of agreement in principle for the establishment of nine credit institutions;

• Issuance of license for the establishment of 11 leasing companies;

• Issuance of license for the establishment and operation of nine credit cooperatives (credit unions);

• Issuance of license for the establishment of an independent subsidiary branch of Tejarat Bank in the Republic of Belarus;

• Issuance of license for the establishment of an independent unit (cross-border agent) named First East Export Bank (FEE Bank) with $50 million capital in Labuan Island, Malaysia;

• Issuance of license for the establishment of a joint bank (Iran-Syria Bank) in Syria.

Number of Banking Units

The total number of Iranian banking units both in the country and abroad, including branches, counters, and representative offices, increased by 0.9 percent to 18,874. Bank Saderat Iran and Bank Melli Iran held 18.4 and 18.3 percent of these units, respectively, and together accounted for the highest number of domestic banking units.

Banking Units

	1385	1386	1387
Domestic branches	**17,858**	**18,662**	**18,824**
Commercial banks	14,520	14,991	14,877
Specialized banks [1]	2,897	2,991	3,081
Private banks [2]	441	680	866
Foreign branches	**47**	**49**	**50**
Total	**17,905**	**18,711**	**18,874**

[1] Figure for 1387 excludes Gharz-al-hasaneh Mehr Iran Bank.
[2] Figure for 1387 excludes Sina Bank.

The number of banking network employees rose 3.3 percent to 188,818 persons. Number of public commercial banks' employees decreased by 0.5 percent and that of specialized banks increased by 15.0 percent. The number of private banks' employees went up by 31.9 percent. The average number of employees at each banking unit was 10.0 persons, indicating a slight growth as compared with the corresponding figure of the previous year (9.8 persons). Moreover, the ratio of population to each (domestic) banking unit reached 3,856 persons.