Estimating the Appropriate Growth Rate of Money Supply with the Approach of Making Maximum Seigniorage Revenue in the Iranian Economy

Payman Ghorbani, Ph.d*, Mahmood Gharavi**

Abstract

In this study, we tried to estimate the appropriate growth rate of money supply viz-a-viz maximizing Seigniorage revenue and subsequently, compare it with the actual growth rate of money supply in the Iranian economy. In this context, we reviewed de facto, the relevant literature and inevitably, adopted the Cagan model and with the use of inflation expectations hypothesis and set of algebraic calculations, we transformed this model into the econometric equations to be applied for required estimations. For this Purpose, we exploited the quarterly data covering the period (1367:2-1387:2). The main explanatory variables of the model comprise the liquidity (M_2), consumer price index (CPI), growth in consumer price index (inflation), and growth domestic product (GDP).

Findings of the results indicate prima facie, that in the period under the study, the actual liquidity growth rate exceeded Seigniorage money supply growth rate by 5 percent and sine qua non, the government failed to maximize its revenue from Seigniorage. It means that it inflicted the inflationary pressures of excess liquidity on the Iranian economy.

Keywords: Seigniorage, Inflation Tax, Demand for Money, Cagan Model, Liquidity.
JEL Classification Codes: C51, E41, E51, H21.

* Vice Governer, Economic Affairs, Central Bank of IRI P.Ghorbani@cbi.ir
** M.A. Banking , Graduated from Iran Banking Institute M.Gharavi@cbi.ir

The Impact of Banking Competition on the Efficacy of Transmission Mechanism of Monetary Policy Through the Banking Lending Channel

Rafic Nazarian, Ph.d *, Mohammad Reza Farhadipour **, Ali Faraji ***

Abstract

This study examines the impact of banking competition on the efficacy of transmission mechanism of monetary policy, through the bank lending channel. However, with respect to the significant changes in the banking market structure and increased degree of competitiveness in the banking system, one expects that the bank lending channel of monetary transmission mechanism plays an important role therein. In this paper, an attempt is made to investigate per se the relationship between bank lending channel and degree of competition in context of Iran's banking system. For this purpose we applied the two-step estimation procedures, using the bank-level panel data for the state owned banks in Iran, during the period (1375-1389). In the first step, we measured the degree of banking competition by applying the proposed methodology of Panzar and Rosse.(1987). In the second step, we estimated a loan growth model in which its explanatory variables include the Panzar-Rosse measure of banking competition. The results prima facie indicate the consistent evidence that increased competetion in the banking sector, could strengthen the impact of monetary policy transmission mechanism. We also found that the nature of banking sector in Iran is more characterized as a monopolistic competition identity.

Keywords: Banking Competition, Bank Lending Channel, Monetary Policy Transmission Mechanism.

JEL Classification Codes: L1, L5, E4.

* Member of Scientific Board, Iran Banking Institute, Central Bank of I.R.I nazarian@ibi.ac.ir
** Member of Scientific Board, Iran Banking Institute, Central Bank of I.R.I farhadipour@ibi.ac.ir
*** MA. Iran Banking Institute alifaraji52@gmail.com

Taxes, Government Expenditures and Twin Deficits Hypothesis in Iran

Akbar Zamanzadeh*, Mohammad Noferesti, Ph.d **, Zahra Shayesteh***

Abstract

Testing the twin deficits hypothesis (TDH) or estimating the effects of government budget deficits on trade deficits, acquired a significant importance in economic literature in the last two decades. According to this hypothesis, the main reason for existing trade deficits in different countries is the governments budget deficits policies. Therefore, governments could attain equilibrium in their external and internal sectors only through reduction of their budget deficits or implementing the appropriate contractionary fiscal policies. In contrast to this hypothesis, Ricardian Equivalence hypothesis (REH) shows that the government expenditures and taxes do not affect economic variables such as trade deficits, in toto.

In this paper, an attempt is made to investigate the impact of government budget deficits on non-oil trade deficits of Iran, by using the statistical data comprising the period (1338 – 1389) and applying the Vector Error Correction Model (VECM). The results indicate prima facie, that in the long run the Twin Deficits Hypothesis is more valid compared to the Ricardian Equivalence Theorem, in context to the Iranian economy.

Keywords: Taxes, Government Expenditures, Government Budget Deficits, Trade Deficits, Twin Deficits, Ricardian Equivalence Hypothesis.

JEL Classification Codes: B22, H62, E62.

* MA.Economics akbar.zamanzadeh@gmail.com

** Associate professor of Economics, Faculty of Economic and Political Sciences, Shahid Beheshti University m_noferesti@yahoo.co.uk

*** Expert in Bureau of Research and Improvement Processes, Iranian National Tax Administration

Testing the Relationship Between Financial Liberalization Policy, Legal Institutions and Development of Financial Sector: Evidence from 10, Developing Countries

Anoshirvan Taghipour, Ph.d *

Abstract

In this study, an attempt is made to investigate the relation between financial liberalization policy, legal institutions and development of financial sector for the case of 10 developing countries, over the period 1973-2009. However based on the results, certain policy recommendations regarding the implementation of financial reforms for the Iranian economy have been presented in toto.

The empirical results of this paper, indicate prima facie, that the financial liberalization policy bear positive impact on financial development of those 10 countries under the review. Thus, the domestic financial sector liberalization policies such as reducing interest rates and credit controls, reducing barriers to entry in to the banking sector and increasing competition in the financial sector Viz-a-Viz raising the opportunity for private sector to augment its share of ownership in the banking sector, limiting the constraints on international capital flow, and mitigating the use of multiple exchange rate system for conversion of capital transactions all could impose positive effect on development of financial sector in these countries. Though the efficacy of above mentioned policies in the sample countries could be intensified, if and only if, they avail the privilege of sound and solid framework of legal and regulatory institutions de Jure. However, we conclude that before implementing these policies, all countries under the study, need per se, to reform their legal institutions as a precondition for successful execution of financial liberalization policies.

Keywords: Index of Financial Liberalization, Financial Reform, Legal Institutions, Developing Countries, Iran.

JEL Classification Codes: G63 ،E61 ،E52.

* Assistant to Beureau, Economic Planning, Vice-Presidency for Strategic Planning and Suppervision
anoshtaghipour@yahoo.co.uk

Co-Financing in the Context of Islamic Banking

Hussein Bazmohammadi*

Abstract

Syndicated loans are defined as drawing up an agreement between two or several lending institutions to jointly provide loans to applicants. Syndicated loans arrangement for corporate finance could be made operational within the framework of Islamic Financial System and the Law on Usury Free Banking. In light of availabity of more information and higher intensive oversight Viz-a-Viz extension of syndicated loans on activities of the credit recipients, the problem of asymmetry of information could be less pronounced. Thus, the risk of adverse selection and moral hazard which are common in banking practices are better managed, and consequently by creating more incentives for banks and credit institutions to use PLS mode of finance through applying operational frameworks which are more consistent with Islamic finance, they may create better opportunities to achieve higher returns on their investment targets.

Keywords: Usury Free Banking, Large Banking Facilities, Co-Financing, Syndicated Loan Facilities.

JEL Classification Codes: G21 ،G32.

* Expert in the Economic Research and Policy Department of Central Bank h.bazmohammadi @cbi.ir

The Study of Credit Unions Status in the World and an Overview of Organizing and Supervising the Free and Occupational Credit Unions in Iran

NematAllah Molahkarimi,[*] EhsanAllah Zareai[**]

Abstract

Credit unions in the world are developed as microcredit and pure financial cooperative institutions. In advanced countries like Canada and U.S.A, despite of existing the developed financial market and strong banking system, credit unions perform various and multiform financial and credit services to people with more than 40 percent penetration. Currently, 97 countries, are members of World Council of Credit Unions and serve 183 million individuals with more than 1 trillion resources. However, in context to the Iranian current regulatory system, only credit cooperatives that establish with occupational common bonds are allowed to be active. The size of authorized credit unions penetration is estimated to be less than half of a percent in which they can not satisfy the financial needs of their members. More than 80 percent of these institutions are active as a free interest loan funds which will not be designated as financial intermediaries and hence they could not avail of any plausible prudential supervision on them. The Central Bank as supervisory authority of Iran, has already banned the activity of so called "Free Credit Cooperative" bodies which run by free membership pattern.

In this paper, an attempt is made to study the status of credit unions in the word and in turn analyze de Jure, their very setup, in Iran, quid pro qua.

Keywords: Occupational Credit Unions, Free Credit Unions, Micro finance, Informal Money Market, Banking Supervision.

JEL Classification Codes: G28, G21.

[*] MA Economics, Chief Examiner, Non Banking Monetary Institution Supervision Department, Central Bank of I.R.I. mollakarimi@gmail.com

[**] M.A. Economics, Examiner, Non Banking Monetary Institution Supervision Department, Central Bank of I.R.I.

The Leverage Ratio[1]

Translated By:
Masoud Pahlavanzadeh*

Abstract

Excessive leverage by banks is widely believed to have contributed to the global financial crisis. To address this, the international community has proposed the adoption of a non-risk-based capital measure, the leverage ratio, as an additional prudential tool to complement minimum capital adequacy requirements. Its adoption can reduce the risk of excessive leverage building up in individual entities and in the financial system as a whole. The leverage ratio has inherent limitations, however, and should therefore be considered as just one of a set of macro and micro prudential policy tools.

Keywords: The Leverage Ratio, International Financial Reporting Standard, Global Financial Crisis, Buisiness Cycles.
JEL Classification Codes: G28.

1. Hulster, Katia, D .(2009). The Leverage Ratio, A New Binding on Banks. Financial System Department of The World Bank.

* Advizer, Central Bank of I.R.I m.pahlevanzadeh@cbi.ir

Growth, Development Policy, Job Creation and Poverty Reduction

Translated By:
Mohammad Valipour Pashah*

Abstract

Policies seeking to directly help the poor have an important role to play. But without sustained growth in per capita output and significant job creation, they will not succeed. Policies Promoting growth have been suggested, most notably by avoiding pro-cyclical responses to macroeconomic shocks (especially from abroad), steering macroeconomic prices, such as exchange and interest rates, to support developmental objectives, pursuing industrial and trade policies involving increasing returns, promoting financial development, and making productive use of foreign aid. Ensuring national economies have sufficient policy space to achieve sustained growth and structural change should be the over-riding policy concern.

Keywords: Macroeconomic Policy, Development Policy, Economic Growth, Poverty Reduction, Employment, Job Creation.

JEL Classification Codes: O10، I30.

* MA. Economics (Research). Banking Group, Ph.d Student, Monetary and Banking Research Institute, Central Bank of IRI
m.valipour@cbi.ir