Formulating the Different Kinds of Government and Central Bank's Sukuk for Conducting the Open Market Operation (OMO): A New Framework for Developing Money Market in Iran

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Abstract

In this paper, an attempt is made to first review the current literature on modus operandi of open market policies in modern Central Banking system and then investigate them comparatively in context to Islamic banking criteria in toto. Besides, we tried to evaluate the efficiency of different kinds of Sukuk as substitutes for orthodox apparatus of monetary policy, ipso facto. The methodology which is utilized in this research, is based on the analytical-descriptive approach de jure. However, the main findings indicate prima facie that, although using the conventional tools of open market operations are prohibited for the Central Bank of Islamic Republic of Iran (CBI), due to observing the Usury Free Banking Law, but it is quiet feasible to employ various sorts of Sukuk as substitutes for government bonds, quid pro qua.

In this context, the first and foremost choice is that the government will issue the Sukuk in primary market for financing its requirements and the Central Bank could be engaged in secondary market of securities for conducting its monetary policy de facto. Similarly, some other genre of Sukuk which can be used in these markets are as follows: Islamic Treasury Sukuk, Government Murabaha Sukuk, Government Ijarah Sukuk, which includes Hire-purchase Sukuk and Government Istisna Sukuk. Though, it is worth to note that in the short run, due to non deepening of market in Iran, there is no any scope to utilize the government Sukuk for open market operations, so, we can submit that, for the transitory period, CBI, could issue the Islamic Treasury Sukuk (Bai Al Dain) and Ijarah Sukuk to be substitute or act as complementary for its participation papers. Thus, we conclude that, using the varieties of Sukuk in the mid-term, could lead to development of money and short-term debts market in consonance with Sharia laws in Iran, sui generis.

Keywords: Open Market Operation, Monetary Policy, Central Banking, the Usury-Free Banking Law, Sukuk.

JEL Classification Codes: E52, L53.

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Studying the Relation Between Financial Reforms and Demand for Money Stability in the Iranian Economy

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Abstract

The stability or instability of demand for money is the main determinant of condition for choosing the money supply or interest rate as de facto the leading apparatus of monetary policy. Though, it is worth to note that on theoretical ground, the demand for money can per se be affected by financial reforms propounded by the monetary authorities.

In this paper, an attempt is made to investigate the impact of financial reforms in Iran on stability of demand for money viz-a-viz expounding the ex-post history of these reforms for constructing a financial reform index during the period of 1973-2012. Then, we divided the whole sample period of study into two sub periods, as pre and post periods of financial reforms de jure and subsequently, we estimated the demand for money through utilizing the Error Correction Model for the whole and two sub periods, to compare the pertinent co-efficients. The results prima facie indicate that the financial reforms, do not bear the significant effect on demand for money and the money demand function has been stable during the sample period, quid pro qua. Furthermore, we tried to examine the stability of demand for money, using the cusum and cusum of Squares Test, in which the results of these tests have confirmed the postulation that the demand for money function in Iran is stable in toto. Hence, based upon these findings, we can specify that the most appropriate paraphernalia for conduction of monetary policy in Iran is the money supply, which can falsify the ruling orthodoxy among the conventional monetary policymakers of Iran that the interest rate is more relevant and convenient tool for implementation of monetary policy in Iran ipso facto.

Keywords: Financial Reforms, Financial Liberalization, Demand for Money Stability, Choosing Monetary Policy Tools, Error Correction Model.

JEL Classification Codes: C22, E41.

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Studying the Relationship between Income Mobility and Income Inequality in Iran

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Abstract

Although, the income mobility and income inequality are two interrelated concepts, but in actual practice, they are quite distinct from each other per se. In fact, income inequality will deal with dispersion of people income at a point of time, while the income mobility will concern more about the impact of people movement on distribution of income in the span of two or more points of time in toto. Hence the people welfare in two communities with similar level of income inequality, but different pattern of income mobility will never be identical, quid pro qua.

In this study, an attempt is made to investigate the impact of income mobility on income inequality in Iran, ipso facto. In this context, we have tried to apply the econometric technique of Auto Regressive Distributed Lags viz-a-viz using the annual time series data for the period of 1984-2013. The results prima facie indicate that in the long-run, the income mobility bears negative but significant effect on income inequality and the error correction coefficient shows that in each year, about 0.58 of short-term imbalances will be adjusted to attain the long-run equilibrium, sine qua non.

Keywords: Income Mobility, Income Inequality, ARDL.

JEL Classification Codes: D31, I32, O12.

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Studying the Relation Between Market Structure of Maturity of Extended Facilities and Cash Flows with Performance of Banks listed on Capital Market

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Abstract

In this paper, an attempt is made to investigate the relationship between the structure of maturity of extended facilities, operating cash flows, and performance of banks listed on the capital market, in toto. To accomplish the research, we have chosen a sample of 10 private banks listed on Tehran stock exchange for the period of 2010-2014. In this context, we have tried to expound and specify the extended banking facilities, (varities of loans) and maturity structures i.e. current, deferred (or outstanding), departed, doubtful by their nature, operating cash flows, profit rate and rate of return on assets for the stipulated period of 5 years, utilizing the Multi Variate Regression Model ipso facto. The results prima facie indicate that the operating cash flows have negative but significant relation with outstanding facilities which means any increase in outstanding facilities will lead to reduction of operating cash flows and vice versa.

In fact, in case of overmaturities of facilities, the operating cash flows will decrease per se. Besides, the rate of return on assets bears positive and significant relation with operating cash flows which shows any increase in operating cash flows variable will accelerate the rate of return on assets and mutatis mutandis. On this ground, paying any divident is deemed as diminution of cash flows from a financial institution and similarly, if they access excess liquidity in their reserves, there will be more resources to be disbursed as dividends for shareholders. On the contrary, we have observed that the rate of return on assets, has negative but significant relationship with doubtful facilities i.e. non performing loans (NPL), which denotes that, with any increase in NPL, the rate of return on assets will diminish pro rata. Thus, we conclude that if there is a case for any financial institution in which the repayment of its extended facilities is bound to remain irrecoverable in the span of time, the rate of return on its assets will encounter sever drawbacks, sine qua non.

Keywords: Structure of Maturity of Extended Facilities, Operating Cash Flows, Rate of Return on Assets, Performance of Banks.

JEL Classification Codes: E58, G21, C30.

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Estimation of Nominal and Real Effective Exchange Rate Indices- The Case Study of Iran

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Abstract

The bilateral exchange rate as one of the key economic variables and an important factor which is affecting on relative prices, de facto has been matter of interest for economic policymakers. The real effective exchange rate that reflects the weighted average value of a domestic currency relative to an index or basket of other major currencies, adjusted for the effects of inflation is deemed as paramount criteria to measure the international competitiveness per se. In this context, an increase in the real exchange rate as compared with the base year, designate the appreciation of domestic currency against the currencies of trading partners which in proportion to the composion of commercial goods in the country can in turn bear a negative impact on its trade balance in toto.

In this paper, an attempt is made to estimate the real and nominal effective exchange rate in consonance with the approach of International Monetary Funds, for the period of 2012-2014 with respect to base year of 2011, using the official and free market rates quid pro qua. The results prima facie indicate that both the real and nominal effective exchange rates have depreciated during the period of study. Thus, we can conclude that, due to sever and significant depreciation of rials against American Dollars during the sample period and increasing domestic inflation compared to external inflation, the real effective value of Rials against the weighted average value of currencies of Iran's main trading partners, depreciated and as a result, the competitive power of Iran versus to her trade partners with respect to the base year has not considerably changed, sui generis.

Keywords: Real Effective Exchange Rate (REER), Nominal Effective Exchange Rate (NEER), Exportable Goods Weights, Importable Goods Weights

JEL Classification Codes:

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Interest Rate Determination in China: Past, Present, and Future

Translated By:
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Abstract
How should we think about the determination of interest rates in China after interest rate liberalization? Would effective deposit rates, lending rates, and bond yields move higher or lower? We argue that interest rates in a liberalized environment would need to be anchored by monetary policy. To achieve price and output (or employment) stabilization, the policy rate should be set close to China's equilibrium or natural rate. We sketch three preliminary approaches to estimation of the natural rate. Based on this analysis, we argue that interest rates on large deposits and short-term money-market rates would likely move higher following liberalization. The effect on effective lending rates is somewhat ambiguous, as the contestability of the banking sector and the competition from the bond markets are likely to increase. We leave the determination of the curvature of the yield curve to future research.

Keywords: Interest Rate Determination, Interest Rate Liberalization, Monetary Policy and Interest Rate, Natural Rate of Interest, Yield Curve.

JEL Classification Codes: E43, E52, O53, P24.

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Why is Investment Weak?

Translated By:
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Abstract
In spite of very easy financing conditions globally, investment has been rather weak in the aftermath of the Great Recession. What explains this apparent disconnect? The evidence suggests that, historically, uncertainty about the future state of the economy and expected profits play a key role in driving investment, and financing conditions less so. As a result, investment after the Great Recession appears to have been broadly in line with what could have been expected based on past relationships. A stronger recovery of investment would seem to depend on a reduction in economic uncertainty and expectations of stronger future growth.

Keywords:.

JEL Classification Codes: E22, E27, C33.

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