Evaluation of the Degree of Coordination between the Monetary and Fiscal Policies in the Iranian Economy and the Requirements for Achieving it

by:
Zhale Zarei *
Maryam Hemmati **

Abstract

Monetary and fiscal policy coordination means that these policies, despite their different targeting priorities, move in one direction or at least do not neutralize each other in order to reach economic growth and price stability. The lack of coordination between monetary and financial authorities will lead them to fail to achieve the economic goals. Accordingly, this study will assess the coordination of monetary and fiscal policies in the Iranian economy. The question is whether monetary and fiscal authorities have been coordinated in the Iranian economy. In order to answer this question, in this study, coordination between monetary and fiscal policies has been evaluated during 1367-1398 (with annual frequency) using the Granger causality test and the Engle-Granger integration test in the long run and in the short term using the approach of Arby et.al (2010) and Tarawalie et.al (2013). The results of the Granger causality test and the Engle-Granger integration test emphasize the lack of a long-term relationship between the two policies. Also, the evaluation of their coordination in the short term confirms that the coordination of these two policies in different economic situations in the first to third lags is equal to 0.21, 0.16 and 0.27 respectively. These results indicate the weak interaction between monetary and fiscal policymakers in their efforts to achieve sustainable economic growth and price stability. The coordination requires the institutional and operational arrangements, including the implementation of monetary and fiscal policy rules, the establishment of a legal framework for central bank independence, government debt management, and the establishment of a monetary and fiscal policy coordination council .A review of economic statistics shows that countries that have implemented fiscal rules and an inflation targeting framework simultaneously, have lower debt-to-GDP ratios and lower inflation rate than countries that have implemented these rules separately. Therefore, in order to overcome the economic recession and reduce the inflation rate, it is suggested that the government and the central bank implement the fiscal rules and flexible inflation targeting simultaneously in order to achieve the fiscal and monetary policy coordination.

Keywords: Fiscal Policy, Monetary Policy, Policy Coordination, Inflation Targeting.

JEL Classification: E62 ،E63 ،P24 ،P41 .

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Investigating the Factors Affecting the Demand for Banknotes in Iran Using Co-integration and Error Correction Approach

by:
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Abstract

The goal of this study is to analyze the mechanism of influence of some macroeconomic variables including GDP, exchange rate, interest rate, general price level and number of sales terminals as an indicator of new financial technology on the demand for banknotes in Iran. The data used are seasonal time series from 1385 to 1397 which have been analyzed by vector error correction (VECM) and co-integration methods. The results show that the long-run relationship is positive between banknote demand and consumer price index and GDP; it is negative with exchange rate and number of sales terminals; and statistically insignificant with interest rates. But in the short run, the demand for banknotes depends on the volume of the banknotes and the exchange rate of the previous period and the effect of the season. Also, the effect of different shocks on the banknote volume was investigated using the impulse response function and the method of analysis of variance of the predicted error, and it was found that the response of the amount of circulating banknote to the shock in the variables of exchange rate and the number of sales terminals is more faster than other variables.

Keywords: Vector Error Correction, Co-integration, Banknotes Demand, Macroeconomic Variables

JEL Classification: E41, C23, E42 .

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Basic Properties of the Input-output Table of 1395; Central Bank of Iran

by:

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Abstract

Input-output tables are one of the most advanced methods of economic accounting which explain the interactions between different activities within an economic system. These tables are one of the key tools for macroeconomic planning and policy-making. In general, input-output tables are a collection of information that describes the structural features of an economic system. The economic system of each country is classified into separate sections called activity. Each of these activities has several enterprises that produce similar goods. Each activity needs production of other enterprises to generate its own output. In the same way, each activity sells some of its productions to another activity, so that they can provide their needs with intermediate goods. So the flow of goods and services between different economic activities over a specified period of time is shown in these tables. Input -output tables reflect the consumption structure of society, which is usually divided into two groups: intermediate consumption and final consumption of goods and services.

Keywords: Input-Output Table, SNA, Supply and Use Table, Basic Price

JEL Classification: D57, C67.

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The Role of Safe Assets in Financial Stability

by:

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Abstract

This paper delves into financial stability in the banking sector from the demand side for deposits since some part of the growth of bank liabilities stems from the demand for safe assets. Due to lower risks of safe assets, there is more demand for them in the economy and unless this kind of asset is provided by the government, the non-governmental sector will step forward and create semi-safe assets. It can be argued that some part of the demand for bank deposits in Iran relates to the shortage of safe sovereign assets in a context wherein the government allows the banks to create more liabilities (deposits) and offer them to applicants. Therefore, if sovereign bonds are being supplied in a safe framework, they can both provide the government with sustainable finance and pave the ground for more financial stability. This paper attempts to introduce a framework which converts the government bonds into safe assets.

Keywords: Financial Stability - Sovereign Safe Assets - Sustainability of Government Finances – Balance Sheets of Commercial Banks

JEL Classification: E63, G01, G21

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Kicking away the Financial Ladder? German Development Banking under Economic Globalisation

Translated by:
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Abstract

While extensive literature exists on how economic globalisation has limited developing countries' policy space for industrial policy, the literature on how it has affected advanced economies remains scant. We utilise original archival material to analyse the activities of the German public development bank, the Kreditantstalt fur € Wiederaufbau (KfW), in order to shed light on an important, but neglected aspect of German industrial policy. We analyse how the KfW responded to multiple challenges after the rise of economic globalisation, including a funding crisis, international agreements to limit export subsidies and Europeanisation. We argue that KfW successfully managed to navigate these challenges in order to retain, and even increase, its ability to conduct selective industrial policy in the post-1980s era. This was possible because of Germany's hard currency and low sovereign credit risk, large market size, which was augmented by membership in the European Union, and Germany's position as regional hegemon within Europe. More broadly, this shows how, conditional on domestic politics, advanced economies are able to shape and exploit the rules of the international economic system to implement industrial policies to their advantage, even as developing countries are given the opposite policy recommendations.

Keywords: Development banks; Industrial Policy; Globalisation; Policy Space; Finance; Germany

JEL Classification: G21, O23, O25, F6, E62

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Industrial Policy in the 21st Century

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Abstract

Industrial policy is back at the center stage of policy debate, while the world is undergoing dramatic transformations. This article contributes to the debate by developing a new theory of industrial policy, incorporating some issues that have been neglected so far and taking into account the recent changes in economic reality. The authors explore how the incorporation of some of the neglected issues including commitments under uncertainty, learning in production, macroeconomic management (especially demand management), and conflict management changes the theory. They then examine how the theory of industrial policy should be modified in light of recent changes in economic reality, that is, the rise of the global value chain, financialization and new imperialism. This contribution aims at promoting a pragmatic approach to industrial policy and pointing to new areas for policy intervention in a changing world.

Keywords: Economic Development, Industrial Policy, Uncertainty, Macroeconomic Management, Learning in Production, Conflict Management.

JEL Classification: B27 ،B29 ،D20 ،F10 ،F23 ،L50 ،L59.

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