Assessing the Sterilization Policy of the Central Bank in Iran

Hamed Taheri *

Abstract

This paper investigates the sterilization policy and degree of monetary independence of the Central Bank in Iran. Sterilizing the inflationary effects of foreign assets is one of the most important objectives of Central Banks in the world. In this paper, based upon the Kouri and Porter's model (1974), an attempt is made to analysis and investigate the sterilization policy of Central Bank of Iran during 1971-2008. The results of this model show that sterilization coefficient is less than 10 percent. This coefficient proofs that monetary authorities were unsuccessful in sterilizing the inflationary effect of changes in Net Foreign Assets (NFA) of the Central Bank. On the other hand, compensation coefficient which indicates the monetary independence of authorities in sterilization policy is about -0.12. This coefficient shows the low degree of capital mobility and high grade of monetary independence for implementing the sterilization policy.

JEL Classification Codes: E52, E58, C49.

Keywords: Central Bank, Sterilization Policy, Monetary Independence, Compensation Coefficient

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Received: 2011/12/21 Accepted: 2012/04/18

Application of Morabeha in Usury Free Banking System

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Abstract

According to Article 98 of the Fifth Development Plane, the Morabeha Contract has been added to the section designates as methods of allocation of resource in Usury Free Banking Operation Law. Following that, the Council of Ministers approved the regulation of Morabeha Contract and notified it to the banking system. Subsequently, the Central Bank of Iran by preparing and notifying the executive direction for implementation of Morabeha Contract, has suggested the issuing of credit card based upon the principle of Morabeha Contract and also issuing the Mizan credit card in accordance with the tenet of Morabeha Contract and consider them as new instruments to be utilized in Usury Free Banking System. Thus, it seems that the appropriate application of these instruments can open new vista for banking industry of this country, and pave the way for more compatibility with the real economic needs of the society. In this paper, we have attempted to survey the legal and jurisprudential foundation of Morabeha Contract and its regulations and verify the basic differences of this type of Contract with prevailing Sale Installment Contract. We also tried to show its proper application for extension of facilities to various sectors. Moreover, we have examined the special capability and efficacy of Morabeha Contract to act as a credit card for purchasing the required goods and services.

JEL Classification Codes: E49, G21.

Keywords: Sale, Rent, Morabeha, Sale Installment, Credit Card.

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Received: 2011/10/08 Accepted: 2012/04/18

The Survey of Effectiveness of Statutory Reserve Ratio as an Instrument of Monetary Policy and Evaluation of Its Balance Sheet Effects on Banking System of the Country

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Abstract

In the filed of monetary policy, the statutory reserve ratio is considered as an indirect monetary instrument which could be declared and notified by the monetary authorities to the banking system and usually, with the aim of short term monetary management, it affects the behavior of banks and other regulated financial institutions.

In this paper, an attempt is made to investigate the performance of statutory reserve ratio as an instrument of monetary policy and its balance sheet effects based on the existing data derived from the financial statement of total banking system, and to evaluate them in a Structured Systemic Model.

To trace the balance sheet effects of this instrument of monetary policy, we have observed that the three percentage point increase in statutory reserve ratio, through extension of credit channel, to different scenarios, may reduce the major items of assets and liabilities of banking balance sheet, while the balance of profit/loss may reduce.

In fact, it is observed that under the current state of banking system in Iran, the higher non-performing loans, the increasing cost of financial liabilities, the high cost of provisioning for non-performing loans and the high opportunity cost of holding the statutory reserves with the Central Bank, VIZ – a - VIZ the implementing of monetary policy, may lead to reduction of operational and non operational costs more than the operational and non-operational revenues. Where, subsequently, the balance of gross profit will increase in toto. Thus, under the current structure, the execution of contractory monetary policy and the complementary impact of money multiplier, despite the reduction of sources and uses, will improve the financial soundness indicator of banking system. In general, evaluation of monetary policy in our study indicates that the likelihood of turning point of profit/loss will occur in non performing loan ratio of below the 7%.

Keywords: Monetary policy, Statutory Reserve Ratio, Balance Sheet Effects, Transmission Mechanism, Credit Channel.

JEL Classification Codes: E510, E520, E580, E590.

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Received: 2011/11/15 Accepted: 2012/04/18

Transition From Basel I to Basel II, Intensification or Debilitation of Recessionary Conditions?

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Abstract

In this article, an attempt is made to draw an appropriate horizon of real behavior of regulatory capital in business cycles, through examining the characteristics of credit rating methods used for calculation of regulatory capital ratio under the Basel II capital accord in pari passu with empirical evidences. In fact, comparing regulatory capital behavior under Basel I and Basel II capital accords, confirms the potential capacity of the Basel II capital accord for intensifying the business cycles. In addition, according to the results extracted from the case of Canada -as one of the few countries which applied Basel II with wider range of seasonal data at disposal for survey- it is observed that the probability of business cycles intensification by applying the IRB approach and under the PIT rating method, could be higher, compared to other.

Keywords: Basel II Capital Accord, Standardized Approach, IRB Approach, Credit Rating Agencies, PIT Rating Method, TTC Rating Method.

JEL Classification Codes: E32, G21, G28.

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Received: 2012/01/05 Accepted: 2012/04/18

The Application of Fuzzy Logic Approach to Modeling the Iranian Underground Economy

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Abstract

In the present paper, an attempt is made to estimate the size of underground economy in Iran through utilizing the Fuzzy Logic Approach for the period 1350-1389 to constract a time series index. For this purpose, we have considered three input variables, i.e the effective tax rate index, unemployment rate and minimum real wage to be used in the model. Subsequently, we have established a Fuzzy-Rule Based Expert System. Eventually we derived the index for underground economy and then, the resulting time series index is compared with other study which used a Structural Multiple Indicators, Multiple Causes (MIMIC) model. We observe that both the approaches yield sensible, although different pictures of the Iranian underground economy over the period under review. This indicates that alternative approaches and periods, stipulated for the modeling may bear the dissimilar outcomes.

Keywords: Underground Economy, Fuzzy Logic Approach, Effective Tax Rate, Minimum Real Wage Rate, Rate of Unemployment.

JEL Classification: H26, E26.

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Received: 2011/12/11 Accepted: 2012/04/18

Consistency and Beyond Improving Quality of National Accounts Estimates in Practice[1]

Translated By:
Mohammad Gholami* , **Mohammad Reza La'li** **

Abstract

The macro-economic estimates emanating from national accounts are of major importance. Consistency is the key word in national accounts statistics but consistency is not a guarantee for good quality. Adjustments and extensions of the system can improve the quality of the estimates. Moreover several additional quality measures can be taken. All of these actions are all the more necessary, because of the increasing complexity of economic reality. This paper refers to national accounts practice in the Netherlands.

Keywords: National Accounts, Quality, Consistency.
JEL Classification Codes: E01.

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Received: 2011/07/07 Accepted: 2012/04/18

Globalization and Financial Development [1]

Translated By:
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Abstract

This paper argues that globalization is a key factor in stimulating institutional reforms in developing countries that promote financial development and economic growth. Advanced countries can help in this process by supporting the opening of their markets to goods and services from emerging – market countries. By encouraging these countries to increase their participation in global markets, advanced countries can create exactly the right incentives for developing countries to implement the reforms that will enable them to have high economic growth.

Keywords: Globalization, Financial Development, Trade Liberalization, Economic Growth, Institutional Reform.

JEL Classification Codes: F4, F36, F15, O16.

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Received: 2011/08/14 Accepted: 2012/04/18