The Investigation and Analysis of NAIRU in the Iranian Economy

Mohammad Akhbari*, Abbas Jouzi**

Abstract

Reduction of unemployment rate and attaining the non-accelerating inflation rate are de facto postulated as key macroeconomic targets for policymakers. Hence, measuring and analyzing the Non-Accelerating Inflation Rate of Unemployment (NAIRU) are de jure important issue in the economy.

In this paper, an attempt is made to estimate the phenomenon of NAIRU in the Iranian economy, viz-a-viz applying the State-Space Model for the study period of 2004-2016 per se. In this context, we have estimated initially the adjusted unemployment rate with the assumption of stable labor force participation rate and subsequently based upon this rate, we have tried to estimate the NAIRU, observing the structure of labor force and procyclicality of the labor force participation rate, Ipso facto.

The results prima facie indicate that changes in the unemployment rate have been grossly near to NAIRU, and as a result, the acceleration of inflation rate has ensued at its lowest level. Thus we have propounded that, in order to reduce the unemployment rate, the miscellaneous of policies of supply side economy in the framework of augmenting the manufacturing capacities and fostering the labor productivity would be adopted as main macroeconomic policies, in toto. We may conclude an axiomatic fact that, diminishing the unemployment rate, without enhancing the productive output capacity of the economy can lead to incidence of inflationary pressures due to dearth of significant gap between rate of unemployment and NAIRU, quid pro qua.

Keywords: Rate of Unemployment, Rate of Inflation, NAIRU, State-Space Model, Iranian Economy.

JEL Classification Codes: C32, E24, E31.

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Liquidity Creation and Liquidity Requirement of Basel III in the Iranian Banking System

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Abstract

Banks can per se exert a conspicuous impact on the economy and financial markets viz-a-viz allocation of the financial resources. They may ameliorate their functions via money creation mechanism, mobilization of savings and investments, as well as liquidity provision which could de facto be accelerated if they comply with the rules and regulations envisaged by Basel III committee, Ipso facto.

Besides, banks will render their roles for financial intermediation and liquidity creation by dint of mobilizing the various items of their balance sheets, depending on the sustainability or volatility of these balance sheet entries and statements, Sine qua non. In this paper an attempt is made to estimate the liquidity creation Indicator of Burger and Bowman (2009) and Net Stable Funding ratio of Basel III committee (2009) in context to Iranian banking system and investigate the relationship between these variables utilizing the different econometric techniques, in toto. The results prima facie indicate that the Net Stable Funding Difference and Inverse of Net Stable Funding Ratio variables beer positive and significant impact on the Liquidity Creation variable in the banking system of Iran, Sui generis.

Keywords: Liquidity Creation, Basel Committee Regulations, Net Stable Funding Ratio, Net Stable Funding Difference.

JEL Classification Codes: E52, E31, G15.

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The Interaction between Money and Capital Markets in Iran

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Abstract

One important issue in the architecture of the Iranian financial system is the phenomenon of interaction between the money and capital markets per se. However, in consonance with global experiences observed both in the bank based and market based financial systems, the root of synergy of banks and capital market can be de facto construed in three dimensions: 1- Comprehensive relations, 2- Complementary links, and 3-Co-evolutionary relationships.
The Co-evolutionary relationships are mainly hinged on the role manifested by capital market in reducing the cost of absorbing the capital for banks and also the role deployed by banks in securitization, Ipso facto.
In this paper, an attempt is made to examine de jure the appropriate interaction between the money and capital markets in Iran. Besides the review of literature shows that the money and capital markets in most of the countries are not competing components of their financial systems and cannot be substituted for each other but, on the contrary each of these sectors are endowed with specific duties, Sui generis.
Meanwhile, several studies indicate that development of capital market has instigated the banks to expand their financing activities viz-a-viz extension of facilities, which sine qua non may lead to prosperity of capital market and vice versa. Nonetheless, the larger the size of capital markets, the more possibility for banks to better screening the financial status of their borrowers, and to render supplementary effective supervision on their concerned investments and also optimally receiving the required signals of their risk conjectures, rather than resorting to mere capital to asset ratio calculation in toto. Hence, the results of this paper prima facie indicate that the performance of economic growth in Iran is highly correlated with apt and productive functioning of its financial institutions, and it does not bear a direct link with bank based or market based nature of financial markets pro rata. Concurrently, the coordination of supervisory agencies, in various spheres of financial system of Iran, and also establishment of certain infrastructures such as formation of credit rating agencies and deposit insurance system can augment the efficiency, depth and quiddity of services depicted in both money and capital markets and in turn could assist to attain the desirable amounts for financing the real sector of the economy, quid pro qua.

Keywords: Money Market, Capital Market, Bank Based System, Market Based System, Financial Institutions.

JEL Classification Codes: G21, E44, C01, C22.

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The Statistical Analysis and Diagnosis for Pathology of Issuing the Islamic Treasury Bill Market in Iran

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Abstract

Decreasing the oil revenue in recent years has de facto led to acceleration of government budget deficit significantly. Besides in the absence of well developed debt market in Iran, the government is per se compelled to resort to the Central Bank and banking network for borrowing and financing its public expenditures, Sine die.

However, issuing the debt securities will assist the government to finance its expenses without relying de jure on the Central Bank and banking system resources. It is obvious that, this act of government can pave the way to augment the scope of independency of the Central Bank in process of decision making and optimal implementation of monetary policy Ipso facto.

In this context, the Central Bank can exert its prominent role, viz-a-viz open market operation and deal with transaction of debt securities in the second market, to control the volume of liquidity and or accepting these bonds as collateral in the interbank market to reduce the impact of unexpected hike in the cost of short term financing the banking system, quid pro qua.

Nonetheless, in Iran, among the various available financial instruments to settle the government debts with different contractors, there is the typical Islamic Treasury Bill, Sui generis.

Hence, in this paper, an attempt is made to investigate the existing challenges and loopholes of Islamic Treasury Bill market in Iran. The results prima facie indicate that Islamic Treasury Bills unlike the Treasury Bills issued in other parts of the world, are bearing the risk premium and consequently, the market participants believe that there may be all probabilities for them to be dishonored in certain circumstances. Moreover, the Islamic Treasury Bills are endowed with observed marketability and plausible degree of liquidability in toto. Thus, we can conclude that in the Iranian economy, one may expect that there will be adequate demand for further issuing the Treasury Bills, Sine qua non.

Keywords: Debt Market, Islamic Treasury Bills, Open Market Operation.

JEL Classification Codes: H63, E52.

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Basic Characteristics of the Input-Output Table During 2004-2005 Compiled by: The Central Bank of Iran

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Abstract

Compiling and estimation of economic Input-Output tables are de facto deemed as main tools to construe the national accounts system in most of the countries. These tables are widely used for economic planning and can bestow de jure upon consistent underpinning to regulate and modify the national accounts of any country of the globe in toto. Nonetheless, a comprehensive view to statistical basis of real sector of the economy, particularly specifying the concrete distinction between the various economic sectors and manufacturing goods, always bears a significant priority for compiling the required data and conducting the Input-Output analysis per se. In this contexts, the role of economic activities as well as identifying the share of different manufacturing commodities and services in the consumer expenditures of both private and public sectors, fixed capital formation, exports and changes in the inventories are prominent issues which can be contemplated in details viz-a-viz Input-Output tables, Ipso facto.

It is worth to note that concurrent to compiling the time series data for national accounts with the base year (2004-2005=100), the Central Bank of the Islamic Republic of Iran decided to construct the Input-Output tables for the 2004-2005, Sine qua non. Thus, in this paper an attempt is made to postulate prima facie the theoretical foundation of Input-Output tables and also propounds the distinguished characteristics of 2004-2005 tables in context to application of various axiomatic assumptions, causes of choosing the number of rows and columns for the supply and use tables, implementation of foremost proposals envisaged by SNA 1993 and SNA 2008 and other reliable sources and authorities and eventually estimating the original, back up and analytical tables, Sine qua non. Meanwhile, in these tables, we have compiled the necessary data for preparation of symmetric table, considering the hypothetical assumption for utilizing the required technology of miscellaneous undertakings evolved in the framework of 52 economic ventures, Sui generis.

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

JEL Classification Codes: C67, D57.

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A Strategy for Developing a Market for Nonperforming Loans in Italy

Translated By:
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Abstract
Addressing the buildup of nonperforming loans (NPLs) in Italy since the global financial crisis will remain a challenge for some time and be important for supporting a sustained, robust economic recovery. The buildup reflects both the prolonged recession as well as structural factors that have held back NPL write-offs by banks. The paper discusses the impediments to NPL resolution in Italy and a strategy for fostering a market for restructuring distressed assets that could support corporate and financial restructuring.

Keywords: NPLs, NPL Disposal, Distressed Assets, Problem Loans, Bad Debt, Write-Offs, Corporate Restructuring, Debt Restructuring, Bad Bank, AMCs, Asset Quality Review, Balance Sheet Assessment, Resolution.

JEL Classification Codes: E440, K22, G33, G38.

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Mortgage Market Development in Turkey and Future Prospects

Translated By:
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Abstract

It is a fact that housing sector contributes directly and significantly to overall production activity in a country. Furthermore, it produces a Keynesian multiplier effect as a home purchase usually results in further spending in other sectors of the economy which creates other rounds of income and purchases. In the last decade, Turkish economy has experienced an annual growth of 4.3% on average, despite the crisis in 2008 and 2009, the private construction activities has also an average increase of 4.3% stabilizing the share of the private construction sector in GDP at 6-7% level. The positive developments in Turkish economy and financial markets have enabled banking system to provide mortgage loans with longer maturities, however, the limited access capability to longer term funding sources has created, and is expected to create further, maturity mismatch and funding deficit for Turkish banks. In this framework, a secondary capital market is required for the banks to create longer term funding sources. The analysis made on the secondary mortgage market models of US and Europe reveals the fact that there should be a governing agency wholly or partly operated by public sector. In such a framework, in Turkey, it is proposed that Public Housing Administration (TOKI) can be furnished with required capabilities and legal entitlements in order to serve as the housing finance agency of Turkey.

Keywords: Mortgage Loan; Housing, Residential Mortgage Backed Security, Housing Finance Agency.

JEL Classification Codes: G23.

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