

On Formation of Standing Facilities Corridor in Iran's Banking System

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Abstract

From early 1990's gradually inflation targeting strategy became main approach of central banks to conduct monetary policy. Hence, generally their short - term operational target is overnight interbank interest rate. In this context, central banks using with conventional and unconventional monetary policy instruments attempting to conduct short - term interest rate in a corridor of policy rates and through interest rate channel in the economy affect expectations, aggregate demand, output, price level and inflation.

In Iran's economy with current approach to implementation of usury free banking system, formation of standing facilities corridor with some restrictions is possible. However, according to this article's proposals it seems we can form mentioned corridor with less restrictions. First, to bind banking facilities in transaction contracts; and second, to define bank's deposits in base of *Vadiah* or *Gharz* contracts with keeping of their purchasing power during depository period. Both of these proposals lead to bank's deposits with determine profit rate since the beginning of depository contract. In this condition, our proposal is formation an asymmetric standing facilities corridor between 8.8 to 23.6 percent around policy rate. Width of

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this corridor which implies monetary condition, in further steps could be change due to central bank inflation forecast, economic and financial stability and will be closer to the global standards.

Keywords: Inflation Targeting; Interest Rate Rule; Open Market Operation; Standing Facilities Corridor; Usury Free Banking System.

JEL Classification: G0, E0, E4, E5.

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