

MONETARY AND EXCHANGE RATE POLICIES IN A DUAL-EXCHANGE RATE ENVIRONMENT: THE CASE OF IRAN

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PURPOSE

- ▶ This paper develops a small open economy DSGE model
- ▶ There are two different exchange rate markets: official and spot market and the CBI uses the following tools in order to minimize the deviation of nominal official and spot exchange rates.
 - Supplying more fraction of foreign reserves in spot market
 - Changing the growth rate of nominal monetary base
 - Nominal devaluation of official exchange rate

FINDINGS

- Two scenarios of unified and dual-exchange rate systems have been considered.
- Increase in real oil revenue → Decrease in real exchange rate
- The results show that real variables are less volatile under unified exchange rate than dual-exchange rate system.
- Monetary and exchange rate policies are also more effective under the first scenario than the second.

COMMENTS & QUESTIONS

- ▶ Better definition of variables and the Data is needed. How the real oil revenue is calculated?
- ▶ Real exchange rate definition? Bilateral real exchange rate of rial against the U.S. dollar? Number of rials per the U.S. dollar, higher value means depreciation of rial
- ▶ Structural break in official exchange rate?
- ▶ Refer to exchange rate appreciation or depreciation instead/or in addition to saying exchange rate increases or decreases

QUESTIONS & COMMENTS

- ▶ Not clear how unified (flexible?) exchange rate is calculated. If the author has used spot exchange rate (free market exchange rate), how about the structural break?
- ▶ The role of Public's inflation expectation and expected currency appreciation or depreciation

EXCHANGE RATE IN IRAN

- ▶ Fixed Exchange Rate
- ▶ Overvalued nominal exchange rate along with high inflation at the presence of high flow of oil revenue
- ▶ Decrease in oil revenue → downward pressure on the exchange rate and creation of black market
- ▶ Devaluation of the currency because of decrease in foreign currency reserve and pressure from the market
- ▶ Dual or multiple exchange rates
- ▶ Dual exchange rate used as a subsidy

EXCHANGE RATE IN IRAN, QUESTION TO ASK

- ▶ Fixed, flexible or managed exchange rate given the presence of nominal and real internal and external shocks
- ▶ What the role of government and ICB should be in managing oil revenues and the exchange rate

THANK YOU



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