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Introduction

Monetary policymaking in Iran's economy over the past decades has been based on a monetary aggregate targeting approach such as monetary base growth rate and liquidity to achieve macroeconomic goals including controlling inflation and economic growth stability, which in practice has not been very successful due to the persistence of double-digit inflation rates. However, other countries' experiences in the past period have shown that achieving the goal of controlling inflation and price stability has been pursued mainly in the context of targeting money market rates. For this reason, the Central Bank of Iran, since the end of last year, with the announcement of a new approach in monetary policy, has begun to move from targeting monetary aggregates and moving towards targeting key interest rates in the monetary sector. This change is a transitional approach and will be possible over time with the provision of infrastructure and the design of its tools and mechanisms. In this context, changes in the interest rate corridor and the base interest rate in the interbank market will be able to influence other market rates and the rate of return curve in the economy to manage aggregate demand and achieve macroeconomic goals.

In this regard, one of the basic requirements for influencing rates of return in the economy is the existence of a range of short-term financial instruments and their affiliated financial institutions in the country. Given the centrality of the country's financial system, this discussion focuses on the need to define and design money market tools using the capacity of the banking network and their affiliated financial institutions in the country. In a situation where the private sector's liquidity has increased, and shifting it between asset markets, leads to speculative demand and severe price fluctuations in these markets, diversification into monetary instruments can lead to attractive offers to investors, guide liquidity and curb speculative demand.

Given the need to diversify money market instruments, this report examines the position of the money market deposit account and the money market mutual fund in the monetary sector of the economy. It presents its implications for managing interest rates and achieving macroeconomic goals.

Money Market Mutual Fund

Money Market Mutual Fund, also called the Money Market Fund, is a mutual fund that invests its resources in highly liquid short-term financial instruments. These instruments include cash, close-to-cash securities, and high-credit, short-term debt securities. In other words, money market funds are offered to investors for investment options with high liquidity and very low level of risk. The Money Market Fund may invest in a range of debt-based financial instruments as follows:

- Bank acceptance- certificate for short-term debt guaranteed by a commercial bank;
- Certificate of Deposit - Short-term bank savings certificate;
- Bonds - Short-term debt without corporate guarantees;
- Repurchase Agreements - Government short-term securities;
- Treasury bills - Short-term government bonds;

Since the return on these instruments depends on the market interest rate, the fund's overall return will also be affected by the market interest rate. As a result, its changes will be an excellent signal to guide monetary policy and, if necessary, review key interest rates.

Many investors, however, prefer to keep significant amounts of cash in such funds for the short term, as these funds do not generate much capital gain and the value of the bonds is also affected by interest rate fluctuations and monetary policy, primarily are not suitable for long-term investment purposes such as retirement plans. However, the holders of units of this fund can withdraw their money normally at any time, although according to the policies of each brokerage or investment company, there may be a limit on the number of withdrawals in certain periods; It should also be noted that money market funds are not covered by the Federal Deposit Insurance Company, while this type of insurance covers bank accounts and deposits. Table 1 lists the most important advantages and disadvantages of investing in a money market fund.

Table 1: Advantages and disadvantages of money market funds

Advantages	Disadvantages
Very low risk	**Lack of guarantees and insurance by the FDIC**
High Liquidity	**Lack of capital return**
Higher returns than bank accounts	**Sensitivity to interest rate fluctuations and monetary policy**

In the Iranian financial system, investment funds were first introduced in March 2007 and officially started operating under the Stock Exchange and Securities Organization supervision early next year. Contrary to the custom of money market funds, which focus only on fixed-income instruments rather than stocks, according to the rules of the Exchange and Securities Organization, investment funds on "fixed-income securities" can also invest part of their funds in capital market companies' stocks and that's why they mostly offer higher returns than current interest rates in the money market. One of the measures that can be considered for monetary policymakers in this regard is to design rules and mechanisms for the establishment of money market funds by banks and credit institutions to invest in bonds, treasury bills, and other secured debt securities so that they can provide greater returns for the holders of these funds than bank deposits. An essential point in this regard is the deepening of the instruments that can be invested in these funds, such as bank receipts, commercial papers, and certificates of deposit. Besides, it is possible to increase the attractiveness of these funds by adding other features of the money market fund, such as having a limited and specific cash card and issuing checks backed by these funds, and thus directing some of the community's liquidity to purchase government bonds and debt securities.

Money Market Deposit Account

A money market deposit account, also known as a money market account, is a special type of bank savings account or credit union and has some unique features that are not present in regular savings accounts. Most of these accounts have a higher interest rate than current savings accounts and mostly include benefits such as having a check and a cash card. However, money market accounts also have limitations that make them less flexible in transactions than current accounts or savings accounts. It can be said that a money market account is a combination of current and savings accounts, and when we have significant surplus money and tend to receive higher interest rates than savings accounts; but at the same time, we need a certain amount of access to funds, this tool can be used.

Money market accounts are not the only tools offered by banks and credit unions, and some other accounts and deposits can replace and compete with these accounts. However, the concept of money market deposit accounts (MMDA) can often be confused with money market mutual funds (MMMF). Because both options invest in short-term instruments such as certificates of deposit, government securities, and commercial securities, they can be good options for temporarily investing short-term funds of individuals, households, and companies, but there are differences. Table 2 also shows the most important differences between these instruments and other similar monetary instruments.

Table 2: Fundamental differences between major monetary instruments

	MMMF	CD	Demand Deposit	Savings Account	MMDA
Interest return	Variable	Fixed	Variable	Variable	Variable
FDIC guarantee	✗	✓	✓	✓	✓
Ability to issue check	Limited	✗	Unlimited	✗	Limited
Cash Card	✓	✗	✓	✗	✓
Number of transactions per month	Unlimited	0	Unlimited	6	6

Since in conventional banking, the money market deposit account is subject to higher interest income than savings accounts, to compare profitability in Islamic banking, the closest alternative to the conventional savings account will be the short-term investment account. Now, suppose, under certain circumstances, a person is willing to receive interest rates higher than the interest rate on short-term investment deposits but needs to withdraw a certain amount from this account each month. In that case, provided that the account balance is not less than a certain level, instead of choosing a long-term investment deposit for which early withdrawal is subject to a penalty, the customer's need can be met by defining a money market deposit account. As a result, by effectively managing these resources and directing them towards the debt market, it prevented the influx of stray liquidity towards the asset markets and the creation of price inflammation.

But the point of this debate is the degree to which banks adhere to banking rules and regulations. First of all, it is necessary to check whether the banks adhere to the maximum interest rates and early withdrawal penalties for each of the maturities of different investment deposits or not? This argument is important because if interest rates are close to each other and there is no significant difference, customers often try to choose deposits with less maturity that have more flexibility in cash flow management; in other words, practically, there will be no need for a money market deposit account.

The experience of the banking network in Iran, especially in the first half of the 2011s, has shown that there is little adherence to the maximum interest rates announced at different maturities, and in various ways, it has deviated from the approvals of the Monetary and Credit Council. In this regard, we can refer to the approximate equality of interest rates on various types of long-term investment deposits and their conversion into daily accounts during the years 2013-2015 in some Iranian banks. Another case is the existence of back-up accounts, which at one point the Central Bank authorized in the form of Article 24 of the new current account directive. This license made any current account deficit insurable from non-current accounts. Under such circumstances, individuals retain minimal funds in the current account, and most of the liquidity is transferred to investment deposits to benefit from interest rate earnings. Although the Central Bank canceled it earlier this year by observing its effects on the cost of equipping resources in the banking network, it can be said that this license had some of the same functions as a money market deposit account in conventional banking, with the exception that It did not have the limits of the number of monthly withdrawals.

Summary and policy recommendations

Managing monetary policy based on interest rates to achieve macro goals requires a dynamic and deep money market, in which one of the strategies is to diversify money market instruments. Therefore, in this report, an attempt was made to briefly present the function of money market mutual funds and money market deposit accounts and their implications for monetary policy progress in the Iranian economy.

The results show that in full compliance with the rules and regulations of the Monetary and Credit Council regarding interest rates on deposits, in the sense that in practice there is a significant difference between interest rates on deposits at different maturities and early withdrawals requires payment of fines and reduction of effective interest rates, having a money market deposit account can be a bit of an incentive for depositors to have interest rates close to the money market while having flexibility in withdrawing funds and conducting transactions. In such a structure, it is proposed to develop a money market account framework to reduce the fluidity and increase the durability of the banking network's short-term funds.

In addition to money market deposits, money market funds are another strategy that, while extracting rates of return from the money market and signaling to the monetary policymaker to guide the interest rate corridor, will play an effective role in attracting stray liquidity and short-term resources. In this regard, it is suggested that monetary policymakers provide the basis for establishing these funds by banks and credit institutions by designing rules and supervisory mechanisms. Of course, to diversify the instruments that can be invested in these funds, in addition to bonds and treasury bills, other common instruments such as certificates of deposit, bank acceptances, and commercial papers will gradually become operational as tradable instruments in the capital market. This proposed framework and mechanism will require banks to use funds from money market accounts and money market funds to purchase public sector government bonds and debt securities, which also play an essential role in underwriting bonds and financing the government's budget deficit.

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