



Monetary and Banking Research Institute
Central Bank of the Islamic Republic of Iran

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Policy Report

MBRI-PR-9925

www.mbri.ac.ir

December 2020



Monetary and Banking Research Institute
Central Bank of the Islamic Republic of Iran

Monetary and Banking Research Institute (MBRI) published the Policy Paper on
“Requirements for reforming the structure of micro and macro facilities in the Iranian banking system”

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Requirements for reforming the structure of micro and macro facilities in the Iranian banking system

Vahab Qelich¹

Introduction

The banking system is one of the most important pillars in any economic system. The United States has a large capital market and a small banking sector, while the EU has a large banking sector and a much smaller share of the capital market for financing. Iran's economic system is a banking system that relies less on the capital market (relative to the capacity of this market and the share of the banking network) in terms of financing industries and enterprises (although in recent years, the role and share of the capital market in Iran's financial market has become more prominent than before). It is obvious that until the share of Iran's capital market in this financial flow is not widespread, the bank facilities and credit system's state will have a large and direct effect on the macroeconomic variables, and its structural reform and strengthening will be a priority.

In a general view, the credit system and banking facilities structure can be discussed from at least three perspectives. The **first view** is of the intra-sectoral type and refers to the distribution of facility resources among individuals in each economic sector. In this view, it is crucial to prevent moral hazards and deviance (due to information asymmetry). The **second view** is of the inter-sectoral type. It deals with the division and distribution of the banking system's facilities between different economic sectors, including services, industry, trade and commerce, agriculture, housing, construction, etc. The propulsion of each of these economic sectors in the movement and prosperity of the production sector and the extent of the impact on the growth rate of macroeconomics and the state of business cycles determines each sector's share in having resources and bank facilities. The **third view** is of the cross-sectoral type. It refers to the division of credits and facilities of the banking system in two **micro and macro facilities**, regardless of each economic sector. In economic matters, the third view seems to have received less attention; Meanwhile, each of the categories of micro and macro banking facilities has significant differences with each other in terms of type and number of applicants, how and costs of validating applicants, quality and costs of monitoring resource consumption, determining interest rates, imposing operating costs to the bank, identifying specific instances of a single beneficiary, the probability of default and accumulation of non-

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current receivables, the manner of deferral of receivables, changes in the speed of money circulation in the economy, the impact on business flows and job creation, etc.

Given the significant differences in the effects of each of the two categories of micro and macro banking facilities on the economic system and even the social and political system, the lack of a clear strategy at the top of the monetary and banking system can obstruct the achievement of macro and pre-determined goals and challenge these systems. Therefore, it is necessary to pay more attention to the relative share of these two types of facilities in reforming and strengthening the structure of the bank facilities and credit system.

A review of statistical reports indicates that there is no clear separation and criteria and audit line between micro and macro facilities in terms of amount and size. These two categories of facilities are currently separated in terms of consumption differences, the length of the repayment period, and the number of collaterals required. In this case, micro-facilities are generally used to purchase goods and services such as housing, cars, education, medical treatment, marriage, dowry, and travel, etc., or to finance small and medium-sized industries and production units with a repayment period of generally less than ten years with lighter collateral. On the other hand, macro-facilities are generally used to finance large economic projects with a repayment period of more than ten years and with a heavy collateral requirement.

Since there is no clear line between micro and macro facilities in scientific and official definitions, it is natural for this situation to be repeated in the statistical database. Studies conducted in the country's statistical system also indicate that separate information on the ratio of micro and macro facilities in the country's banking network and the ratio of goods purchase facilities to the banking network's total facilities is not available. The database of the economic time series of the Central Bank also includes the facilities granted by banks and non-bank credit institutions by Islamic contracts and by different economic sectors, including domestic trade, services, agriculture, industry and mining, construction and housing, direct investment, and legal partnership, export, etc. Therefore, the separation of banking facilities into two categories of micro and macro facilities is not available to researchers.

It is important to note that considering the prominent role of the banking system in the financing processes of Iranian enterprises and economic institutions, reforming the credit system structure and micro and macro banking facilities can help policymakers in the Iranian economy advance their goals. In developed countries, a large proportion of bank deposits are generally secured by legal clients (corporations and large economic enterprises), and real and micro-legal clients play a smaller share in securing deposits. On the other hand, in the consumption sector, most of the banks' resources are provided to real customers or small and medium-sized enterprises (SMEs) in the form of micro-facilities. In this system, legal clients,



especially large and reputable economic enterprises, mobilize and provide the main resources they need through the capital market in the form of selling stocks or other securities. A review of experiences in different parts of the world, such as Europe, the United States, and Asia, also shows that the share of credit and micro-facilities in the global economic credit system has grown significantly in recent decades.

Forming a healthy credit cycle and reforming and strengthening the structure of the country's banking facilities in using the capacity of large economic enterprises to mobilize banking resources is defined as paying more attention to small customers and small and medium enterprises in allocating banking resources and directing large economic enterprises to financing through the capital market channel. Launching this cycle requires a number of considerations, the most important of which are the absorption capacity of leading economic sectors in micro and macro facilities, strengthening the capital market in financing macroeconomic plans, and reducing mandatory macro-facilities, and developing micro-credit payment instruments.

Given the need to establish a proper credit cycle and reform and strengthen the structure of the credit system and banking facilities, it is necessary to pay more attention to "microfinance payment instruments"; Because strengthening and diversifying the financial instrument box in this area makes the country's banking network more motivated and less costly to go through the process of credit cycle reform and follow the shift from large facilities to micro facilities with greater ease and speed. On this basis, the lack of design and use of appropriate, up-to-date, and efficient tools for micropayments increases the cost, complexity, and risk of granting these types of credits and facilities.

Today, micro-facilities are paid in tools and formats such as various types of cash and credit cards. One of the most important and practical tools is the credit card, which has certain features and benefits. A credit card allows the customer to purchase goods and services under a contract with the card issuer. According to the credit card rules, the card issuer grants the maximum credit facility and line of credit with specific payment terms without any negotiations to the cardholder. The card issuer also guarantees payment to the seller and recovery of debt from the cardholder or buyer in exchange for a fee of one to four percent of the total exchange value.

One of the most important features is the credit card renewal feature. In renewable credits, the credit is not limited to a specific use or period of time. With these tools, the maximum amount of facilities and credits is determined, and regular monthly payments are made based on the amount of credit received.

Also, the credit card from the two perspectives of "Central Bank" and "Banking Network" has suitable capabilities to reform the structure of the credit and facilities system (from the



perspective of micro and macro facilities). In the view of the central bank, strengthening the channel of monetary policy impacts and better liquidity management and in the view of the banking network, reducing the risk of debt default and the volume of overdue receivables, increasing bank revenues, and maintaining and developing the customer community are the most important issues. Besides, it seems that if the banking network abandons the playing field of credit and micro-facilities, shadow banking and unorganized money market will enter the field by doing financial and monetary affairs such as credit sale of stocks or banking activities of leasing companies, and they make it difficult for the central bank to supervise and manage the country's monetary system. Therefore, the central bank must take control through a long-term plan and enable better supervision by moving the banking network towards microcredit.

Due to these capabilities, it is necessary to better study the barriers to developing and spreading credit cards in the Iranian financial market and the solutions to solve them.

The most important policy proposals presented in this report are:

- Providing separate micro and macro facilities in the country's statistical database to attract more attention to the share of each in the monetary and banking policy system regarding the significant difference in the effects of each of the two categories of facilities on the country's economic system;
- Reviewing the credit cycle by changing the focus of the credit system and banking network facilities from macro facilities to micro facilities;
- Paying attention to the absorption capacity in the leading economic sectors that have the possibility of better utilization of micro-credits and facilities;
- Supporting credit cycle reform by deepening and strengthening the capital market in the provision of macroeconomic plans by solutions such as expanding financial instruments such as bonds, ordinary and preferred stocks, types of exchange and equity Sukuk, mutual funds, portfolio management, accrual sales of stocks, financial derivatives (such as option and futures contract), etc. and in all areas of tool design, regulatory and legal support, technical and hardware support, as well as education and culture building to change the traditional thinking and view of the existing credit cycle;
- Supporting the reform of the credit cycle by reducing mandatory macro-facilities by improving the level of government discipline (through channels of reforming the budget system, approving deterrent and disciplinary laws, and strengthening the oversight of the Parliament and other oversight bodies), increasing the independence and resistance of the Central Bank and the country's banking network in the face of the task of financing low-justification projects and deepening and strengthening the capital market;



- Supporting the credit cycle reform and the prosperity of the purchasing credit system by developing a micro-credit payment toolkit; For example, paying particular attention to credit cards for purchasing Iranian goods and services by comprehensively examining the obstacles to the development and spread of these cards in the Iranian financial market and discovering solutions to solve them;
- Implementing a research project to strengthen the Iranian financial system's consumer credit market with a focus on credit cards; (It should be noted that the Monetary and Banking Research Institute is ready to draft consumer credit regulations if approved by the Central Bank.)



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