THE COMPREHENSIVE MODEL FOR POLICYMAKING PROCESS OF MONETARY AND BANKING POLICIES IN IRAN ECONOMY

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Abstract: The economic policies of the countries consist of policymaking in different monetary and banking, financial and commercial fields with monetary policies having more importance in bank-oriented economies where the governments adjust the policies of other aspects based on money market. The present study was conducted given the economic challenges of Iran to present policymaking process model in this area. The study started based on a six-step policymaking process - issue identification, agenda setting, adoption, implementation, evaluation and policy change/termination - in this field, and after exploratory studies and having interviews with experts, the influential organizations and factors were identified and the analytical model was designed. The model was fitted using questionnaires data and after evaluation of validity and reliability by content validity ratio (CVR) and Cronbach's Alpha, respectively, statistical techniques such as Confirmatory Factor Analysis (CFA), SPSS, LISREL and Excel software were utilized. The validity and stability were determined via CVR and Cronbach's Alpha. The results confirmed the necessity of participation of, respectively, different organizations and factors (internal and external) on policymaking process. **Keywords**: Economy, Monetary and Banking Policies, Policymaking Process, Central Bank, Public Administration.

Introduction

Although the emergence of policymaking sciences is rooted in the works of Laswell and Lerner in the early 1950s, the institutionalization and expansion of this field in Western universities began fifteen to twenty years later; i.e., in the mid-sixties and especially in the late 1960s (Hadi Peikani, 2016). Policymaking has always been a challenging issue for mankind, with political science literature full of various policy definitions. Almost everyone with a piece of writing on policymaking has provided a definition of policy as well. Thus, depending on the area of specialization, this category must be defined and localized to reach the efficiency and effectiveness (Hosseinpouri, 2016). Monetary policies, and consequently, the money market as a very important pillar of financial markets, has been the main source of financing for the country's economy for many years, so that its share is over 90% compared to the capital and insurance markets. As the primary authority overseeing monetary market activities, Central Bank has the task of policymaking in this area of expansionary and contractionary monetary policies. One must note that monetary policies have a very significant and influential role in achieving the economic development of the country, and stakeholders and actors in this sector assume a key and influential role. In bank-based economies, the governments regulate the economic policies of other areas by focusing on these policies.

The goals of monetary policy are:

1. Creation and expansion of financial institutions;
2. Setting interest rates (profits);
3. Financing management (credit allocation);
4. Establishing an interaction between supply and demand for money;
5. Financing government.

The stated points clearly show specific challenges and expectations that can lead to certain volatilities and turbulences on the part of various stakeholders in the country's economy, especially in the area of monetary and fiscal policies. Thus, given the significance and sensitivity of the role and status of monetary and banking policies in economic growth and development of the country, applying and implementing a systematic and integrated policymaking model and focusing on the role of each stakeholder and actor in formulating policies is of particular significance. The money market and, consequently, the economy of the country have gone through many challenges in the last few days, months and years, such as the exponential growth of liquidity, the uncontrolled growth of inflation, the achievement of minimal results in the implementation of granting loans to emergency and employment agencies, failure to implement purchase cards of domestic goods, currency market shocks, financial institutions` bankruptcy, interest and loan rates` fluctuations, high cash flow from Maskan-e Mehr housing credit area, and weakness in organizing unorganized financial markets that have caused widespread dissatisfaction of society and economic activists.

Given the above mentioned problems, the study sought to examine and present a comprehensive model regarding the precise determination of the status of each actor and stakeholder and the role of effective factors on monetary and banking policy process in Iranian economy based on six stages: issue identification, agenda setting, adoption, implementation, evaluation and policy change/termination.
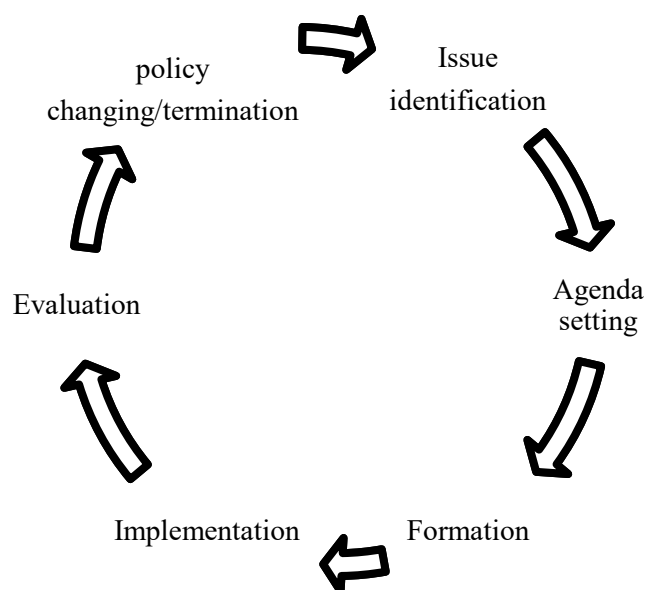

Chart 1: Policymaking process cycle (Gholipour, 2014).

Accordingly, the objectives of the study were:

- Providing a suitable model for the monetary and banking policymaking process in the Iranian economy;

- Identifying the organizations and executive bodies that influence the monetary and banking policymaking process in the Iranian economy;

- Identifying the factors (internal and external) affecting the monetary and banking policymaking process in the Iranian economy.

Economic policies and financial markets

Macroeconomic policies are divided into two indirect (demand management policies) including financial and monetary policies and direct (supply management policies) including business and income policies (Hashemi Dizaj, 2012). Perhaps from the very time that money was considered only as an intermediary for transactions, the need for what is today called monetary policy was felt. The most important instruments offered in the money market in Iran are bank deposits, whereas the most important instruments in the capital market are stocks of companies listed in stock exchange and securities. Thus, the major weaknesses of the Iranian financial system are:

- The lack of competitiveness of Iranian financial institutions and markets and the insensitivity to evolving customer needs;
- Non-competitiveness and lack of public access to credit in Iran
- Lack of speed and accuracy in equipping and allocating resources, high transaction costs;
- Inadequate distribution and risk management;
- Lack of efficient pricing;
- Inadequate laws and regulations tailored to current developments (ibid).

Bank-based and market-based financial systems

Given the significant role of financial institutions in bank-based and market-based financial systems, it should be noted that in the bank-based financial system, investment or credit is done indirectly without the exchange of securities. In this method, savers save money on financial intermediaries.

Central Bank of the Islamic Republic of Iran

Central Bank of the Islamic Republic of Iran was founded by the monetary and banking law of Iran on May 27, 1960, with a capital of 3.6 billion riyals and 388 staff. According to the second chapter of the law, all matters concerning the printing of banknotes and coins and their support have been entrusted to the Central Bank. The following duties have been assigned to the mentioned authority under the stated law.

-Preserving the national and foreign value of the national currency;
-Issuing banknotes and coins used in the country;
-Regulation of the rules on foreign exchange and riyal transactions;
-Monitoring the issuance and entry of foreign exchange and currency of the country;
-Monitoring banks and credit institutions;
-Keeping accounts of all ministries and government agencies and affiliates;
-The main mission of Central Bank of the Islamic Republic of Iran is to implement monetary and credit policies, create favorable conditions for economic development and supporting the government (Mehran, 2015).

Central Bank is in a structure of relationships with the government, banking network and economic activists currently facing major weaknesses. Reforming this structure in the following areas is an undeniable necessity of the effectiveness of central bank policies (Monetary and Banking Research Center, 2014).

-The structure of the Central Bank's relations with the government;
-Strengthening the central bank's independence from the legal point of view;
-The structure of the Central Bank's relationships with stakeholders;
-Limiting the scope of monetary policy obligations.

Central Bank in World

The need for an institution to barter, trade, and borrowing of the government are of the reasons for the emergence of European central banks in the 17th and 18th centuries. The

central bank in most countries is the highest policymaker in monetary and banking issues, and it performs its functions with enough independence. The history of the establishment of the first central bank dates to 1668 in Sweden. The bank is known as "Sverige's Riksbank", which is the first publisher of banknotes in Europe, as well (Mishkin, 2007).

Central Bank of America

Central Bank of America began operating in 1914 under the Federal Reserve Act of 1913. The establishment of the bank was to establish federal banks in the United States empower them and perform missions like overseeing the banking network and collecting and settling bank claims. The responsibility of overseeing the activities of the banking network and parent companies, as well as overseeing the activities of foreign banks in the country is assumed by the Federal Reserve Board of Governors, the Federal Open Market Committee, 12 regional banks, 25 affiliated banks, and the Advisory Council (Jalali Naeeni, 2015). The Federal Reserve currently has four main pillars - the Board of Governors, the Council of Governors' Councils and the Advisory Committees for Regional Federal Reserve Banks, Regional Federal Reserve Banks, and the Federal Free Trade Committee (Shirkavand, 2015).

European Central Bank (ECB)

What is today known as the European Union (EU) began in 1952 as European Coal and Steel Community. Its founding members were Belgium, Germany, France, Italy, Luxembourg and the Netherlands. These six countries established the European Economic Community and the European Atomic Energy Community in 1958. In 1976, the three communities merged. During this period and several sessions, other European countries joined the European Communities or the Treaty of Maastricht (1993) and the European Union (Shirkavand, 2015).

Bank of England (BoE)

BoE was registered in 1694 by royal decree and became a legal entity. Then, in 1946, by national monetary and banking law, it was declared as national and allowed to divest part of the banks' shares to shareholders as a government banker. The Bank of England's decision-making councils include the Board of Governors and the Monetary Policy Committee. The council consists of the head of the bank, two deputies of the bank and 16 directors, all of whom are appointed by the queen (Jalali Naeeni, 2015).

Central Bank of Turkey

Until 1856, in the Ottoman Empire, treasury operations, liquidity regulation for credit and commercial transactions in gold and foreign currencies were governed to varying degrees by the Treasury. However, after the establishment of the Republic of Turkey in 1923, the Central Bank of the Republic of Turkey replaced the Ottoman Bank. Its main tasks were determining resale rates, regulating the money market, conducting treasury operations, and cooperation with the government to maintain the value of the currency (Ibid).

Upstream documents and monetary policy guidance

Governments turn to expansionist policies to respond to social pressures to increase employment and resource allocation. Overall, under socio-political pressure, the governments can affect monetary authority in two ways. First, the authorities' willingness to raise employment and production growth rates, without providing the right context, makes the targeted output much higher than its efficiency. Secondly, due to the preservation of popularity and social status, the governments are often prone to expanding aggregate demand and distributing money resources in society (Monetary and Banking Research Institute, 2014).

The effect of socio-political pressures on social planning

The pressure of commercial-financial institutions, pressure groups and various social classes to gain access to credit has led the central bank to adopt appropriation policy. If the monetary authority be sensitive to social demands and political pressures, the central bank would behave differently than what is standard in monetary policy (Jalali Naeeni, 2015).

Monetary policy and the external environment

Monetary policy is influenced by the external environment, like monetary and financial institutions, developments in the monetary and financial markets, structural changes in the economy, economic cycles, and the political environment. For instance, changes in financial markets and technologies have led to the instability of liquidity functions in America and some European countries (Ibid).

Central Bank independence

Central Bank independence can pursue monetary goals and to use arbitrary tools without government or other stakeholder's intervention (Monetary and Banking Research Institute, 2015). The theoretical rationale behind maintaining Central Bank independence stems from the belief that Central Bank independence can be effective in gaining credit for it and thus establishing and maintaining public confidence in the performance of monetary policy and related goals, which are essential to success and the effectiveness of an effective monetary policy. However, such independence must be studied in the light of the central bank's goals, motives, and their possible interference with the motives of the political leaders (Swin Bern and Costello Branco, 1993). Although the current analyses on Central Bank independence relies on a more solid foundation than the past, it is difficult to say firmly that the need to maintain Central Bank independence is universally accepted. Friedman mentioned, "Terminating the independence of the US Federal Reserve System and turning it into a Treasury Department will make a significant improvement over the status quo" (Ibid).

Developing hypotheses and the conceptual model

In this section, it was tried to present the policy literature and studies in the area of monetary and banking policy to establish the content and convergence of the present study with previous studies. Policymaking is a decision made about a problem. However, it should be noted that policy is not just a decision-making process, rather it is a process that includes all the actions starting from the time of the feeling of difficulty and resulting in the evaluation of the results of the policy implementation (Alvani & Sharifzadeh, 2007). The policy process steps are as follows (Daneshfard, 2014).

Step One: Issue identification
Step Two: Agenda setting
Step Three: Formation and adoption
Step Four: Policy implementation
Step Five: Policy Evaluation
Step Six: Policy modification, change or termination

We will deal with some policy models and their components.

Agdan (1971) has used the term power curtain to describe the increase in actors regarding policy areas. Using the idea of the iron triangle, he proposed a model of power clusters (Ibid).
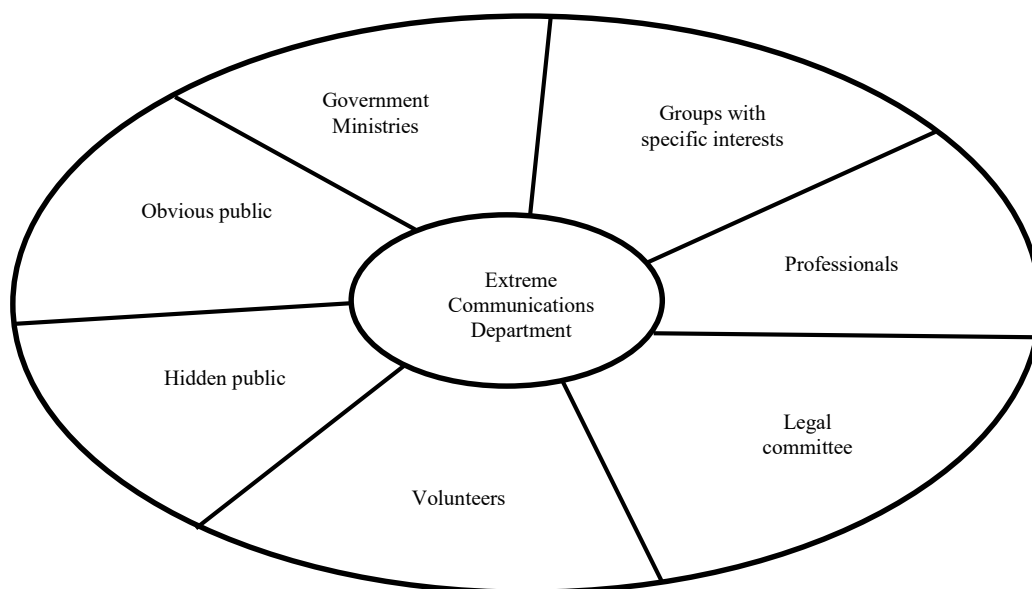
Chart 2: Power clusters Policymaking model

The model emphasizes the role of the executive branch as the main policy maker (Alvani, 2007).
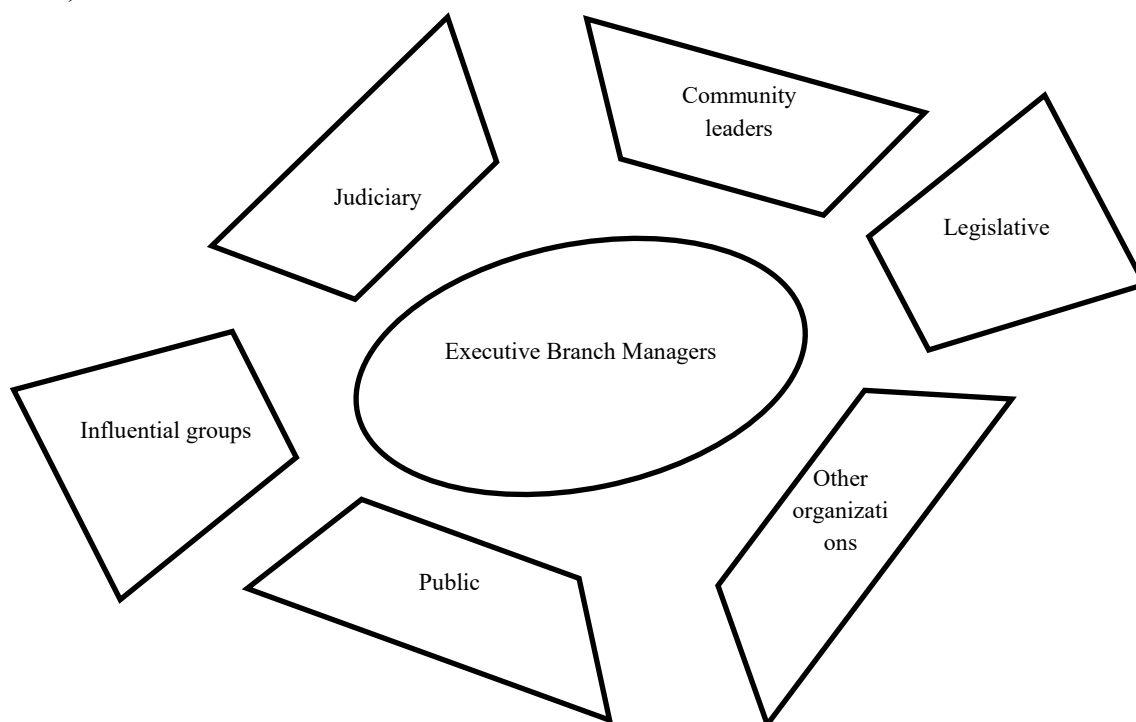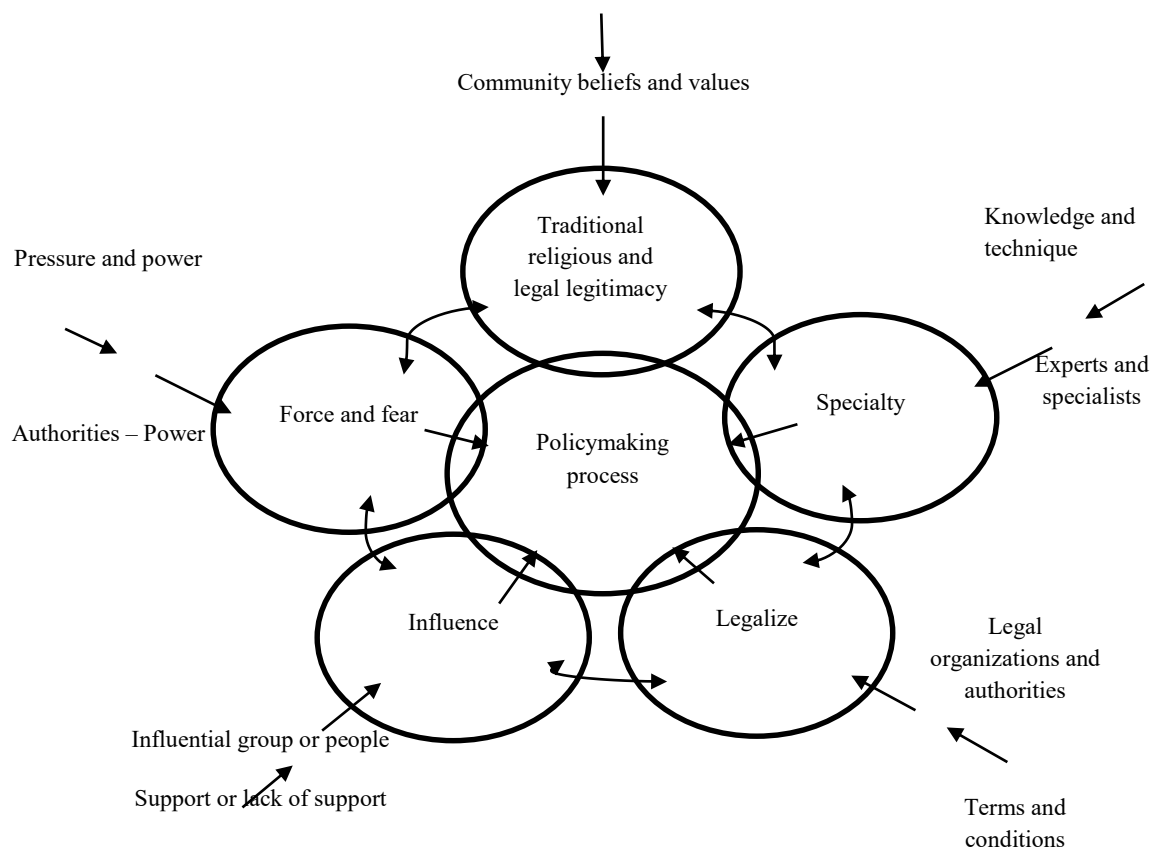

Chart 3: Wheels Policymaking model

In the multidimensional model, the policymaking process is displayed as a set of factors. (Ibid).

Community beliefs and values

Traditional religious and legal legitimacy

Pressure and power

Knowledge and technique

Authorities – Power

Force and fear

Policymaking process

Specialty

Experts and specialists

Influence

Legalize

Legal organizations and authorities

Influential group or people

Support or lack of support

Terms and conditions

Graph 4: Multidimensional Policymaking model

According to the past studies and various models of the organizations and the factors affecting policymaking process, the following tables are presented.

Table 3: Factors identified based on theoretical models

Model name	Institutions / Affective factors	Reference (book) cited
Power clusters	1. Government Departments 2. Professionals 3. Special interest groups 4. Volunteers 5. Legal committees 6. Obvious public 7. Hidden public	(Daneshfard,2014)
Wheels	1. The legislature 2. The judiciary 3. Executive power 4. Popular people 5. Community leaders 6. Influential groups and others	(Alvani, 2007).
Multidimensional	1. Laws and regulations (legal entities and authorities) 2. Knowledge and technology (Experts)	(Ibid).

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Model name	Institutions / Affective factors	Reference (book) cited
	3. Groups, influential individuals	
	4. Community beliefs and values (religious and traditional authorities)	
	5. Pressure and power (power and power holders)	

Besides the theoretical models, the studies in other areas related to policy modeling were examined whose summary of the effective factors regarding these studies are described in the table below.

Table 4: Factors identified based on past studies

Author/s	Identified factors
Faghihi, Memarzadeh (2014)	1. Infrastructure 2. Polities 3. Strategies
Bagheri, et al., (2013)	1. The status quo (vision, goals and picturing the needs) 2. Input 3. Output policymaking process 4. Desirable status (realization of goals and sense of satisfaction)
Alvani, et al., (2014).	1. Environmental factors 2. Supply (virtual space producers) 3. Demand (users of cyberspace) 4. Organizational bodies (international, public and private) 5. Non-governmental organizations (NGOs) 6. Core (virtual infrastructure, virtual content) 7. Values (Divine Providence and Prophets and Imams)
Nazarian, et al., (2010)	1. Central Bank External Assets 2. Exchange Rate 3. Gross domestic product 4. Consumer price index
Gholipour, et al., (2015)	1. Approach 2. Translation 3. Biological 4. Technical 5. Detachable 6. Formal
Zargham et al., (2014).	1. Behavioral characteristics and personality of the presenters 2. Administrative system and bureaucracy 3. Targeting and formulating policy correctly 4. Presenters' exercise and skills 5. Target groups and users 6. Legal support references and their protection 7. Appropriate tools and resources
Ashna, Barzui, (2011)	1. Infrastructure factors 2. Content-related factors

Author/s	Identified factors
Mazini, (2011)	1. Strategic planning 2. Long-term planning 3. Road map
Danaeifard, et al., (2015).	1. Microenvironment 2. macro environment 3. Policy termination 4. Policymaking challenges

Table 5: Other factors identified based on theoretical books

Author(s)	Factor (s) identified
(Jalali Naeeni,2015).	Financial-business institutions
(Ibid).	The external environment
(Ibid). (Khansari, et al.,2014).	Internal environment
(Mousavian, Masimi, 2014).	Usury-free banking
(Khansari, et al., 2014).	Upstream documents
(Sharkvand, 2015). (Jalali Naeeni,2015).	International and regional financial institutions
(Mehran, 2015).	Monetary-banking Law
(Mousavian, Masimi, 2014).	Seminary
(Khansari, et al.,2014).	Parliament
(Mehran, 2015). (Khansari, et al.,2014).	Money and Credit Council
(Daneshfard, 2014).	Governmental and non-state actors

As regarding the purpose, the study was exploratory and a survey strategy was used to collect and analyze the data, it lacked hypothesis. However, using distinct questions, the organizations and internal and external factors identified in the analytical model designed based on the past studies and theoretical background and interviews with experts (as explained below) were separately reviewed and prioritized through the policy process steps.

Research methods

Philosophy, worldview, and paradigm of the study were interpretive and hermeneutic given the use of subjective inferences by individuals, but it was also affected by the Positivism paradigm. The research orientation was applied-developmental in policymaking field and applied-fundamental in the monetary market area. Its approach was deductive-inductive. However, the research method of the thesis was combined (quantitative and qualitative methods) and the strategy of the study was survey using library studies including books and papers related to the subject. Regarding the purpose, it was descriptive and exploratory using interview tools (semi-structured or regular) and questionnaires for data collection.
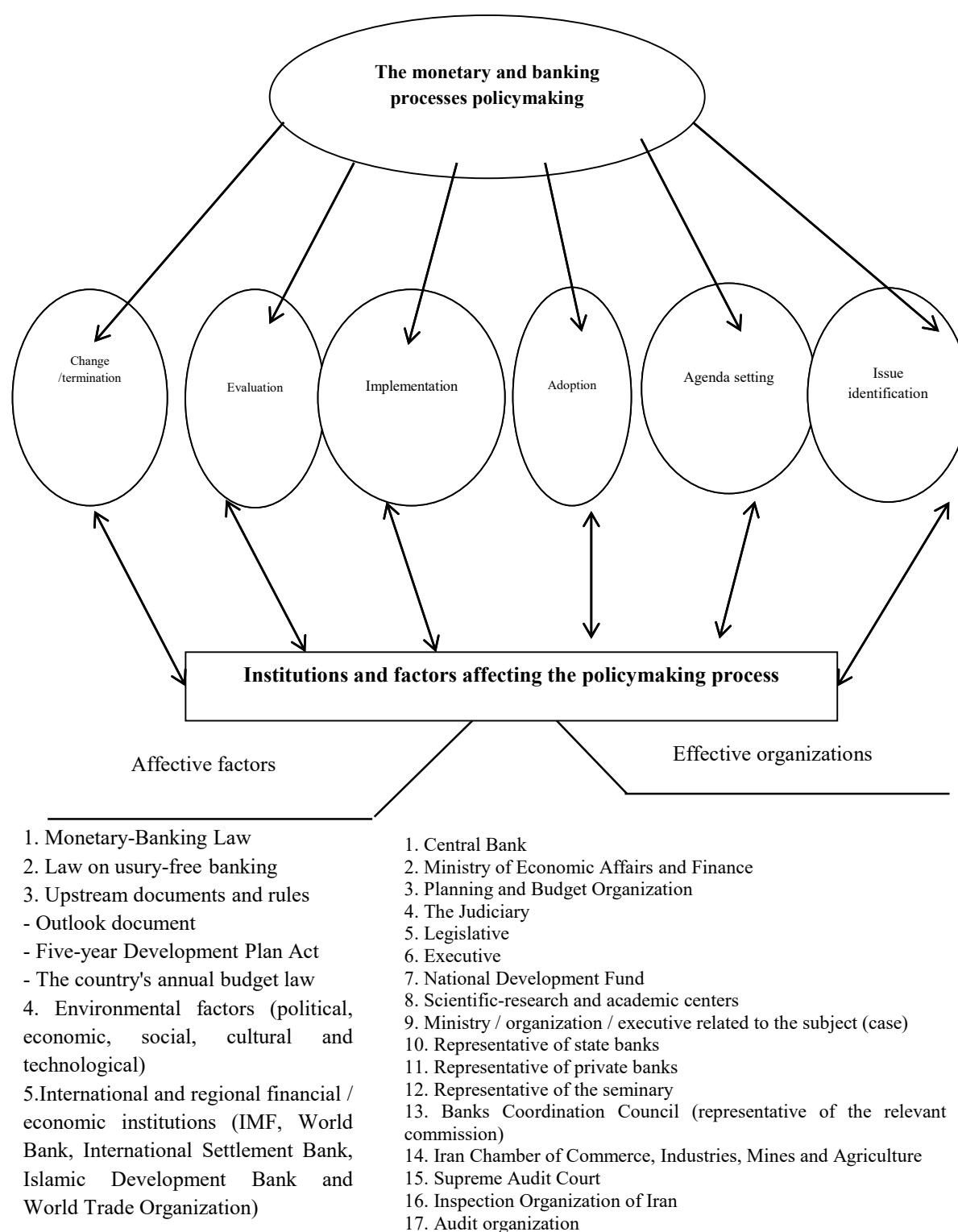
Chart 5: Analytical research model

The monetary and banking processes policymaking

Change /termination — Evaluation — Implementation — Adoption — Agenda setting — Issue identification

Institutions and factors affecting the policymaking process

Affective factors

1. Monetary-Banking Law
2. Law on usury-free banking
3. Upstream documents and rules
- Outlook document
- Five-year Development Plan Act
- The country's annual budget law
4. Environmental factors (political, economic, social, cultural and technological)
5. International and regional financial / economic institutions (IMF, World Bank, International Settlement Bank, Islamic Development Bank and World Trade Organization)

Effective organizations

1. Central Bank
2. Ministry of Economic Affairs and Finance
3. Planning and Budget Organization
4. The Judiciary
5. Legislative
6. Executive
7. National Development Fund
8. Scientific-research and academic centers
9. Ministry / organization / executive related to the subject (case)
10. Representative of state banks
11. Representative of private banks
12. Representative of the seminary
13. Banks Coordination Council (representative of the relevant commission)
14. Iran Chamber of Commerce, Industries, Mines and Agriculture
15. Supreme Audit Court
16. Inspection Organization of Iran
17. Audit organization

Results

To design the analytical model of the study, 14 active experts were recruited through semi-structured interviews using snowball method and interview adequacy approach.

Table 6: structur of questionnaires

Description	Issue identification	Agenda setting	Adoption	Implementation	Evaluation	Change /termination	Effective Factors	Priority steps	**Total**
Organization / Agent	8	8	12	7	7	11	13	6	62
Number of items	18	17	25	14	16	22	13	12	137

Given the wide range of stakeholders and organizations and executive bodies associated with the study, the size of the community and its variance from the formula against sample size were identified (Momeni and fa'al Ghayoumi, 2017).

$$n = \left(\frac{Z_{\frac{\alpha}{2}}*\sigma}{\varepsilon}\right)^2 \qquad \sigma = \frac{\max(xi)-\min(xi)}{6} \qquad Z^{\alpha}/_2 = 1.96 \qquad \varepsilon = 0.1 \qquad \sigma = 0.667 \qquad n = 170$$

Validity of the questionnaires and items designed was evaluated based on 25 experts' opinions and CVR for designed items (137 items). The results based on standard table of acceptable values and due to the number of experts was 0.37.

Table 7: Acceptable values of content validity based on rater experts

Number of experts	CVR value	Number of experts	CVR value	Number of experts	CVR value
5	0.99	11	0.59	25	0.37
6	0.99	12	0.56	30	0.33
7	0.99	13	0.54	35	0.31
8	0.75	14	0.51	40	0.29
9	0.78	15	0.49		
10	0.62	20	0.42		

They were distributed among 50 experts in the field to evaluate the reliability of the questionnaires. Using the 41 returned questionnaires, the reliability was determined using Cronbach's alpha coefficients.

Table 8: Cronbach's alpha coefficient for the validity of each questionnaire

Questionnaire Stage /factors / Priority	Issue identification	Agenda setting	Adoption	Implementation	Evaluation	Change/termination	Internal/external	Priority steps
Cronbach's alpha coefficient	0.823	0.759	0.819	0.819	0.863	0.736	0.748	0.795

The following is the summary of demographic information.

Table 9: Summary information on demographic indexes

	Indices	Frequency	Frequency percent
Gender	Men	154	57.5
	Women	114	42.5
Occupation	Executive	130	48.5
	Regulatory	39	14.6
	Educational	49	18.3
	Others	50	18.6
Age	Up to 30 years	5	1.9
	31 years to 40 years	147	54.9
	41 years to 50 years	99	36.9
	Over 50 years	14	5.2
Work history	Up to 10 years	36	13.4
	11 to 20 years	160	59.7
	21 to 30 years	64	23.8
	More than 31 years	6	2.2
Educational degree	MA	198	73.9
	PD student	14	5.2
	PhD and above	40	14.9
	Seminary	15	5.6
Major	Management	122	45.5
	Economy	55	20.5
	Rights	17	6.4
	Financial (accounting, risk, and so on)	31	11.6
	Others	43	16

Table 10: Output of Kolmogorov-Smirnov test as separated to steps and factors

Variables	Issue identification	Agenda setting	Adoption	Implementation	Evaluation	Change/termination	Factors
Sig.	0.117	0.104	0.138	0.084	0.096	0.150	0.072

Table 11: Friedman test statistics as separated for steps and factors affecting the monetary and banking policymaking process

Factors / Agent \ Index	Issue identification	agenda setting	Adoption	implementation	Evaluation	Change/termination	Internal/external	Priority steps
Number of samples	268	268	268	268	267	267	268	267
Test statistics	190.29	461.55	778.65	360.49	185.30	778.65	137.78	225.88
Degrees of freedom	7	7	11	6	6	10	1	5
Significance level	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000

In economic and social studies, given the nature of the work and the scale of the variables, there was a large volume of data that needed to be further refined to more accurately analyze the data and reach more scientific results. Thus, confirmatory factor analysis examined whether the pre-empirical constrained data fitted the estimation of identical conditions. Six indices were used: chi-square, chi-square to the degree of freedom, RMSEA, NFI, GFI and AGFI to evaluate the fitness of structural equation models. The software output of the stated indices was as follows.

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Table 12: Fitness indices of the processes and factors affecting monetary and banking policymaking process

Factors / Agent Index	Issue identification	Agenda setting	Adoption	Implementation	Evaluation	Policy change/ termination	Factors affecting the process	Final analysis
$\chi 2$	252.89	231	552.74	117.11	225.50	426.30	155.95	Acceptable
χ^2/df	2.4	2.6	2.7	2.2	2.9	2.8	2.7	Acceptable
RMSEA	0.071	0.077	0.078	0.065	0.08	0.08	0.07	Acceptable
NFI	0.94	0.92	0.90	0.96*	0.93	0.93	0.92	Acceptable
GFI	0.90	0.91	0.86	0.94	0.90	0.87q	0.92	Acceptable
NNFI	0.94	0.92	0.91	0.96	0.93	0.93	0.93	Acceptable

Discussion

Scientific studies lead to two types of cognitions for the researcher and the scientific community, which are modern cognitions related to the research subject and modern theoretical cognitions (Kivi and Compnhood, 2014). Concerning modern cognitions, the present study did not have any similar internal and external similarities. The interdisciplinary nature and the complexities related to its cognitive aspects and the necessity of simultaneous communication with experts, scholars and executives in the economic and managerial fields and gaining deep understanding of the nature of monetary and banking policymaking were not examined. The results of the study were in line with the results of theoretical studies like the political policymaking models (Daneshfard, 2014), power cluster model (Daneshfard, 2014), contingency model (Alvani, 2007), rotational model (Alvani, 2007), multidimensional model (Alvani, 2007), and the study on providing a framework for policymaking system and scope, decision-making and practice in cyberspace (Alvani et al., 2014). The results were also in line with behavioral analysis of monetary policy model in Iranian economy (Nazarian et al., 2010), optimal monetary policy roadmap in Iran (Mozayani, 2011), ICT policymaking in Iran (2002-2007), presenting a combined model for policymaking at the university (Bagheri et al., 2013), identifying the electronic health development policy priorities in Iran (Faghihi & Memarzadeh Tehran, 2014), and the study on understanding public policy termination in Iran; A study Based on Grounded Theory (Danaifard et al. 2015). They were also consistent with the studies on the Factors Affecting the Implementation of Policies in tourism in Islamic Republic of Iran (Ashna, 2011) as well as the factors stated in the books on the status of banking in Iran and the world (Khansari et al., 2014), monetary policy theoretical basis and performance evaluation in Iran (Jalali Naeeni, 2015), Islamic supervision over banks and Islamic financial institutions, the model for the banking system of Iran based on the experts' view (Mousavian & Meisami, 2014), Central Bank of Iran objectives and policies from 1960 to 1978 (Mehran, 2015).

Summary

The results of the study concerning the role confirmation, respectively, 8, 8, 12, 7, 7, 11 of the executive organization in six stages of policymaking - issue identification, agenda setting, adoption, implementation, evaluation and policy change/termination - and 13 internal (7 factors) and external (6 factors) factors. It should be noted that as the main custodian of the country's monetary and banking policies, which has always been at the forefront of criticism after any fluctuations and challenges in this area, the Central Bank of the Islamic Republic of Iran should depart from the traditional view ruling monetary and banking policymaking, currently being implemented by the High Council of Monetary and Credit, and view the issue from the scientific point of view of the policymaking process and direct the economic community and the country's political and governance system towards reorganizing this area with a deeper approach to the six stages of the policymaking process by considering internal and external factors influential in monetary and banking policy. Moreover, it is important to engage and make greater use of each of them at different stages of the monetary and banking policymaking process given the priority of organizations and identified factors. Given the specialized and professional nature of the monetary and banking policymaking, it is essential to design the appropriate organizational structure to employ human resources and advanced policymaking techniques and tools.

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