

Low Statutory Power of the Central Bank of Islamic Republic of Iran

Khoshnoud, Zahra*
and Bultez, Pierre A**

Received: 12/17/2014 Approved: 5/24/2015

Abstract

Once the responsibilities of central bank increases, developing good governance for achieving its different aims to satisfy the required statutory power becomes more complicated. In the case of the central bank of Islamic republic of Iran - as monetary policymaker and supervisor-this issue is valid as well. Considering the necessity of independency, accountability, and transparency for developing good governance to achieve required statutory power, current laws on the central bank and banking, and the bills on these laws have been evaluated. Since these bills have not been developed based on the importance of the main pillars of central bank governance regarding its core functions and the current laws do not support these pillars as well, we cannot expect that the central bank attains required statutory power. Hence, these bills should be modified to consider these pillars and enhance the level of central bank's governance and its statutory power.

Keywords: *Central Bank governance, Independence, Accountability, Transparency, Statutory Power, Monetary policymaking, Regulation, Supervision.*

JEL Classification: *E52, E58.*

* Faculty Member, Banking Department, Monetary & Banking Research Institute.
E-mail: rkhoshnoud@yahoo.com

** Senior Advisor on Economic & Financial Program for the Central Bank of Islamic Republic of Iran.

1. Introduction¹

Different governmental organizations are developed based on different goals and functions which should provide them with powers to not only perform their functions but also satisfy their planned vision and missions. As one of the most important governmental organizations in each country Central banks have been established and governed according to the central bank law that tries to provide these guardians with a kind of mechanism which not only facilitates but also ascertains the possibility of achieving their goals and functions. That's why in the case of significant changes in the financial situation, some changes take place in the laws governing central banks' activities.

This matter is also valid in Iran. After the revolution, due to the importance of big changes desired to take place in the banking system, the law on the central bank titled "The Monetary and Banking Law of Iran" was edited and the new version was published on March 8th 1980. Even in the case of banking system, a law based on interest free banking was passed in the title of "The Law for Usury (Interest) Free Banking" on Sep 1st 1983.

During the last decade, two bills on these laws have also been developed by the central bank of Islamic Republic of Iran to fill some of the existing gaps in the field of banking laws². Hence, the articles of the bills on these laws have been developed in a way to enhance the regulatory framework of the central bank and the banking sector. But considering the fact that the central bank of Islamic republic of Iran is not well-equipped with the

1. This article has been accomplished as a part of the project titled "Vision for the Financial Services Industry of Iran" in the Monetary & Banking Research Institute, under the supervision of Prof. Pierre A. Bultez. I sincerely acknowledge his valuable ideas and contribution to the improvement of this article.

2. It should be mentioned that these bills have not been passed yet.

required level of statutory power in the banking system¹, the importance of evaluating the bills on these laws is crucial.

Taking into account the central bank of Islamic Republic of Iran as both monetary policymaker and the supervisor of the banking sector, the landscape of its functions in these two fields is analyzed in this article according to the new bills on the aforementioned laws. First, the monetary policymaking function of the central bank is evaluated considering the bill on the “The Central Bank of Islamic Republic of Iran Law” as the target point. Regarding this function, its landscape based on the necessity of independence, accountability, and transparency of a monetary policymaker is assessed. It should be mentioned that in this article, the main three pillars of implementing good governance – i.e. independence, accountability, and transparency- have been considered as elements that can equip the central bank with the statutory power of exerting its functions and achieving its goals.

Accordingly, as the second step, the supervisory function of the central bank considering the bill on the aforementioned law besides the bill on “The Banking Law” is analyzed. Regarding this function, those three above pillars of good central bank governance are taken into account.

The results confirm the importance of revising the bills on the new laws in order to remove existing shortcomings regarding complete implementation of three key elements of the central bank governance - i.e. *independence, accountability* and *transparency* - in order to enhance the

1. For example, during the period of the last government, the central bank was forced to decrease the interest rate via imperative policy by government. It has also been forced to finance “Maskan e Mehr Building Projects”. These examples depict one important concept: “The central bank does not enjoy the required level of statutory power in monetary policymaking”. Considering the bunch of bylaws, circulars and guidelines passed by the central bank but not exerted in the banking sector, we can reach the conclusion that this authority suffers from low level of statutory power in supervising the banking sector.

statutory power of the Central Bank of Islamic Republic of Iran in implementing its functions as monetary policymaker and supervisory authority.

2. Methodology

For analyzing the statutory power of a central bank, its main duties should be taken into account first. After that, regarding each function, the defined goals for the central bank should be considered. At this stage, it should be acknowledged that a central bank could be recognized as an authority with high level of statutory power when it is capable of performing its statutory functions and also reach its statutory goals based on its functions in the banking system.

Hence, as the final step, the underpinning elements of the central bank governance should be analyzed. A central bank could achieve its functions and goals when it is capable of exerting them in a well-defined framework of governance. Therefore, implementing good governance based on required metrics in the central bank has high priority in achieving sharp level of statutory power.

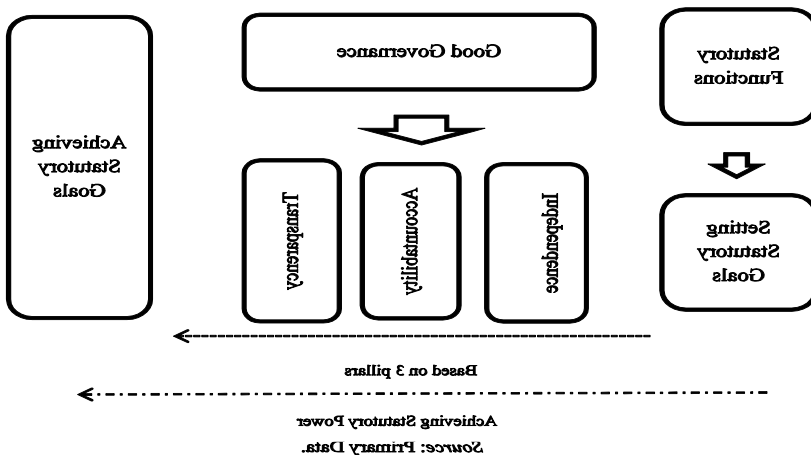
This has also been mentioned in the literature and is widely used in practice. For example, in demonstrating corporate governance at Deutsche BundesBank as a practical case, Stute (2012), has indicated some general definitions of corporate governance. As the first definition he has mentioned that “Generally, *good corporate governance* for an organization can be defined as the establishment of institutional arrangements that ensure the organization pursues its *statutory goal*”. Also Lybek (2004) in a paper analyzing central banks governance has pointed out that “*Good central bank governance* means that *the objectives and tasks delegated* to an institution are performed effectively and efficiently, thus avoiding misuse of resources, which is crucial for establishing a good track record.”¹

1. Lybek (2004).

Consequently, the corporate governance as a comprehensive meaning and the central bank governance as a narrow concept are designed to implement the statutory goals of central banks, as same as other governmental entities that have lots of stakeholders. If the policy arrangements of the central bank are developed in a way that ascertains achieving its goal, it is said that it has been equipped with required statutory power.

For example, in the case of a central bank with the most common aim of monetary stability that follows inflation targeting, it could be nominated as a central bank with high level of statutory power in exerting monetary policy function if it were able to achieve the inflation target by monetary instruments. This fact is valid as well in the case of other common functions and goals considered for central banks such as exchange rate stability, financial system stability, and banking system supervision.

Chart 1: The Underlying Elements for Achieving Statutory Power in Central Banks



Therefore, developing and implementing suitable governance in central banks - as a mechanism developed mainly to achieve the central bank goals- endow high level of importance. Even though central banks have different goals and different main functions, some common elements have usually been taken into account to develop the structure of central bank governance. The first important element is independency. This authority should be independent mainly from the government in setting policy for achieving its goals or even using different policy instruments for this end like, reserve requirement, overnight Repo rate, and setting limits on interest rates. Despite the fact that the independence of a governmental body is delegated as a power that it should consider itself responsible for it, some other important elements namely accountability and transparency, besides independency should also be taken into account. Cecchetti and Krause (2002) stated that accountability and transparency are counterbalancing the increased independence of central banks. Even countries whose central banks have been equipped with higher independence over the past two decades,, they have been required to set additional accountability and transparency requirements for central banks.¹

As a result, according to the idea of Amtenbrink (2004), this article is focused on the same three pillars of the central bank governance, namely independency, accountability, and transparency. He believes that not only each of these elements per se has importance in developing good governance in a central bank, but the required relationship between them bears significant value.

Therefore, as the first step in analyzing the statutory power of the central bank of Islamic Republic of Iran, this article has been concentrated on its main functions defined in the "*Monetary & Banking Law of Iran*". According to this law, the functions of the central bank of Islamic republic of Iran have been specified under articles 10 & 11. Under article 10, the

1. Hall (2003).

responsibility of setting and conducting monetary and credit policies has been delegated to the central bank of Islamic Republic of Iran. Also under article 11 of the aforementioned law, the central bank of Islamic republic of Iran as the regulator of monetary and credit system of the country – according to the article 10 – has been obliged to perform some tasks such as supervising banks and credit institutions and regulating some affairs.¹

Hence, two main functions of the central bank of Islamic Republic of Iran, namely monetary policymaking and banking supervision, have been considered in this article. Since any entity should develop the required corporate governance for realizing its goals and achieving its statutory power, the framework of the central bank of Islamic republic of Iran's governance based on the "*Monetary & Banking Law of Iran*" and "*The Law for Usury (Interest) Free Banking*" is analyzed.² For this purpose just underpinning elements of its governance - namely, independence, accountability, and transparency- are evaluated. It should be mentioned that in this process not only the aforementioned laws, but also the bills on these laws that depict the future scheme of the central bank's regulatory framework are considered.

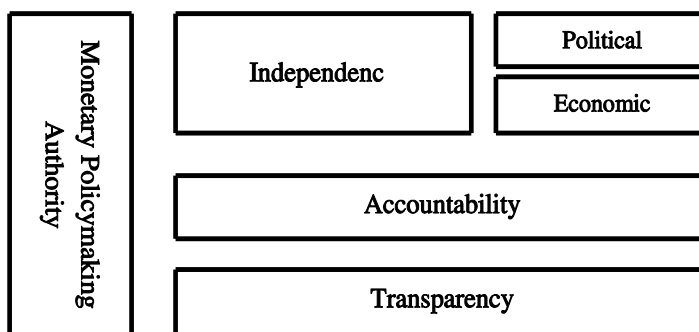
-
1. It should be mentioned that under this article some precise regulatory functions have been defined for the central bank of Islamic republic of Iran that cannot be comprehensive, as in practice this body is in charge of setting regulations for the entire banking system. Under article 11 just these regulatory functions have been specified:
 - Formulation of regulations pertaining to foreign exchange transactions, commitments and guarantees with the approval of the currency and credit council, and also control of foreign exchange transactions;
 - Control of gold transactions and formulation of regulations pertaining to such transactions with the approval of the Council of Ministers;
 - Control of the outflow and the repatriation of Iranian currency and formulation of regulations pertaining thereto with the approval of the Currency and Credit Council.
 2. These 2 laws have been considered as main laws in the banking system that describe the general framework of the central bank governance regarding its main functions.

3. Monetary Policymaking

As usual, the most important function of central banks – and in some cases, their only function- is monetary policymaking; designing good governance in central bank for implementing this function refers to traditional literature on the importance of monetary policy independence. Even these literatures have ended up in impressive evolutions in the central bank law of different countries to achieve more independence in central banks as a step prescribed to solve their problems in the banking system and mainly in the money market.

Since following up merely the independence of central banks in monetary policymaking could not guarantee public's interests satisfaction and even would not ensure the implementation of good central bank governance, some control mechanisms have also been considered along with enhancing independence. Beside other factors, accountability and transparency of central banks in their main function – i.e. monetary policymaking- towards their stakeholders have been regarded. These factors together would build up the most important elements of good central bank governance as an authority in charge of monetary policymaking.

Chart 2: The Underlying Elements of Good Governance in Monetary Policymaking



Source: Primary Data.

3.1. Independency

As the first step in developing the desirable central bank governance, independence of monetary policymaking has to be considered. Therefore, well-defined procedure for the appointment, and a mechanism for decision making of main organs of the central bank – i.e. the governor and the monetary policy committee- should be designed to ascertain not only political, but also economic independence of the central bank.

3.1.1. Political independence

Eight aspects have been regarded in table 1 as underlying elements of political independence. The assessment of each item's coverage is accomplished based on comparison between current situation - as mentioned in *“The Monetary and Banking Law of Iran”* - and the future target - according to the bill on *“The Central Bank of Islamic Republic of Iran Law”*. As a new process of appointing the central bank governor has been proposed recently (on November 2014) based on an act passed by the Expediency Council entitled in *“The Proposal on the Method of Governing Central Bank Governor”*¹, we refer to this act regarding the appointment of the central bank governor even though it has not been passed yet.

Accordingly, regarding the appointment of the central bank governor, it is observed that in the recently approved act, the candidate would be proposed by the Minister of Finance and Economic Affairs to *“Cabinet of Ministers”*. Following the confirmation of his competence by *“Cabinet of Ministers”* he is appointed as the central bank governor by the president's decree. While in the bill on the new law - which could change following recent changes in the process of appointing the central bank governor²- the

1. For more information regarding this proposal please refer to: [http:// financialtribune.com/articles/economy-business-and-markets/3893/ process-select-cbi-governor-modified](http://financialtribune.com/articles/economy-business-and-markets/3893/process-select-cbi-governor-modified).
2. Some parts of the current bill on the new law should change as it overlaps with the new proposed process of the central bank governor appointment.

candidate is proposed by the president to the “*General Meeting*” of the central bank and following the confirmation of his competence by this organ, he is appointed as the central bank governor by the president’s decree.

Table 1: Indicators of Political and Economic Independence of the Central Bank

Scope	Indicators
Political Independence	1-Not choosing the central bank governor by the government <i>(independent mechanism for choosing the central bank governor)</i> 2-Appointment of the governor for more than 5 years <i>(staggered term)</i> 3-Appointing some non-governmental bodies in Monetary Policy Committee (MPC) 4-Appointment of MPC members for more than 5 years 5-Not requiring the presence of government deputies in MPC 6-Not requiring the approval of monetary policy by the government 7-Considering monetary stability as the central bank’s goal 8-Existence of sufficient laws on enforcing the central bank’s situation in the case of disagreement between the central bank and the government
Economic Independence	1-Lending to the government under the control of the central bank 2-Lending to the government under market interest rate 3-Lending to the government under temporary conditions 4-Lending to the government under limited amount 5-Not being obliged to settle public debts 6-Setting discount rate <i>(and other monetary instruments)</i> by the central bank 7-Not being responsible for banking supervision 8-Not being the only authority in charge of banking supervision

Source: Elsan (2013)

Regarding the authority that nominates the candidate, current law ends up in lower independence of the central bank comparing to the bill on the new law. About the affirmation process, as the “*General Meeting*” is

composed of the president and his main ministers¹ and it is somehow a miniature scale of “*Cabinet of Ministers*”, there is not such a big difference in the nature of approving organ. But totally, the appointment process of the central bank governor in the bill on the new law has been set in a way that more ascertains the political independence of the central bank governor.

Considering the appointment of the central bank governor for five years in both laws², it is observed that merely the minimum threshold of the term of appointment has been covered. Nonetheless, a staggered term of appointment, comparing to the four years of appointment of the president and his cabinet, has been considered that could enhance the independence of the central bank governor.³

The next step in providing the independence of central bank in monetary policymaking is related to the structure of monetary policy committee- items 3 & 4 in table 1. For this purpose, “*The Currency & Credit Council*” - in the current law - and “*The Monetary & Banking Policymaking Council*” - in the bill on the new law- have been considered. Taking into consideration the evolutions implied in the functions of this organ, it is observed that:

- First, as this new council would only be in charge of monetary policymaking⁴, contrary to the current law, the independence of the

-
- 1 . The composition of this organ has changed in the draft of the bill on “*The Central Bank of Islamic Republic of Iran Law*” in a way that the number of members has been decreased from 5 to 3 people, but still they are governmental bodies, mainly ministers.
 2. Even though in the latest version of the current law, the relevant article has been edited in a way that the term of appointment of the governor has been fallen into abeyance, in the recently approved act by the Expediency Council (November 2014) entitled “*The Proposal on the Method of Governing the Central Bank Governor*”, the five year period of term in office for the central bank governor has been considered.
 3. Even though in the current law some qualification criteria have been considered for the governor of the central bank, in the new draft of this law, no specific criteria have been developed which might lead to a kind of looseness in the appointment of the governor that should be modified.
 4. In the current law, this council has not clearly been considered as an organ with the responsibility of monetary policymaking. Even in the “*The Law for Usury (Interest) Free Banking*”, this function has been delegated to the banking system, not merely to the central bank.

central bank in its main function –i.e. monetary policymaking- would increase.

- Second, we observe a change in the composition of this organ. The number of its members has been decreased from 13 to 11 and its composition has been changed; not only by a decrease in the number of governmental bodies, but also by an increase in the number of bodies with the knowledge of monetary and banking. Even though the largest part of this council is still compromised from governmental bodies, its combination has been changed in a way that could ascertain more independence in monetary policymaking.
- Third, since in each case most of this organ's members are governmental bodies that could be changed every four years when government changes, we can conclude that staggered term of appointment as a factor of increasing the central bank independence has not been followed in these laws.¹

Regarding item 5 in table 1, it should be mentioned that in both versions of this law *some*, and in more precise words, *the maximum number* of this council's members are government deputies. So, the independency of the central bank in this aspect has not been satisfied. It should be mentioned that even these deputies have the voting right and totally they have the highest number of voting rights in this council.

Considering item 6 in table 1, it could be indicated that regarding this matter, the current law has somehow fallen into abeyance. Even though in article 1 of this law, the central bank has been considered as an authority in charge of setting and exerting monetary and credit policies, this function has not been explicitly dedicated to "*The Currency & Credit Council*". Also in "*The Law for Usury (Interest) Free Banking*" setting monetary policy is

1. It should be mentioned that even for the two independent experts in the monetary and banking affairs, a two year period of appointment has been considered in the current law that is lower than the four year of appointment of the governmental bodies of this council. But in the draft on new law, even this matter has been fallen into abeyance.

developed in a dependent mechanism. Explicitly in article 19 of this law, it has been mentioned that one year credit policies proposed by “*General Meeting*” should be passed by the cabinet. Also long run credit policies of the central bank should be designed in coordination with “*5 Year Development Plans*”. Nevertheless, in the new law the approval of monetary policy has been considered as the first objective of “*Monetary & Banking Policymaking Committee*”.

In the case of item 7 of table 1, based on current law, the central bank should achieve 4 goals entitled: maintaining the value of the currency, making equilibrium in the balance of payments, facilitating trade transactions, and assisting the economic growth of the country. As we see, the most important and common goal of central banks - i.e. monetary stability that can be achieved through price stability and inflation targeting - has not been considered. On the contrary, the central bank’s goals in the new law have been decreased to 3 items, while price stability has received the first priority. Hence, it is expected to achieve more independence in the monetary policy by following this priority in future.

Regarding the last item in table 1, no article in none of these laws has been considered. While this matter has harmed our economy and specifically our monetary stability in the last years- via financing “*Maskan e Mehr Building Projects*” by the central bank through government mandate - it was expected to develop an article in the new law to settle this deficiency in order to enhance the central bank independence. In more precise words, in “*The Central Bank of Islamic Republic of Iran Law*” effective communication policy between the central bank and the government should be designed to decrease the negative macroeconomic effects of the government policies that usually spillover to monetary policies.¹

1. For example in “*The State Bank of Pakistan Law*”, a committee has been considered to make coordination between fiscal and monetary policies.

3.1.2. Economic Independence

In table 1, eight aspects have been considered as the indicators of economic independence. Regarding the first five items that are developed to regulate lending to the government and the economic independence of the government from the central bank, this issue might be raised that not only the governmental debts, but also the banks' debts to the central bank and the economic independence of banks from the central bank enjoys high importance.

We strongly agree with this idea but as this matter lies along *the lender of the last resort function* of the central bank, we have not concentrated on this precise function of the central bank in this paper, even though it is one of the most important functions of the central bank. We just mention that regulating economic independence of banks from the central bank and so implementing the lender of the last resort function in the best way in Iran requires the enhancement of inter-bank market which is linked to the development of TABA¹ and the mechanism already designed for lending and borrowing in the banking system under TABA which has literally considered the central bank as the lender of the last resort, contrary to the existing process.

TABA is a system designed in the banking system of Iran for the settlement of electronic securities that is going to be used as an important infrastructure of inter-banking market. Unfortunately, as the eligible securities for transaction in TABA are just the few money market instruments that have not been issued in the electronic format, this system has not been used yet.

Consequently, in the following parts we concentrate on the economic independence dimension which regulates the government and the central bank's relation. Therefore, considering the six first items as the main factors

1. ABA in Persian stands for "Electronic Tasviyehe Oraghe Bahadare", which means "Electronic Settlement of Securities".

limiting the economic relationship between the central bank and the government, it is observed that no strong binding constraint has been developed regarding this matter, either in the current law, or in the bill on “*The Central Bank of Islamic Republic of Iran Law*”.

Though in both laws, the responsibility of setting the discount rate - as one of the main monetary instruments - has been assigned to the central bank, since the other first five items could not be covered in the strict way¹, we consider the central bank in a weak position of being obliged to cover government debts. In a more precise word, in both laws it has been clearly mentioned that the central bank as the banker of the government has the authority of financing governmental debts according to bylaws that are developed by the central bank, and should follow the confirmed and approved ones by the organ in charge of monetary policymaking. As the current regulation has not been developed in the strict way, we consider the central bank as a dependent authority, while its future situation would be depicted by the new bylaw that should be developed and passed in future.

Regarding the last two items mentioned in table 1, it is observed that delegating the role of supervision to the central bank in both laws would influence its independence. In cases that the central bank is the only authority responsible for the banking sector supervision, it would consider banks' financial situation while setting policies. This could decrease the independence of the central bank. Nevertheless, as in the new law two different councils have been considered in charge of monetary policymaking and the regulatory and supervisory functions, the independence of the central bank from this point of view could enhance, even though it depends on the mechanisms of future decision making by these two councils.

1. For example in “*The State Bank of Pakistan Law*”, a precise limit on government debt to the central bank has been considered.

It should be mentioned that because of the importance of banking supervision performed by the central bank in its economic independence as a monetary policymaker - besides other factors - some countries have delegated the supervisory function of the central bank to another institution independent from the central bank. For example in Turkey, as one of the important steps taken in the beginning of 2000 in line with banking system reconstruction plan, “*Banking Regulation and Supervision Agency*” has been charged of the banking sector supervision.

3.1.3. The Independency Track

Taking into account different aspects of political and economic independence of the central bank, it is observed that even though some steps have been taken towards the political independence enhancement of the central bank, still less specific progress has been accomplished with respect to its economic independence.

These negligible progresses in political and economic independence of the central bank could only lead to slight enhancement in the monetary statutory power of the central bank if the necessity of accountability and transparency of the central bank is regarded as well.

3.2. Accountability

In the case of accountability, some formal and informal mechanisms have been established in the relevant literature that for developing them in the best way, it is necessary to consider precise measurable goals with clear priority for the central bank. Considering the bill on the new law, it is observed that comparing to the current law; this matter has been satisfied to some extent. Among new goals of the central bank, price stability¹ can be considered as a measurable objective that has received the first priority

1. Under article 11 of this law, providing price stability along some other goals has been defined, namely providing the health of foreign sector of economy, supporting economic growth and employment, and finally facilitating commercial and monetary transactions.

between two other groups of goals –i.e. organizing monetary and banking system based on Islamic terms in the framework of macroeconomic policies, and setting and conducting monetary policies including credit and exchange policies in line with the macroeconomic goals of the country.

Nevertheless, it should be mentioned that in the bill on “*The Central Bank of Islamic Republic of Iran Law*”, price stability has been considered along with some other goals which could cause difficulty in achieving price stability as the main goal. In a more precise word, one of the most important inconsistencies among the central bank’s goals appears when in the complex of its goals, a combination of nominal variables (stability of prices) and real variables (economic growth) has been taken into account.¹

Also in the bill on “*The Central Bank of Islamic Republic of Iran Law*”, the number of the central bank’s goals has been increased from 4 in the current law to 6. It should be considered that increasing the number of the central bank’s goals could decrease the level of responsibility and accountability of the central bank even regarding its main goal. Hence, it is proposed to make some modifications in the draft of this law to enhance the level of goals via decreasing the number of goals, in order to increase the possibility of the central bank’s accountability regarding its goals and functions.

Following setting clear and measurable goals capable of making the central bank accountable, some arrangements for implementing accountability regarding its goals should be developed. For example as formal arrangement, these approaches might be followed:

- Monitoring the central bank by the government (for example, with the presence of the government's representative in the monetary policy committee without voting right).

1. Hemmati (2014).

- Issuing periodic reports to stakeholders (weekly and monthly balance sheet summary, monetary policy summary, etc.).
- Announcing response functions in the case of not achieving goals.
- Tactic confirmation (IMF reports on article 4 and the existence of “*The Supervisory Board*” as one of the main organs of the central bank).¹

Even though the first² and fourth aspects are to some extent covered under the current law and could even be followed under the new law, the most important aspects of formal arrangement of accountability mentioned under item 2³ and item 3 have been neglected. In the case of misconduct, the central bank of Islamic Republic of Iran has never reported the causes to public so far (item 3).

Therefore, it is perceived that no special steps have been taken to improve the formal accountability of the central bank in the new law. This issue is also valid in the case of informal accountability. This form of accountability is usually satisfied by disclosure of different kinds of information to public. In other words, communication policy of the central bank plays an important role in the enhancement of transparency and achievement of informal accountability.

3.3. Transparency

As central banks set quantitative goals, they should enhance their transparency. Hence, considering price stability as the first goal of the central bank in the new law, at least in monetary policymaking of the central bank, some requirement should be embedded to ascertain high levels of transparency. For example, in some extreme cases, even the monetary policy model and the role of judgment in monetary policymaking are also disclosed

1. Ortiz (2009).

2. In the case of the first aspect, in both draft of laws, the government’s representatives have the voting right in the monetary policy committee.

3. Regarding item 2 it should be mentioned that, even the issuance of yearly monetary policy packages has been ceased in recent years.

by central banks following inflation targeting.¹ Considering the central bank of the republic of Turkey as a central bank with the main goal of price stability, it is observed that not only in the case of statistics but also in the field of monetary policymaking, the central bank of Islamic republic of Iran should follow the required level of transparency in order to achieve the necessary accountability regarding its future goal (i.e. price stability as noted in the new law).

Table 2: Transparency Strategy of the Central Bank of the Republic of Turkey

Scope		Disclosed Item	Frequency of Disclosure
Statistics	EDDS (<i>Electronic Data Dissemination System</i>)	-Market Statistics (<i>Cheques Subject to Settlement in The Clearing Houses, Istanbul Gold Exchange, Interbank Money Market Transactions Summary, Open Market Repo and Reverse Repo Transactions, ...</i>)	-
		-Exchange Rate (<i>Exchange Rates-Banknotes, Exchange Rates-CPI Based Real Effective Exchange Rate, ...</i>)	-
		-Interest Rates (<i>Effective Maximum Interest Rates For Deposits of Banks, Effective Maximum Interest Rates For Deposits of State Banks, Weighted Average Interest Rates For Banks' Loans, Weighted Average Interest Rates for Deposits</i>)	-
		-Weekly Money & Banking Statistics (<i>Sheet Items, Banking Sector Credit Volume, Banking Sector Consumer Loans, Securities of Banking Sector, ...</i>)	weekly
		-Weekly Securities Statistics (<i>Non-Residents' Holdings of Equities and Government Domestic Debt Securities (GDSS), Residents and Non-residents' Hold of GDSS, ...</i>)	weekly

1. Ibid.

Scope	Disclosed Item	Frequency of Disclosure
	- Monthly Money & Banking Statistics – Balance Sheets <i>(Deposit Money Banks Balance Sheet- Investment and Development Banks Balance Sheet- Participation Banks' Balance Sheet- Deposit Money, Investment and Development and Participation Banks' Aggregated Balance Sheets)</i>	Monthly
	-Price Indices <i>(Consumer Price Index by Region and Province, Cost of Living Indices for Wage Earners, Domestic Producer Price Index, Non-Domestic Producer Price Index, House Price Index for Turkey, Wholesale Prices Index , ...)</i>	Monthly
	- Surveys <i>(Survey of Expectations Descriptive Statistics, ...)</i>	bimonthly
	-Privatization Implementations	annually
	-Outstanding External Debt & Balance of Payments <i>(Balance of Payments Analytic & Detailed Presentation, Foreign Direct Investments in Turkey by Countries, Foreign Direct Investments in Turkey by Sectors, Gross External Debt, Outstanding Long Term Loans Received from Abroad by Private Sector-By Borrower, Tourism Income & Average Expenditures by Nationalities-Ministry of Tourism, ...)</i>	monthly-annually
	-Foreign Trade Indices <i>(Foreign Trade Broad Economic Categorization, Foreign Trade Export Unit Value Index by Classification of BEC, Foreign Trade Import Unit Value Index by Classification of BEC, Foreign Trade Statistics by Selected Countries and Chapters, ...)</i>	monthly
	-RTGS & ESTS	-
Reports	Monthly Price Developments	monthly
	Inflation Reports	quarterly
	Financial Stability Report	biannual
	Balance of Payments Report	quarterly
	Annual Report	annually
	CBRT Bulletin	quarterly

Scope	Disclosed Item	Frequency of Disclosure
	Booklets & Factsheet	-
	Researches (<i>Working Papers, Research Notes in Economics, Economic Developments</i>)	-
Legislations	Monetary & Exchange Rate Policy	annually
	Decision of the Monetary Policy Committee	monthly
	Summary of the Monetary Policy Committee	monthly
	Basic Liquidity & FX Policies (<i>Press Release</i>)	-
	Reserve Requirement Ratios (<i>Press Release</i>)	-
	CBRT Policy Rate (<i>Overnight, Late Liquidity Window, and 1 Week Repo Interest Rates</i>)	-
	Rediscount & Advance interest rates	-
Announcements	Press Release	-
	Remarks by Governor	-
	Remarks by Monetary Policy Committee Members	-
	Technical Presentation	-
	Other Remarks	-

Source: www.tcmb.gov.tr

3.4. Level of Statutory Power of the Central Bank as Monetary Policymaker

Totally, it is observed that in the case of monetary policymaking, the central bank of Islamic republic of Iran does not endow with high level of statutory power. Low level of independency, clearly in the field of economic independence is observed in both drafts of laws on the central bank. Even

though in the case of political independence some steps have been taken, the required mechanism to ascertain the necessary level of statutory power of the central bank via increasing its accountability and transparency has not been developed.

4. Supervisory Function

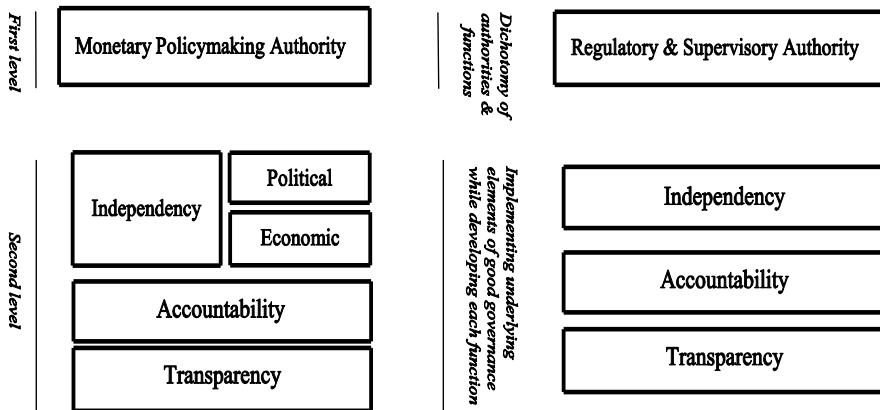
When the central bank is also in charge of conducting the banking sector supervision, it could lead to the decline in its independency, as the central bank takes into account banks' financial situation while setting monetary policies. This matter ends up in the conflict of interests between its roles of monetary policymaker and the banking sector supervisor.¹ It could also result in moral hazard in exerting the lender of the last resort function of the central bank.² Nevertheless, it might increase the information advantage of the central bank in monetary policymaking, in particular in financial crisis, while the central bank tries to provide liquidity for banks in problem.³

Consequently, the first step in developing good governance in a central bank with two aforementioned functions is maintaining independence between these functions. Considering two different and independent councils in charge of each function would ascertain this dimension of independence.

1. For example in the case of inflationary pressures that calls for interest rate increases, the central bank may ignore the macroeconomic need of society as is concerned about the huge decrease in banks' profit by the decline in interest rate that could even end up in some banks' insolvency. For more information please refer to Goodhart & Schoenmaker (1995).
2. In the literature it is argued that only in the case of illiquidity of commercial bank, but not insolvency, the central bank as the macro supervisor that is concerned about the systemic stability could use its lender of the last resort function. In the contrary case, the central bank confronts moral hazard risk in expanding liquidity. Thus, the exercise of the lender of the last resort function could usually be accompanied by moral hazard risk as a bank that cannot borrow on current market terms resorts to this liquidity channel, as potential counterparty lenders are suspicious and uncertain about its potential solvency. For more information please refer to Goodhart & Schoenmaker (1995).
3. Ortiz (2009).

As the second step, the pre-requirements for establishing desired governance in conducting each function via each council should be considered, which at least consists of independency, accountability, and transparency. All these factors together would ascertain the existence of a well-functioning central bank with two main different duties.

Chart 3: Prerequisites of Good Governance in the Central Bank with Monetary Policymaking and Supervisory Functions



4.1 Independency

The central bank of Islamic Republic of Iran has been equipped with two functions while the aforementioned governance mechanism has not been applied. Considering “*The Monetary and Banking Law of Iran*” it is observed that most of regulatory and supervisory functions have been delegated to “*The Currency and Credit Council*”¹, an authority which is also in charge of conducting monetary policy. In this law, “*The Banks*

1. Mostly noted in part 3 of “*The Monetary and Banking Law of Iran*”, for example in articles 30 and 33.

Disciplinary Board” has also been considered as an authority vested with the power of investigating some kinds of violations¹, but its powers are limited and not as much as the required and desired organ like “*The Credit Institutions Supervisory Council*” and its supplementary boards introduced in the bill on the new law on “*The Central Bank of Islamic Republic of Iran Law*”.

On the other hand, considering “*The Law for Usury (Interest) Free Banking*” as the next impressive law in the banking sector, we face a big mistake of mixing the goals and duties of the central bank with the banking sector which could result in taking even the banking sector in charge of conducting not only monetary policy but also the supervisory functions.

In article 1 of this law, one of the goals of banking system has been set as the *maintenance of the currency value and equilibrium in the balance of payments and facilitating the commercial exchanges*. This goal is exactly what has been considered as the goal of the central bank in “*The Monetary and Banking Law of Iran*”. Even in article 2 of the law on “*The Law for Usury (Interest) Free Banking*” one of the main functions of banking system has been set as: *supervision of transactions in gold and foreign exchange and the inflow or outflow of Iranian currency and foreign exchange, and the formulation of regulations governing thereof, in accordance with the Law. Also carrying out the monetary and credit policies*, in accordance with the law and regulations has been mentioned as one of the functions of banking system.

These functions are exactly the duties of the central bank in “*The Monetary and Banking Law of Iran*”. It is not justified to merge the goals and functions of the central bank and the banking sector, and enumerate them under the goals and functions of banking system under a law that mainly is going to cover the banking sector.

1. Just under article 44 of the aforementioned law, this board has been mentioned.

Hence, not only the aforementioned governance for exerting two different functions has not been established in the central bank, but also the required dichotomy between its two different functions of the central bank, i.e. monetary policymaking and conducting the banking sector supervision, has not been developed. Even in “*The Law for Usury (Interest) Free Banking*” as the main law of banking system of Iran, no specific section or even article has been dedicated to the supervision. Therefore, we face the lack of specific and independent organ in the central bank – i.e. independence from monetary policymaker organ and - just in charge of exerting supervisory function with well-defined duties.

Nevertheless, some improvements have been achieved in the drafts of new laws on “*The Central Bank of Islamic Republic of Iran Law*” and “*The Banking Law*” which have not yet been presented to the parliament and accordingly have not been passed yet. Comparing the bills on new laws with existing laws that cover banking system – i.e. “*The Monetary and Banking Law of Iran*” and “*The Law for Usury (Interest) Free Banking*”- it is realized that the importance of paying more attention to the regulation and supervision of the banking sector has been considered. As a result, notable steps have been taken to fill the existing gaps in the field of banking regulation and supervision. Generally, these improvements can be categorized into three main groups:

- First, against current law on central bank, the functions of monetary policymaking and the banking sector’s regulatory and supervisory duties have been broken down in two subsectors and two different councils have been considered for this purpose. Hence, “*The Monetary and Banking Policymaking Council*” would be in charge of monetary policymaking and the new council entitled in “*The Credit Institutions Supervisory Council*” would be in charge of setting regulation and conducting supervision in the banking sector.

This dichotomy not only ascertains the independence of functions but also provides the central bank with specialization in functions and could decrease the existing conflict of interests or negative spillover effects of assigning two functions to a unique authority.

On the other hand, for enhancing the executive power of “*The Credit Institutions Supervisory Council*” instead of pure “*Banks Disciplinary Board*” with limited functions¹, two different boards with extended, detailed, and well-specified functions have been regarded in title of “*The Primitive Board*” and “*The Review Board*”.²In “*The Monetary and Banking Law of Iran*” it has just been mentioned that the “*Banks Disciplinary Board*” is in charge of investigating violations mentioned in this law and issuing orders for disciplinary measures. On the contrary, in the draft on the bill on “*The Banking Law*” it has been mentioned that “*The Primitive Board*” is in charge of following up violations and not only a wide range of violations has been defined but also a variety of relevant penalties has been set. Also the members of “*The Primitive Board*” and their decision making mechanism have been clarified. In this law, the possibility of asking appeals against the orders of “*The Primitive Board*” has also been considered by developing “*The Review Board*” in charge of following up appeals and issuing final decree.

- As the second improvement, contrary to the aforementioned laws, in the draft of new banking law not only banks but also credit institutions have been considered. This could resolve most of persisting regulatory and supervisory gaps pertaining to credit institutions. For example, we can consider gharzolhasaneh (interest free) funds as one of the main credit institutions, that still a large part of them are active in the economy without being under the supervision of the central bank.

1. This board has been mentioned merely in the article 44 of “*The Monetary and Banking Law of Iran*”.

2. In the bill on “*The Banking Law*” one section has been dedicated to the disciplinary regulations with respectively 8 and 3 articles directly related to the aforementioned boards.

- Even though a bunch of regulations has been imposed by the central bank to regulate them, most of them have not received license from the central bank yet. These funds also do not deposit reserve requirement at the central bank. Some of them have not even paid attention to the necessity of capital formation and just have relied on public savings.¹
- Third, contrary to the aforementioned laws that all together have considered just four scopes of a required banking law, the proposed bill on "*The Banking Law*" has been developed based on more scopes and has also gone in more details in the scopes which have even been considered in the current laws². Namely, in the current laws, merely these parts have been covered: scopes and definitions, conditions governing the establishment of banks, terms and conditions governing banking operation, and liquidation and bankruptcy of banks. While, in the new bill "*The Banking Law*" not only the above sections, but also some new scopes, such as banks' share acquisition, the structure of banks and credit institutions, supervision, disciplinary regulation, and deposit insurance fund have been considered. In the case of supervision, conducting consolidated supervision has been recognized. Comparing to the current laws, supervisory responsibilities of the central bank have been specified in detail. For example, different kinds of bank violations and supervisory actions in the case of these violations have also been indicated.

Considering all these three impressive improvements followed in the bills on the new laws, it is expected that existing gaps would be covered. First, establishing the new "*Credit Institutions Supervisory Council*" would result in dichotomy between monetary policymaker and supervisory organs

1. For more information regarding these funds please refer to Darvishi (2013).
2. For example in chapter 9 of the proposed bill on "*The Banking Law*" that deals with liquidation and bankruptcy of banks, comparing to the current law, issues related to the cease of banking activity and reconstruction have also been regarded.

in the central bank. Second, aforementioned changes regarding banking system regulation and supervision could result in notable enhancement in banking supervision.

Although these are regarded as improvements, they also bring up some worries. Could this dichotomy be adequate for increasing the independency of the central bank in the field of banking supervision? Would assigning more responsibilities to the central bank -as the supervisor- and setting more regulation for banking system - with the aim of achieving a regulated banking system - could ascertain the enhancement of the central bank's statutory power? Could these potential improvements in the supervision areas of the central bank guarantee the implementation of good governance of supervisory function of the central bank?

Even though accountability and transparency of the central bank in the regulatory and supervisory functions should be considered, the same as monetary policymaking function, some factors should be considered to make sure of the independency of supervisory authority:

- First, "*The Credit Institutions Supervisory Council*" should be regarded as the only organ in charge of approving banking regulations and conducting supervisory function in the central bank with well-specified supervisory objective. Under article 22 of the bill on "*The Central Bank of Islamic Republic of Iran Law*", "*The Credit Institutions Supervisory Council*" has been considered as the organ in charge of setting different kinds of regulations but its supervisory objectives have not been well clarified. Therefore, well defining its supervisory objectives and functions could enhance the role of the central bank as a supervisory authority.

- Second, transparent regulation regarding the appointment and dismissal of the members of "*The Credit Institutions Supervisory Council*" should be developed. Regarding this factor, the bill on "*The Central Bank of Islamic Republic of Iran Law*" has fallen into abeyance. Merely under paragraph "b" of article 22, the members of this council have been introduced while nothing has been mentioned regarding the dismissal of these members.

- Third, independent and non-executive members should also be appointed in this council. This factor has been satisfied under paragraph “b” of article 22 of *“The Central Bank of Islamic Republic of Iran Law”* by considering an expert in monetary and banking affairs as one of the six members that compromise *“The Credit Institutions Supervisory Council”*.

- Fourth, staggered term of appointment could also improve the level of their independency. In *“The Central Bank of Islamic Republic of Iran Law”* no explicit term of appointment for *“The Credit Institutions Supervisory Council”* has been considered. Since the central bank governor and the public prosecutor are appointed for 5 years, and the deputy governor in banking supervision for non-specific number of years, totally we can consider a staggered term of appointment for this council, even though the representative of *“Economic Commission”* and *“Budget, Planning, and Accounting Commission”* of the assembly would have lower term of appointment¹. But regarding the monetary and banking experts, and also the chief executive officer of *“Banks’ Society”*, the bill on *“The Banking Law”* has been fallen into abeyance.

- Fifth, the enhancement of financial health or an equivalent measurable objective should also be considered as one of the central bank’s goals. In the bill on *“The Central Bank of Islamic Republic of Iran Law”* under article 11, the first goal of the central bank² has been set as: *“organizing monetary & banking system based on Islamic regulation and in the framework of*

-
1. As the members of these commissions are deputies of assembly that would be appointed for a period of 4 years.
 2. In this bill, central bank has been considered as an entity in charge of satisfying three goals. Its second and third goals are:
 - Providing price stability; establishing the health of foreign sector of economy; assisting economic growth, employment and facilitating commercial and monetary trades.
 - Developing and exerting monetary policies including credit and exchange policies to satisfy macroeconomic goals of the economy.

goals and macroeconomic policies of the country". Even though it could be considered as a supervisory goal, it is general and cannot be regarded as a high level supervisory goal that could be measured. Thus, modifying this goal in order to set a more precise and measurable one could enhance this dimension of the central bank's independency.

Since most of the five factors noted above - as the elements of ascertaining the independence of the central bank as a supervisory authority - have to some extent been covered in the bill on "*The Central Bank of Islamic Republic of Iran Law*", it is expected that once this law applies, the independence of supervisory authority enhances. Of course, some modifications should also be followed up to improve the level of independence of the central bank to the required level.

4.2. Accountability

Just like the matter of enterprise architecture of the central bank with specific attention to the monetary policymaking function, in the case of its supervisory function the same issue is valid. Once the duties of the central bank go beyond the monetary policy, these functions should be expanded in a way that confirms the ability of the central bank to manage the resulting risks to the society. This means that not only should supervisory function be assigned to the central bank in a way that confirms its independent implementation, but also adequate procedures should be developed to make sure of the availability of accountability and transparency of the central bank regarding its supervisory function toward its stakeholders.

Namely, along the increase in the responsibility of the central bank to accountability - both in the case of monetary policy, and in the field of supervisory functions - the necessity of transparency rises and it ends up in the enhancement of disclosure by the central bank. Upon the disclosure of regulatory and supervisory decisions of the central bank, through its accountability, legal requirement of the central bank decisions increases which ends up in an increase in public's expectations on the necessity of

implementation of regulatory and supervisory decisions. This means that all these factors together will promote the statutory power of the central bank (Ortiz, 2009).

On the contrary, inadequate accountability of supervisors to the general public, through political channels and otherwise, can allow financial supervisors to deviate from their task of gardening finance for the benefit of the society as a whole. So, a crucial factor in the global financial crisis was the weak public oversight of financial regulators and supervisors that allowed those guardians to design and maintain policies that favored the financial sector in the short term but which were ultimately highly destabilizing (Ferran, 2014).

In the case of Iran we can refer to a bunch of regulations in the form of circulars that has been passed by the central bank and even has been announced to the banking sector, but not only has not been implemented by banks, and even the central bank as the supervisor has not followed up their implementation in the banking sector neither has been accountable to the public for this noncompliance. For example, 11 years ago a supervisory circular on the method of capital adequacy ratio calculation has been announced by the central bank but still some banks do not calculate this simple ratio and do not issue it to the public. Even though the central bank recalculates this ratio for all banks, no strict action has been followed by the central bank in case of low capital adequacy. This means that this ratio, as one of the simplest mechanisms of monitoring financial health of the banking sector, has not been applied in the required way in the banking sector as the central bank of Islamic republic of Iran has not played its accountability towards public stakeholders of banking system.

Hence, improving the accountability of the central bank of Islamic republic of Iran in the field of regulation and supervision should also be followed up. Some of common strategies widely used to enhance accountability are:

- Reporting: annual report¹, performance report to the upper authorities, ad hoc reports on particular matters, report on regulatory and supervisory failure.
- Being subject to investigations or reviews by independent persons in specified circumstances.
- Considering procedural requirements: requirements to consult interested parties and conduct cost-benefit analysis prior to adopting new regulatory rules², and obtaining feedback from related stakeholders³.
- Paying attention to the importance of giving reasons to the stakeholders for actions they have taken.
- Considering an extra layer of public oversight, for example, through a public entity in charge of monitoring supervisory performance.
- Establishing suitable governance in order to implement an accountable supervisory function.⁴

Regarding the aforementioned strategies usually followed to be considered as an accountable supervisory authority, it is observed that both in the current law, and in the bills on the new laws, they have not been taken into account. It means that the importance of accountability regarding the regulatory and supervisory function of the central bank has not been perceived. This matter could be considered as the main cause of low statutory power of regulations that has been set by the central bank and its supervisory actions. Ignoring the importance of accountability leads to low level of legal enforcement of the central bank's decisions.

1. An authority with two different functions should be in charge of delivering two different reports on each of its main duties, one on monetary policymaking and the other on regulatory and supervisory function.

2. The most tangible example could be the Quantitative Impact Studies (QIS) conducted by Basel committee before finalizing different capital accords or guidelines.

3. It is one of the common policies exerted in international regulatory institutions that ask for opinions of all stakeholders before finalizing the new guideline. They even provide the public access to the collected opinions.

4. Ibid.

4.3. Transparency

Table 3: Transparency strategy of banking regulation is one of the main factors that could ascertain accountability - besides the aforementioned elements in the previous section is the importance of regulatory and supervisory disclosure and promoting transparency. This could increase the understanding of regulatory and supervisory policies, even though high level of transparency could endanger the credibility of supervisor in some cases.¹ Hence, developing good communication policy between the central bank - as the banking system guardian - and the stakeholders of the banking sector endows high level of importance.

Common disclosed issues are appointment process, business planning, periodic reporting, decision making process, publishing the records of supervisory meeting, and disclosing information regarding under supervision institutions.²

For example, if we refer to the site of “*Banking Regulation and Supervision Agency*” of Turkey which has been considered as the main authority in charge of banking supervision after the financial system reform of this country in 2001³, we notify that a wide range of transparency has

1. For example, central banks usually follow intermediate level of transparency regarding some aspects of the economic model they use, as their limited knowledge on different assumptions considered in their models and even the underlying mechanisms of their models could change during time. Broadly speaking, the economic structure changes overtime and it takes time to detect those changes and to incorporate them into explicit models (Cukierman 2007). Hence, in case of following high level of transparency regarding an element that the central bank is not sure about it, not only the improvement of public’s understanding of the policy could not be achieved, but also it could decrease the credibility of the central bank.
2. For more information regarding the process of accountability and the method of transparency, refer to Ferran (2014).
3. After the 2001 currency and banking crisis that occurred in Turkey, notable evolutions realized in the financial system of this country for resolving the problem and improving financial system’s health. As one of these evolutions, the central bank is now only in charge of monetary policymaking under a new framework underpinned with high level of independency, while new banking authority entitled in “*Banking Regulation and Supervision Agency*” is the only body in charge of conducting banking supervision.

been followed by this agency that enhanced its accountability and accordingly, its statutory power in the banking system.

Table 3: Transparency Strategy of Banking Regulation and Supervisory Agency of Turkey

Scope	Disclosed item	Frequency of disclosure
Statistics	Daily Banking Sector Report	daily
	Interactive Weekly Bulletin	weekly
	Interactive Monthly Bulletin	monthly
	Turkish Banking Sector Non-Consolidated Main Indicators	monthly
Reports	Annual Report	Annually
	Strategic Plan	Triennial
	Structural Developments in Banking	Annually
	Financial Markets Report	Quarterly
	General Outlook of the Turkish Banking Sector	Quarterly
	Banking Sector Basel II Progress Report	two times in a year
	Basel II Quantitative Impact Study	-
Risk Bulletin	unregulated	
Legislations	Laws, Regulations, and Announcements	-
	Draft Regulations	-

Source: www.bddk.org

Comparing the level of transparency in regulatory and supervisory function of “*Banking Regulation and Supervisory Agency*” of Turkey with the central bank of Iran, it is perceived that banking system supervision and even regulation are conducted with a lower level of transparency in Iran. The central bank of Islamic Republic of Iran usually pays more attention to its monetary policymaking responsibility and it does not even provide the possibility of its stakeholders to have access to the low frequency data of the banking sector. “*No Strategic Plan for Banking Supervision and Regulation*” means that “*No Explicit Roadmap*” exists in the banking supervision. Also having no access to the draft of regulations decreases the

level of openness and transparency of the regulatory body in the central bank of Islamic republic of Iran. Even in the draft of new laws, the importance of transparency in the field of regulation and supervision has been left completely into abeyance.

4.4. Level of Statutory Power of the Central Bank as Supervisor

Hence, putting all elements of the good governance in the field of the banking sector supervision together, it is perceived that at present time our regulatory body suffers from independency from monetary policymaker, and low levels of accountability and transparency towards their stakeholders in the banking system supervision. Even though developing new bills on "*The Central Bank of Islamic Republic of Iran Law*" and "*The Banking Law*" could promote the level of independency of this authority, still more steps should be taken to improve its level of accountability and transparency.

5. Concluding Remarks

Even though the importance of statutory power of the central bank has increased in the recent years, especially by the central bank authorities, the necessary steps have not been taken for the development of required governance structure in the central bank of Islamic republic of Iran.

Since the statutory power of a central bank is defined as its ability in achieving its goals and performing its functions in the required framework of governance, first we should focus on some specific functions of the central bank. In view of the fact that the main functions of the central bank of Islamic republic of Iran are monetary policymaking and supervising the banking sector, the statutory power of the central bank of Islamic republic of Iran is analyzed based on these functions.

For developing required governance in favor of acquiring statutory power, it has been concentrated on the importance of three pillars, namely

independency, accountability, and transparency regarding each of the aforementioned functions. For this purpose the legal framework of banking system has been analyzed. Thus, the bills on the new laws on the central bank and the banking system, besides current laws, have been scrutinized.

In transition from current regulatory framework to the future one that is depicted by bills on new laws, among the main three pillars, more independence is going to be enhanced. This is achieved mainly by some changes in the combination of “The Currency & Credit Council” – entitled “The Monetary & Banking Policymaking Council” under the bill on the new law of the central bank - besides delegating the supervisory and regulatory function of the central bank to another independent council in the central bank entitled “The Credit Institutions Supervisory Council”.

Additionally, providing the central bank with two main boards - “The Primitive Board” and “The Review Board”- in charge of following up violations in the banking sector, besides specifying more clarified examples of violations and underlying penalties, has played an important role in enhancing statutory power of the central bank in supervisory function.

On the contrary, it is observed that no specific step has been taken regarding two other pillars of the central bank governance, namely accountability and transparency of monetary policymaking and supervisory function of the central bank. Consequently, revising bills on new laws is strongly recommended to improve the required regulatory infrastructure for enhancing the statutory power of the central bank in future. Even more research and study in this field is recommended as future work.

Also future studies can spread to other functions of the central bank. As in this article it has been focused just on two main functions of the central bank, it should be mentioned that it does not mean that the other functions and goals of the central bank should be left into abeyance. For example, emphasizing on the importance of independence of monetary policymaking from government does not deny the importance of playing the role of lender

of the last resort function of the central bank in the required framework that could result in the enhancement of its statutory power.

Thus, the supervisory authorities of the central bank of Islamic Republic of Iran usually announce protecting the interests of depositors and the stability of banking system as the main goals of banking supervision as well. Regarding consumer protection, just establishing the “Deposits Guarantee Fund” has been accomplished, however it does not practically work. Therefore, about protecting consumers and dealing with their complaints in the banking system, no specific step has been taken. Consequently, it is expected that the central bank develops required mechanisms to deal with this matter that has been considered as one of its supervisory goals and functions.

This matter is valid regarding the banking system stability, as well. Since the financial system stability, as a whole, does not have anyone responsible for in Iran, even the problem can be raised as the necessity of developing an authority in charge of financial system stability.

Totally, it is suggested that for enhancing the statutory power of the central bank of Islamic republic of Iran, besides the monetary policymaking and supervisory functions scrutinized in this paper, other functions of the central bank should also be analyzed, especially based on the importance of developing required governance according to three aforementioned pillars. Also accomplishing researches based on the other necessary aspects of the central bank governance like discipline, responsibility, and social responsibility are recommended as future work that could enhance other pillars of the central bank governance in the central bank of Islamic republic of Iran.

References

Antenbricnk, F. (2005). "The Three Pillars of Central Bank Governance – Towards a Model Central Bank Law or a Code of Good Governance?" *International Monetary Fund, Current Developments in Monetary and Financial Law*, IMF Legal Department: Washington D.C. 4: 101-132.

Central Bank of Islamic Republic of Iran, (1339). *The Banking and Monetary Law of Iran*.

Central Bank of Islamic Republic of Iran, (2004). *The Law for Usury (Interest) Free Banking*. Last Edited Version.

Central Bank of Islamic Republic of Iran, (2009). *The Draft of Bill on Central Bank of Islamic Republic of Iran Law*.

Central Bank of Islamic Republic of Iran, (2012). *The Final Version of Bill on the Banking Law*.

Cukierman, A. (2005). "The Limits of Transparency". Unpublished manuscript, Tel Aviv University.

Darvishi, E. (2013). "Saman Dehie Moassessate Pooli va Etebarie Gheire Banki". Presented at: *Hamayeshe Moassessate Etebari Gheire Banki Keshvar*. Pajooheshkade Pooli va Banki.

Elsan, M. (2013). *Hoghughe Banke Markazi*. "Pajooheshkade Pooli va Banki".

Ferran, E. (2014). "Institutional Design for Financial Market Supervision: The Choice for National Systems". University of Cambridge: Faculty of Law. *Legal Studies Research Paper Series*. No. 28.

Goodhart, Ch., D. Schoenmaker, (1995). "Should the Functions of Monetary Policy and Banking Supervision be separated?" *Oxford Economic Papers*, New Series, 47(4): 539-560.

Hall, V. (2003). "Central Bank Governance: Common Elements or Different Models". Hong Kong Institute for Monetary Research, *HKIMR Working Paper*. No. 20/2003.

Hemmati, M. (2014). *Chaleshhaye Pooli va Banki Eghtesade Iran: Tahlile Vaziyat va Tosiye-haye Siyasati*. "Pajooeshkade Pooli va Banki".

<http://financialtribune.com/articles/economy-business-and-markets/3893/process-select-cbi-governor-modified>.

Lima, D., L. Ioannis, G. Vasco, (2012). "Monetary Policy and Banking Supervision: Is There a Conflict of Interest?" University of Surrey, School of Economics, *Discussion Papers*, 17/12.

Lybek, T., J. Morris, (2004). "Central Bank Governance: A Survey of Boards and Management". *IMF Working Papers*. No. 226.

Ortiz, G. (2009). "Issues in the Governance of Central Banks". *Bank for International Settlements*.

Stute, Ch., (2012). "Corporate Governance at Deutsche Bundesbank", *Presented at the Center for Latin American Monetary Studies*.

The State Bank of Pakistan. (1956). *The State Bank of Pakistan Law*.

www.bddk.org

www.tcmb.gov.tr