



Opportunities and Threats Based on Budget Laws and Strategies for Enhancing the Banking Performance of the Cooperative Development Bank

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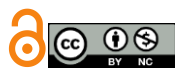
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ABSTRACT

Objective: The objective of this study is to explore the opportunities and threats posed by budget laws on the banking performance of the Tose'e Ta'avon Bank and to propose strategies for enhancing its performance. This research aims to provide a comprehensive understanding of how budget provisions from 2018 to 2023 impact the bank's operations, financial stability, and risk management practices.

Methodology: This study employs a qualitative research methodology, combining content analysis of budget laws, financial statements, and expert consultations. The content analysis focuses on budget laws from 2018 to 2023, identifying key provisions that impact the Tose'e Ta'avon Bank's performance. Financial statements of the bank are analyzed to assess the financial implications of these provisions. Expert consultations with banking professionals and policymakers provide insights into the practical challenges and opportunities associated with these budget laws.

Findings: The study identifies several significant opportunities for the Tose'e Ta'avon Bank, including the ability to sell surplus assets, invest in strategic national projects, and issue bonds with government guarantees. These provisions can enhance the bank's financial stability and growth potential. Conversely, the study also identifies significant threats, such as increased financial obligations and regulatory constraints, which can strain the bank's financial resources and impact liquidity. Effective risk management and strategic utilization of opportunities are critical to navigating these challenges.

Conclusion: Budget laws present both substantial opportunities and significant threats to the Tose'e Ta'avon Bank. While opportunities like asset sales and strategic investments can enhance financial stability, threats from extended debt repayment periods and stringent financial requirements necessitate robust risk management practices. The study underscores the importance of a balanced approach to budget policy formulation, emphasizing the need for effective

governance, proactive risk management, and collaborative dialogue with policymakers to optimize the bank's performance and contribute to broader economic development goals.

Keywords: *Tose'e Ta'avon Bank, budget laws, financial performance, risk management, strategic investments, banking stability, regulatory compliance, Iran*

1 Introduction

The banking sector is pivotal to the economic development and stability of any country. In Iran, the Tose'e Ta'avon Bank plays a crucial role in fostering economic growth by providing financial services to cooperative sectors and small to medium enterprises (Aghakarimi et al., 2023; Asl et al., 2021; Elaheh Taghavi Shavazi Elaheh Taghavi, 2013; Nasr et al., 2019; Zagherd & Barghi, 2017).

Budget laws are fundamental to the fiscal management and financial stability of countries, influencing various sectors including banking. The intricate relationship between budget policies and banking performance necessitates a thorough understanding of how these laws impact banks' operations, risk management, and overall financial health (Ghiasvand & Movagharisadat Mahalle, 2012; Sneed, 2002; Sudavičius, 2022). This relationship is particularly significant for the Tose'e Ta'avon Bank, given its unique mandate to support cooperative and social sectors.

The theoretical framework for this study is grounded in several key concepts from financial and banking theory. The structure-conduct-performance (SCP) paradigm, widely applied in banking studies, provides a basis for understanding how budget laws shape the competitive environment and performance outcomes in the banking sector (Asl et al., 2021). This paradigm posits that the structure of an industry influences the conduct of firms within that industry, which in turn affects their performance.

In addition, the concepts of governance and bank valuation are critical to understanding the impact of budget laws. Caprio, Laeven, and Levine (2007) highlight that governance structures significantly affect bank performance and valuation, suggesting that budget laws that alter governance frameworks can have profound effects on banks (Caprio et al., 2007). Furthermore, the performance evaluation framework using the CAMELS model, as discussed by Zagherd and Barghi (2017), provides a comprehensive approach to assess the financial soundness of banks, considering factors such as capital adequacy, asset quality, management quality, earnings, liquidity, and sensitivity to market risk (Zagherd & Barghi, 2017).

Several studies have examined the impact of budget laws on banking performance. Jalali et al. (2020) and Jalali et al. (2021) explore the public budgetary roles and the interplay of stability and change in public budgeting reforms in Iran, providing insights into how budget policies can influence banking operations. The studies emphasize the need for a robust institutional framework to manage the dynamic nature of budget laws and their implications for financial institutions (Jalali et al., 2021; Jalali et al., 2020).

Aghakarimi et al. (2023) propose an integrated framework to assess and improve the financial soundness of private banks, which is relevant to understanding how budget laws can impact the Tose'e Ta'avon Bank's financial stability. Their study highlights the importance of comprehensive risk management practices and regulatory compliance in maintaining financial soundness (Aghakarimi et al., 2023).

Nasr et al. (2019) discuss the role of enterprise risk management (ERM) in enhancing firm performance in the Iranian banking system, underscoring the importance of effective risk management strategies in mitigating the adverse effects of budget laws (Nasr et al., 2019). Similarly, Brown and Dinç (2009) provide evidence of regulatory forbearance in weak banking sectors, illustrating how budget policies and regulatory frameworks can affect banking performance (Brown & Dinç, 2009).

However, budget laws can also pose significant threats to banking performance. Regulatory constraints, increased financial obligations, and changes in fiscal policies can adversely affect banks' operations and financial stability. For example, the extension of repayment periods for debts owed to the Central Bank and commercial banks, as mandated by certain budget provisions, can strain the financial resources of banks and impact their liquidity (Sneed, 2002; Tsuji, 2015).

This study aims to explore the opportunities and threats posed by budget laws on the banking performance of the Tose'e Ta'avon Bank and to propose strategies for improving its performance. The relevance of this study is underscored by the dynamic nature of budget laws and their significant impact on the operational environment of banks.

2 Methods and Materials

This research was conducted qualitatively through the study and examination of previous studies, library documents, related laws and regulations, and the financial statements of the Tose'e Ta'avon Bank. Initially, the theoretical literature of the subject was reviewed to clarify the scientific and specialized scope and content for the audience. Subsequently, the annual budget laws of the entire country were analyzed using the opinions of experts from the Tose'e Ta'avon Bank to identify the hidden opportunities and threats in each law. Additionally, the financial statements of the Tose'e Ta'avon Bank were analyzed, and their relationship with the provisions in the national budget law was examined. Finally, practical and applicable suggestions were provided to enhance the position and improve the performance of the Tose'e Ta'avon Bank.

Considering the government-issued budget to banks and the definition of the project for evaluating the bank's performance based on the issued budget, the approach leading to the preparation of this report was based on examining the budget law items issued by the government from 2018 to 2023. In this research, to identify the relevant and influential legal clauses on the performance of the Tose'e Ta'avon Bank, the budget laws and their evolution in the country during 2018 to 2023 were precisely examined, and the results of the budget content review are presented in Chapter 3. Based on the results of literature and annual budget law studies of the country from 2018 to 2023, all related clauses were extracted. Then, in meetings held with the representatives of the Tose'e Ta'avon Bank, the related and influential laws on the bank's performance were identified based on the bank's intended goals. Finally, after several reviews of the identified legal clauses based on library and comparative studies, 80 final legal clauses were determined.

After extracting and finalizing all relevant clauses in the banking sector during the mentioned periods, two open and closed questionnaires were used to survey the management layers of the Tose'e Ta'avon Bank. The outcome of this survey led to the bank's analysis based on the opportunities and threats hidden in the annual budget laws. Then, using the Likert scale in this research, the minimum and maximum desirability for the mentioned clauses in the questionnaires were extracted, and based on this, the list of the best opportunities and high-risk threats were identified. The

spectrum of participants in this research was diverse in terms of work experience, education, gender, and age.

The score obtained from the total impact score (ranging from one to five based on the Likert scale) of the budget clauses was considered. The maximum opportunity score (best opportunity) was obtained from multiplying the number 5 (the upper limit of the Likert scale) by the number of questionnaire completing units (9 units), resulting in the number 45. To derive the list of opportunities, the score of budget clauses that was greater than or equal to the product of the number of questionnaire completing units (9 units) and the average number of the Likert scale (number 3), which is 27, was considered as the list of opportunities. In fact, scores above the average in this output were considered.

The score obtained from the total impact score (ranging from one to five based on the Likert scale) of the budget clauses was considered. The maximum threat score (most dangerous threat) was obtained from multiplying the number 5 (the upper limit of the Likert scale) by the number of questionnaire completing units (9 units), resulting in the number 45. Given that the numbers obtained from the survey are lower than the average score of high-risk threats and the minimum row of low-risk budget items is 9 (the number of questionnaire completing units (9 units) in the Tose'e Ta'avon Bank multiplied by the lowest average number of the Likert scale (i.e., number 1)); therefore, all scores higher than this number (9) are recognized as high-priority risks.

The units completing these questionnaires included "Legal Affairs, Inspection, Marketing, Auditing, Compliance, Public Relations, Building, Human Resources, and Financial Unit."

3 Findings and Results

The analysis of budget laws and their implications for the Tose'e Ta'avon Bank identified key opportunities and threats embedded in the national budgetary provisions from 2018 to 2023. The research utilized both qualitative and quantitative methods, including content analysis of budget laws and financial statements, expert consultations, and surveys. Below are the detailed findings based on the identified budget clauses.

The study revealed several significant opportunities for the Tose'e Ta'avon Bank, as outlined in the budget laws. The highest scoring opportunities, based on the Likert scale ratings, are summarized in [Table 1](#):

Table 1*The Summary of Results for Opportunities*

Budget Clause	Earned Score	Average Score
Clause Z, Note 2, Budget Law 2023: Government banks must sell surplus assets and may invest in strategic projects.	27	27
Clause 1, Note E, Note 11, Budget Law 2023: Government agencies may sell surplus assets as per the Housing Leap Act.	28	27
Clause L, Note 11, Budget Law 2023: Agencies can consolidate buildings by selling non-movable assets.	32	27
Clause A, Note 2, Budget Law 2023: Government entities must privatize state-owned enterprises.	34	27
Clause Y, Note 5, Budget Law 2023: The government may issue up to 300 trillion Rials in Islamic financial bonds.	28	27
Clause J, Note 16, Budget Law 2023: Government banks can issue bonds up to 500 trillion Rials with government guarantee.	35	27
Clause A, Note 4, Budget Law 2021: Banks can lend \$3 billion to private sectors for oil and gas projects.	30	27
Clause A, Note 4, Budget Law 2021: Banks can lend to private sectors for agricultural and industrial projects.	29	27
Clause Z, Note 16, Budget Law 2023: Infrastructure for online collateralization of securities must be developed.	30	27
Clause Z, Note 7, Budget Law 2023: Agencies must allocate funds for cybersecurity enhancements.	30	27

These opportunities mainly involve permissions for banks to sell surplus assets, invest in strategic national projects, and provide various financial facilities to private and public sectors. Notably, Clause J, Note 16, of the 2023 budget, allowing state banks to issue bonds with government

guarantees, scored the highest with a score of 35, indicating a significant potential benefit.

Conversely, several clauses posed potential threats to the Tose'e Ta'avon Bank's operations, primarily due to increased financial obligations and regulatory constraints. The most notable threats are listed in [Table 2](#):

Table 2*The Summary of Results for Threats*

Budget Clause	Earned Score	Average Score
Clause Z, Note 1, Budget Law 2023: Repayment period of debts to Central Bank and commercial banks is extended by one year.	18	27
Clause A, Note 3, Budget Law 2023: External financial facilities for projects are capped at 30 billion Euros.	15	27
Clause S, Note 5, Budget Law 2023: The Islamic Revolutionary Guard Corps may issue up to 100 trillion Rials in bonds.	14	27
Clause W, Section 1, Note 5, Budget Law 2023: Ministry of Economy may manage treasury liquidity without bank participation.	17	27
Clause Z, Note 1, Budget Law 2023 (second instance): Extended repayment of debts to Central Bank and commercial banks.	17	27
Clause S, Note 5, Budget Law 2023: New credit to banks without collateral is prohibited.	15	27
Clause D, Note 16, Budget Law 2023: Banks must waive interest and penalties for agricultural sector loans due to disasters.	22	27
Clause W, Note 1, Budget Law 2021: Banks may lend 50 trillion Rials for gas projects with a five-year repayment guarantee.	15	27
Clause H, Note 16, Budget Law 2021: Central Bank must lend 9 trillion Rials for housing loans for families with third child.	12	27
Clause W, Note 16, Budget Law 2023: Funds allocated for housing assistance must be redirected if not used by September 2023.	15	27
Clause W, Note 16, Budget Law 2023 (second instance): Banks must provide data to Central Bank or face penalties.	12	27
Clause H, Note 19, Budget Law 2021: Government agencies must allocate 1% of their budget for public awareness programs.	13	27
Note 16, Budget Law 2023: Banks must allocate 2 trillion Rials for various social support laws.	11	27
Clause H, Note 16, Budget Law 2021: Central Bank must lend 20 trillion Rials for electricity projects.	10	27

Among these, the clauses that extend the repayment period of debts owed by the National Iranian Oil Company to commercial banks and the Central Bank (Clause Z, Note

1) and those that impose stringent requirements for financial guarantees and credit extensions (Clause A, Note 3) were identified as the most significant threats, with scores of 18

and 15, respectively. These provisions could potentially impact the liquidity and financial stability of the Tose'e Ta'avon Bank.

4 Discussion and Conclusion

The results of this study highlighted significant opportunities and threats posed by the budget laws on the Tose'e Ta'avon Bank. Key opportunities identified include provisions that allow the bank to sell surplus assets, invest in strategic national projects, and issue bonds with government guarantees. These opportunities are instrumental in enhancing the financial stability and growth potential of the bank.

For instance, Clause J, Note 16 of the 2023 budget law, which permits state banks to issue bonds up to 500 trillion Rials with government guarantees, scored the highest in terms of opportunity with a score of 35. This provision offers a substantial potential benefit by providing an additional funding source that can be leveraged for strategic investments and improving liquidity.

Conversely, several budget clauses were identified as significant threats, primarily due to increased financial obligations and regulatory constraints. For example, Clause Z, Note 1 of the 2023 budget law, which extends the repayment period of debts owed to the Central Bank and commercial banks, scored notably high in terms of threat with a score of 18. Such provisions can strain the bank's financial resources and impact its liquidity and operational stability.

The identified opportunities and threats align with findings from previous studies that have examined the impact of budget laws on banking performance. Aghakarimi et al. (2023) emphasize the importance of a robust financial framework to enhance the soundness of banks, which is reflected in the opportunities identified in this study. The ability to sell surplus assets and invest in strategic projects, as permitted by the budget laws, can significantly enhance the bank's financial position and support long-term growth (Aghakarimi et al., 2023).

Similarly, the findings regarding threats are supported by the literature on financial stability and regulatory compliance. Nasr et al. (2019) discuss how enterprise risk management (ERM) can mitigate the adverse effects of regulatory constraints and financial obligations, which is critical in managing the threats identified in this study. The extension of debt repayment periods and stringent financial requirements can impact liquidity, but effective ERM

practices can help navigate these challenges (Nasr et al., 2019).

Furthermore, Jalali et al. (2020) and Jalali et al. (2021) highlight the interplay between stability and change in public budgeting reforms, underscoring the dynamic nature of budget laws and their impact on financial institutions. The identified opportunities and threats in this study reflect this dynamic, with budget provisions offering both potential benefits and significant challenges that require careful management (Jalali et al., 2021; Jalali et al., 2020).

The study's findings are consistent with the broader body of research on the impact of budget laws on banking performance. For instance, the opportunity to issue bonds with government guarantees aligns with the findings of Caprio, Laeven, and Levine (2007), who emphasize the role of governance and regulatory frameworks in enhancing bank valuation and performance. Such provisions can provide banks with the necessary capital to invest in strategic projects and improve their financial health (Caprio et al., 2007).

Additionally, the threats identified in this study, such as the extension of debt repayment periods, are supported by the findings of Brown and Dinç (2009), who discuss regulatory forbearance and its impact on banking stability. These provisions can create financial strain and affect the bank's ability to maintain liquidity and operational stability (Brown & Dinç, 2009).

The importance of effective risk management practices, as highlighted by Nasr et al. (2019), is crucial in navigating the complex landscape of budget laws. The ability to proactively manage risks and comply with regulatory requirements can mitigate the adverse effects of these laws and enhance the bank's performance (Nasr et al., 2019).

This study has several limitations that should be acknowledged. Firstly, the analysis is primarily qualitative, relying on content analysis of budget laws and financial statements, along with expert consultations. While this approach provides valuable insights, it may not capture the full complexity of the impact of budget laws on banking performance. Future studies could benefit from incorporating quantitative methods to provide a more comprehensive analysis.

Secondly, the study focuses on the Tose'e Ta'avon Bank and the specific budget laws in Iran from 2018 to 2023. The findings may not be generalizable to other banks or contexts. Comparative studies involving multiple banks and different regulatory environments could provide a broader

perspective on the impact of budget laws on banking performance.

Thirdly, the study relies on the perspectives of banking professionals and policymakers, which may be subject to bias. While expert consultations provide valuable insights, incorporating a broader range of stakeholders, including customers and regulatory authorities, could enhance the validity of the findings.

Future research should focus on developing a more comprehensive understanding of the impact of budget laws on banking performance by incorporating quantitative methods. This could involve the use of econometric models to analyze the relationship between budget provisions and key performance indicators, such as profitability, liquidity, and risk management.

Additionally, comparative studies involving multiple banks and different regulatory environments could provide valuable insights into the generalizability of the findings. Such studies could explore how different regulatory frameworks and economic contexts influence the impact of budget laws on banking performance, providing a broader perspective on this critical issue.

Further research could also examine the long-term impact of budget laws on banking performance. This would involve tracking the performance of banks over an extended period to assess how budget provisions influence their financial stability and growth. Longitudinal studies could provide valuable insights into the dynamic relationship between budget laws and banking performance.

Based on the findings of this study, several practical recommendations can be made for the Tose'e Ta'avon Bank and other financial institutions navigating the complex landscape of budget laws. Firstly, banks should enhance their risk management practices to mitigate the adverse effects of regulatory constraints and financial obligations. Implementing comprehensive ERM frameworks, as suggested by Nasr et al. (2019), can help banks proactively manage risks and comply with regulatory requirements.

Secondly, banks should leverage the opportunities presented by budget laws to enhance their financial stability and growth. This includes selling surplus assets, investing in strategic projects, and issuing bonds with government guarantees. Such initiatives can provide additional funding sources and improve liquidity, supporting the bank's long-term growth objectives.

Thirdly, banks should engage in proactive dialogue with policymakers to influence the formulation of budget laws. By collaborating with regulatory authorities and other

stakeholders, banks can ensure that budget provisions support financial stability and economic growth. This involves advocating for regulatory frameworks that balance the need for financial stability with the flexibility required to respond to dynamic economic conditions.

In conclusion, this study provides valuable insights into the impact of budget laws on the banking performance of the Tose'e Ta'avon Bank. While budget laws present significant opportunities for financial enhancement and strategic investments, they also pose substantial threats that require effective risk management and regulatory compliance. By leveraging the opportunities and mitigating the threats, the Tose'e Ta'avon Bank can enhance its performance and contribute to the broader economic development goals of Iran. This study contributes to the ongoing discourse on the interplay between budget laws and banking performance, offering practical recommendations for banking professionals, policymakers, and researchers.

Authors' Contributions

All authors have contributed significantly to the research process and the development of the manuscript.

Declaration

In order to correct and improve the academic writing of our paper, we have used the language model ChatGPT.

Transparency Statement

Data are available for research purposes upon reasonable request to the corresponding author.

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Declaration of Interest

The authors report no conflict of interest.

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Ethical Considerations

In this research, ethical standards including obtaining informed consent, ensuring privacy and confidentiality were observed.

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