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A THEORETICAL FRAMEWORK FOR REFORMING THE MANAGEMENT OF FOREIGN RESERVES AND DETERMINING THEIR OPTIMAL SIZE FOR ACTIVE FISCAL POLICY - AN ANALYTICAL STUDY OF THE IRAQI ECONOMY

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Abstract:
Determining the optimal size of foreign reserves has a major role in achieving optimal employment of the financial surpluses that accrue to different countries in their economies, and this issue occupies special importance in rentier economies such as the Iraqi economy because of the association of those reserves with the value of unstable exports. The research stems from the hypothesis that the Central Bank of Iraq was unable to set a clear policy for the employment of foreign reserves to determine the optimal size of those reserves and the best way to employ them and to prefer the employment of these reserves in more effective investment aspects. The research concluded with a set of results, the most prominent of which is that the continued presence of foreign reserves of Iraq in the US Federal Bank in the form of treasury bonds does not achieve optimal employment for them, and the research suggested the use of foreign reserves to establish a sovereign fund for investment to maximize returns and achieve liquidity by employing international expertise to manage it.

Keywords: foreign reserves, monetary policy, international financing, the optimal size of reserves

1. INTRODUCTION:

The approved policies for managing the investment of reserve assets aim to identify a long-term strategic portfolio that represents an optimal portfolio to balance the various risks faced by the authority concerned with managing foreign reserves. This portfolio will be the standard investment portfolio of a reserve management authority, and this will be done by developing several actual standard investment portfolios that include diversification in selected currencies, investment instruments coupled with appropriate credit characteristics, and a duration that reflects the desired level of interest rate and exchange rate risks. The suitability of these standard portfolios must also be reviewed regularly. Changes are made to the standard rules as a result of changes in market structures or characteristics that affect the investment environment. Adopting standard investment rules represents a sound practice that brings discipline to the investment process.

International institutions have also set an optimal and appropriate level for the adequacy of foreign reserves, which they seek. The monetary authorities are to be in a safe and sound position that protects them against unexpected and unexpected shocks that the balance of payments may be exposed to, and at the same time keeps the cost of these reserves within their economically acceptable limits. This level is represented in several proposed measures that are an indicator of the adequacy of the reserves. The level of any country's international reserves is one of the factors determining creditors' confidence in it, and it also provides a climate of reassurance for foreign investors.

1.1. Reason for choosing the topic: The topic of the role of foreign reserves was chosen because of the importance that this topic acquires, especially with the increasing financial crises (local and global) and their increasing risks on the one hand, and with the increasing importance of determining the size of Iraqi international reserves in light of the current economic changes and the best

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options for employing them. On the other hand.

1.2. Research problem: The problem is embodied in studying the available means to reform the management of foreign reserves in Iraq, which is achieved by answering a set of questions, which are:

1. What are the ways to manage foreign reserves in Iraq and what are the most prominent aspects of their shortcomings?
2. What is the role of foreign reserves in employing the surplus achieved from the rentier sector in the Iraqi economy?

1.3. Research hypothesis: The research is based on the hypothesis that although the Central Bank of Iraq was able to build a large foreign cash reserve and was able to achieve stability in the local currency exchange rate, the policy of employing foreign reserves in the Central Bank of Iraq was not able to determine the optimal size of those reserves and the path It is better to employ them and prefer to employ these reserves in more effective investment aspects.

1.4. research aims:

1. Provide a conceptual framework for foreign exchange reserves and their management
2. Analysis of ways to employ foreign cash reserves at the Central Bank of Iraq
3. Reviewing alternative forms of investment available for foreign reserves.

2. THE CONCEPTUAL FRAMEWORK OF FOREIGN CURRENCY RESERVES AND THEIR OPTIMAL SIZE

2.1. The concept of foreign cash reserves and their components

Foreign reserves are defined as all forms of foreign assets placed by governments at the disposal of the monetary authorities represented by the central bank, to fulfill the state's external obligations to the balance of payments, in addition to employing them in strengthening foreign exchange markets to influence the exchange rate of the local currency and maintaining its relative stability, in addition to enhancing Confidence in the local currency and creating a base that enables it to obtain external loans from financial and banking institutions, in addition to providing an encouraging climate for investment to achieve additional returns (International Monetary Fund, 2009, p. 112).

Foreign monetary reserves are enhanced by the foreign trade movement of the economy, and there is a direct relationship between the reserves and the foreign trade movement, one of the basic functions exercised by foreign reserves is embodied in reducing the effects of external crises by providing sufficient liquidity in foreign currency that enables the monetary authority to neutralize the impact shocks and maintaining the stability of its trade balance (Mahous, 2015, p. 76). In general, central banks follow a portfolio trenching approach by dividing the portfolio into (Alsayar, 2019):

1. Liquidity portfolio (focusing on investing in high-quality liquid assets for immediate distribution).
2. Investment portfolio (with an emphasis on return and greater scope for diversification)

It also approved the rules for managing foreign reserves, their uses, and the laws that administer them, to employ and invest those foreign reserves that it owns in a group of investment assets, provided that two basic conditions are met, namely maintaining high levels of liquidity and low risks. This is done mainly by investing them in safe investment segments, such as deposits. With other central banks or with the International Settlements Bank (ISB), or investing in commercial banks with an excellent completion rating, or investing in government bonds and papers with maturities not exceeding ten years (Reserve Bank of India, 2009, p. 4).

The broad concept of elements of international reserves today includes the following elements:

1- Monetary gold: It represents the gold held by the monetary authorities, and this is through central banks keeping weights of gold bullion (the purity of which is no less than 995 parts per thousand) and it is traded in markets organized under the supervision of central banks (the International Monetary Fund, 2009).

2- Special Drawing Rights (SDR): Special Drawing Rights were created in 1969 as an additional international reserve asset in the context of the Bretton Woods fixed exchange rate system. The collapse of the Bretton Woods system in 1973 and the shift of major international currencies to floating exchange rate systems reduced reliance on the SDR as a global reserve asset (IMF, 2022).

3- Foreign Currencies: Official reserves of strong foreign currencies, such as the dollar, sterling, yen, euro, and others, provided that they have several controls, including that they have a high status in international trade (accepted for global trading), that they enjoy a high degree of stability in their value, that It relies on a solid monetary and banking system that is highly efficient in its management (Belkacem, 2009, p. 11).

4- The state's right to withdraw from the International Monetary Fund within the limits of the credit tranche: This includes both the credit reserve tranche, which is the sum of the values in

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foreign currencies that the state is available to withdraw within a short period, in addition to the member state's right to submit a request expressing its needs related to the balance of payments until... It can be bought using the reserve tranche (IMF, 2009, pp. 114-115).

5- Donations and aid: This is in addition to a final element, which is any form of gifts, grants, or aid provided to a country in one of the highly accepted foreign currencies (Baqa and Abdel Hamid, 2014).

2.2. The opportunity cost of maintaining foreign reserves

What is meant by this form of cost is the difference between the total benefit resulting from owning these foreign reserves and their marginal productivity for alternative investments. The increase in the amount of the gap between the previous two measures is an indication of a decline in central banks' demand for foreign reserves. That is, the greater the opportunity cost resulting from the possession of reserves, the greater the decline in demand for them (Joefel and Musa, 2021, p. 397). Alternative opportunity is also defined as the opportunity cost of cash reserves in a developing country as a function of the reciprocal treatment of the increased capital production ratio and the import content of those investments that can be achieved through the absorption of cash reserves (Agarwal, 1971, p. 87).

Central banks' possession of foreign reserves is usually linked to the nature of their function in controlling exchange rates and in a way that enables them to intervene when those prices go outside the range of acceptable fluctuations. And also to control the fluctuation of the balance of payments and foreign trade between surplus and deficit, to reflect the ability of the national economy to absorb any exceptional savings and pay off any possible emergency deficit. Were it not for these tasks, the opportunity cost of maintaining the reserves would usually exceed the financial returns for investing them, especially since the financial crisis that the world witnessed in 2008, or what is called the mortgage crisis, during which interest rates on high-quality debt instruments witnessed a significant decline in which they are invested. Most of the foreign reserves (Central Bank of Iraq, 2017, p. 63).

In other words, the opportunity cost of holding reserves is represented by the lost revenue from potential alternative uses (the return on repaying external debt or public investments) minus the financial returns generated from employing reserve assets and any savings achieved from a lower interest rate, if high reserves lead to marginal prices. Lower for the interest rate (Hauner, 2005). This requires central banks to develop strategies for managing foreign reserves, as the justifications for holding reserves vary from one central bank to another, and the standards set for the acceptable or optimal reserve level vary due to the varying importance of those reserves or the financing structure achieved from them in the priorities of central banks in monetary policy objectives. Achieving price stability is of utmost importance (Mohanty, 2014).

2.3. Methods of Measuring Optimal Foreign Reserves

(Agarawal) defines the optimal level of cash reserves here as the amount that will enable a developing country to finance, at a given fixed exchange rate, the temporary and unexpected balance of payments deficit arising in the planning period, and at the same time give the country a benefit equal to the opportunity cost of holding the reserve (Agarwal , 1971).

Reserves management should aim to ensure the adequacy of foreign exchange reserves in controlling liquidity, market, and credit risks prudently while generating reasonable medium and long-term returns on invested funds while taking liquidity and other risk constraints into account. Reserve managers must have an estimate of what constitutes an appropriate level, both to ensure availability and as part of the process of setting appropriate investment priorities (IMF, 2001, p. 10). Several proposed measures are an indicator of the adequacy of reserves, as follows (Agarwal, 1971):

The ratio of international reserves to imports (R/M): Most researchers believe that this ratio should range between (30-40%). This ratio is often used in rentier economies due to sudden and continuous fluctuations in rentier returns, and it can be measured through the following equation:

R:IM=R_t/ 〖IM〗_(t+1) ………… (1)

The ratio of reserves to the money supply in the broad sense (R/M2): through which it is possible to know the degree of leakage of capital, which would put pressure on measuring the degree of confidence in the currency and the efficiency of the banking system in a country, so international reserves must be maintained at no less than 20% of Money supply in the broad sense (M2) (Dominguez, Hashimoto, & Takatoshi, 2012).

R:M2=R_t/ 〖M2〗_t *100 ………… (2)

The ratio of reserves to short-term external debt (R/STED): Under this standard, foreign reserves are compared to short-term debts that are due for repayment within a fiscal year, and it is useful in measuring the risks associated with negative developments that occur at the level of international financial markets. If the external debts are Short-term reserves are less than the reserves. This indicates a risk to the economy in question and is measured

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according to the following equation (Dominguez, Hashimoto, & Takatoshi, 2012):

$R:STER = R_t / 〖STED〗_{(T+1)} *100$ ……….. (3)

2.4. Problems in calculating the optimal value

The IMF's formula for assessing reserve adequacy takes into account an economy's main potential risks from balance-of-payments shocks quite well, but its problem is that it applies equally to emerging economies that may have highly heterogeneous capital flows. In practice, each country's reserve adequacy target depends on its specific circumstances which can include (Alsayar, 2019, p. 239):

1. Exchange rate regime: More foreign reserves are needed to support currency stabilization policies than a floating currency, this is also partly because when authorities have sufficient foreign currency reserves, they do not have to resort to raising interest rates to protect the currency and are The easier alternative is to resort to foreign reserves to boost the currency price.
2. Structure of the economy: A unilateral economy is more vulnerable to economic and trade shocks than a diversified economy and needs more foreign exchange reserves.
3. The link between government spending and foreign exchange inflow: As government spending depends mostly on export revenues rather than domestic taxes, there is a close relationship between the two. This is because pumping demand into the economy from government spending leads to an increase in imports:
4. External debt: External debt requires servicing and repaying foreign exchange and thus requires saving it instead of accumulating foreign reserves (Abdurrazaq, Fahad, 2023).
5. Foreign investment: Holders of foreign assets denominated in the local currency will want to be able to sell their holdings and convert the local currency into their base currency.

3. THE REALITY OF FOREIGN RESERVES IN IRAQ AND WAYS TO DETERMINE THEIR OPTIMAL SIZE

3.1. First: Cash reserves in Iraq

The real fiscal surplus is what any government, represented by the Ministry of Finance, achieves in revenues that exceed its public expenditures during a fiscal year, and this surplus is what is available for any government to invest, whether at the national or international level, whether in the form of sovereign or investment funds or enhancing the state's stock of international reserves. The international reserves held by the monetary authorities (usually in the central bank, the treasury, or the Ministry of Finance) are part of the national wealth, and one of the conditions set for the elements of foreign reserves to be considered as such is that those reserves be at the disposal of the monetary authorities and serve their goals (International Monetary Fund, 2013).

Table (1) Foreign reserves of the Central Bank of Iraq

Year	Foreign reserves	Gold and Special Drawing Rights	investments	Other assets	Other assets	Net balance sheet
2010	1533	2695	47627	0	52224	334235927
2011	1546	2687	66887	0	71119	143877986
2012	2310	3869	75133	1719	81312	128200325
2013	5345	3712	81040	1730	90097	142140101
2014	6184	4886	65904	1655	76973	150206878
2015	2218	3626	57590	455	63435	136233599
2016	2426	3957	46723	446	53106	132613975
2017	1834	4433	51626	472	57893	111285271
2018	2453	4689	68875	464	76017	122994835
2019	1162	5572	73184	466	79918	13308980

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2020	4887	8487	64919	595	78293	138468929
2021	10212	9204	72021	602	79862	142156348
2022	10612	9845	78512	625	81021	145246478
2023	11004	10024	79253	662	83215	162548215

Source: Central Bank of Iraq, Department of Statistics and Research, annual statistical bulletins for multiple years.

It is clear from Table (1) that the size and composition of the cash reserves of the Central Bank of Iraq are unstable during the study period, and the reason for this may be due to fluctuations in exchange rates or to the use of those reserves to provide sufficient financing to enhance the activities of monetary policy and the central bank. In any case, the cash reserves It is considered the most liquid and the least expensive, so the possibility of disposing of it is higher than other reserves.

Table 2 Components of foreign reserves

	Total reserves including gold (USD)	Total reserves (% of total external debt)	Total reserve coverage in months of imports
2015	53992019679	282.3	10.8
2016	45298562241	193.9	11.8
2017	49315419400	175.5	11.7
2018	64719421423	232.9	13.0
2019	68017647834	247.6	10.9
2020	54424472658	206.9	11.4
2021	64231022303	254.3	14.5
2022	106121212000	365.7	23.9
2023	11004318200	394.2	24.8

Source: Central Bank of Iraq, Department of Statistics and Research, annual statistical bulletins for multiple years.

The foreign reserves that the Central Bank employs are not surplus funds but rather accumulate as a result of a specific mechanism according to which the Central Bank carries out what is called the "monetization process" or "sterilization process," in which the Ministry of Finance sells the largest portion of its revenues from foreign currencies (as it is responsible for implementing... The state's financial policy consists of matching the general budget (revenues and public expenditures) to the central bank to obtain the local currency issued by the central bank to implement its local spending without compromising the monetary base of the economy (Faraj and Ali, 2019). Given that the Central Bank of Iraq adopted a fixed rate policy for exchanging the Iraqi dinar against the US dollar over the past years to a large extent, and sought through the currency sale window to maintain this value of the dinar constant, the holder of the Iraqi dinar has a right to foreign reserves, which are a cover for the local currency (Hassan, 2023).

Iraq's external position is expected to remain healthy in 2023, and the country's external surplus will expand to 20.7% of GDP (although the current account surplus is expected to shrink to 14.2% of GDP due to a slight drop in oil prices and a sharp increase in imports due to Improved political stability, which will compensate for the continued increase in oil production), with expectations of continuing the rise in oil prices that took place over the past several years and an increase in oil production by 10.8% annually. In the second half of 2012, exports grew by 78.9% annually (Fitch Solutions, 2022).

Figure (1)

Iraq - Current account balance by component, % of GDP

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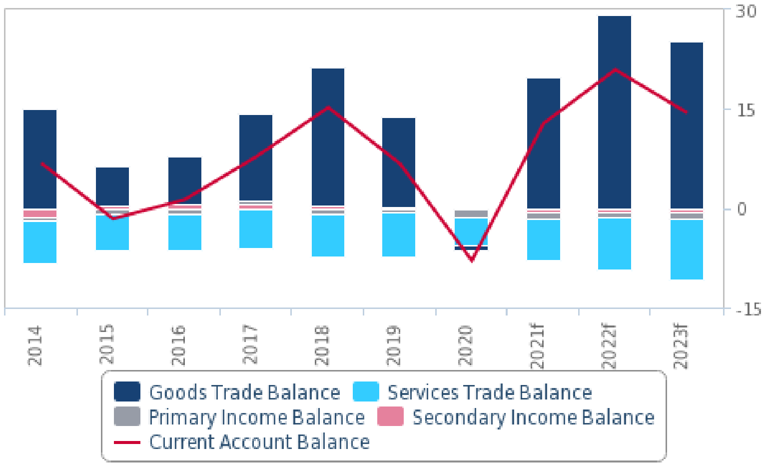
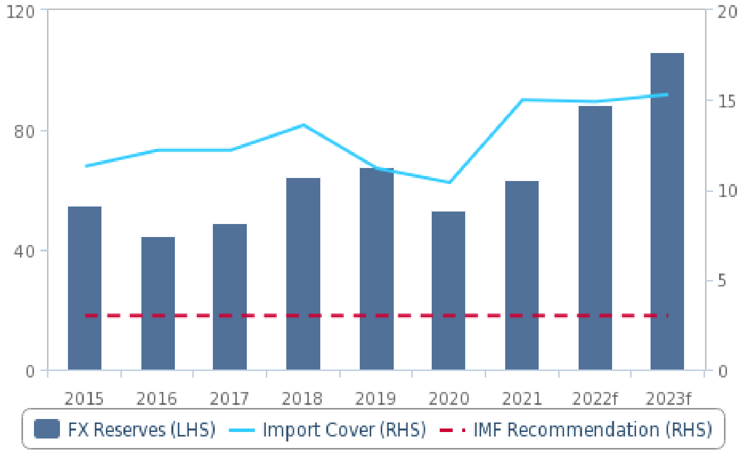


Fitch also expects hard currency revenues from oil exports to continue to increase and their role in enhancing foreign currency reserves. In October 2022, foreign currency reserves stabilized at 83.3 billion US dollars, rising in December of the same year to 91.4 billion US dollars, up from 53.6 billion US dollars in December 2020. We expect them to reach 105.9 billion US dollars by the end of 2023 (see figure Chart 3). This will allow Iraq's import cover to remain close to 15 months. The growth of foreign currency reserves will easily outpace the growth of the broad money supply (see chart below), limiting pressure on the dinar's peg to the dollar (Fitch Solutions, 2022).

Figure (2) Foreign exchange reserves, billion US$ and import coverage, months



3.2. The relationship between international reserves and internal stability and balance

Foreign reserves in Iraq play a very important role in stabilizing the exchange rate and the general level of prices, reducing inflation, financing government imports and the private sector, and absorbing international shocks that are transmitted internally due to the rentier nature that characterizes Iraq and the low participation of productive sectors such as agriculture and industry, which leads to increased dependence on abroad. The importance of foreign reserves in the stability of the dinar's exchange rate against the dollar can be known. Foreign reserves increased to reach (80,383) billion dinars in the year 2019 after reaching (19,901) billion dinars in 2005. This was accompanied by an improvement in the official dinar exchange rate to reach (1,190). In 2019, after it was (1469) in 2005.

International reserves also have a major role in reducing the risks of excess liquidity in the economy, as the fear of excess liquidity prompts central banks to conduct a partial sterilization process, whether internal sterilization (related to the basic monetary basis) or external sterilization (related to a surplus or deficit in the balance of payments) to withhold part of it. Of it in the Central Bank through the deposit window of banks with the Central Bank or the sale of bank transfers due to the limited short-term government volume because it is compared to the volume of public spending and monetary expansion, as well as the availability of excess liquidity in banks (Faraj and Ali, The Role of Financial Discipline and Monetary Sterilization Policies in Achieving Economic stability in Iraq for the period (2004-2016), 2019). The central bank's sale or purchase of quantities of foreign currency in the local market to achieve stability in the exchange rate necessarily requires withdrawing or pumping the

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corresponding Iraqi dinar from or to this market. This means that controlling the course of the exchange rate in a way that ensures its stability is imposed on the central bank. The monetary basis and money supply changed, and in light of the existing gap between supply and demand for foreign currency in the local market to achieve stability in the exchange rate, which imposed on the central bank to offer quantities of foreign currency in the local market that exceeded the quantities it obtained from the market, the Central Bank of Iraq finds itself in need To control the monetary basis and money supply (Hatem, 2015, p. 15).

To manage international reserves, during the year 2020, the Central Bank increased investment in deposits by creating new deposits to maximize annual returns, if the processes of replenishing deposits and converting foreign currencies into the US dollar were carried out using the electronic platform (FXT Thomson Reuters Thomas Reuters)[1*] , instead of the method Indirect, and on this basis, the best interest rates and dollar exchange rates were obtained after negotiating with correspondents between the initial price offered by the correspondent and the market price. The total difference in returns achieved amounted to (445,450,984) dollars during the year 2020 (Central Bank of Iraq, 2020, p. 5).

The Central Bank also achieved alternative investment opportunities and opened relationships with financial institutions with record returns compared to interest rates prevailing in the market, despite the deterioration of global interest rates to unprecedented levels of nearly (0%) as a result of the outbreak of the Corona epidemic and the reduction in the decline in returns to a percentage of (926.03). As revenues amounting to (97443064066) million dollars were achieved, the Central Bank of Iraq also achieved an increase in investment in bonds by creating new bonds to maximize annual returns issued by central banks, commercial banks, and financial institutions (Central Bank of Iraq, 2020, page 17). Good management of foreign reserves requires coordination between the liquidity of currencies, the security associated with them, and the amount of return achieved from investments in those funds outside the country (Ismail and Al-Shuwaili, 2018).

Efficient management of foreign reserves in different economies, and Iraq in particular, has many advantages that enhance the interconnection between the strengths of the different sectors, especially since (International Monetary Fund, 2001, p. 5):

1. The availability of an appropriate amount of reserves can increase the ability of the macroeconomic to overcome any internal or external shocks that are accompanied by the rentier nature of some economies. This is because any weak management of reserves leads to limiting the ability of the competent authorities to respond effectively to the financial crises that are increasingly occurring in the world.
2. Efficient management leads to providing better protection for assets and ensuring their availability at the optimal time when needed. It also enhances the financial markets' confidence in the national economy and enables them to manage the reserve portfolio and choose the investment tools and the most appropriate duration.
3. It supports sound macroeconomic management but is not a substitute for it. One of the factors that leads to efficient management of reserves is achieving optimal employment between the various elements of economic policies (fiscal policy, monetary policy, and exchange rate policy as a complementary element of monetary policy).

3.3. An analysis of the role of employing reserves in achieving the goals of the Iraqi economy

The balance of foreign reserves at the end of 2021 recorded an increase of 18.2% over the previous year, reaching 92.5 trillion dinars, compared to 78.3 trillion dinars at the end of 2020. This increase is mainly due to the increase in balances in foreign banks and New York, by 25.8%, to reach 81.6 trillion dinars for the year 2021 compared to 64.9 trillion dinars for the previous year, despite the decline in the market value of the existing gold balance by -3.7%, which amounted to approximately 8.2 trillion dinars at the end of 2021 compared to 8.5 trillion dinars at the end of 2020, and the decrease in the foreign exchange balance in the central bank's coffers by 44.4% to record 2.7 trillion dinars for the year 2021 compared to 4.9 trillion dinars for the year 2020. The Central Bank of Iraq believes that the role of foreign reserves is as follows (Central Bank of Iraq, 2020):

1. It constitutes a cover for the exported local currency and a means used to maintain stable exchange rates, as the optimal level of foreign reserves[2*] represents the ability of the

[1] * Thomson Reuters FXT The new trading application for the foreign exchange market. Provides the right solution for infrastructure and platform operation.

[2] * The Central Bank of Iraq defines the optimal level of foreign reserves as the minimum amount of the value of those reserves that the monetary authority must possess,

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monetary authority to maintain the local currency exchange rate.

2. The Central Bank uses foreign reserves as a basic tool to address potential imbalances in the structure of the balance of payments.
3. It represents an indicator for assessing the creditworthiness of the economy and provides an acceptable amount of foreign reserves that would enhance the credit rating in international transactions and enable one to obtain bank financing at an acceptable cost.

It must be stated that the foreign reserves that accumulate with the Central Bank of Iraq are not considered in any way as funds over the actual need of the economy, but rather they are accumulated funds as a result of a specific mechanism according to which the Central Bank carries out what is called the monetization process, as the Ministry of Finance sells the bulk of Its dollar revenues derived from oil exports to the Central Bank of Iraq to obtain the local currency to implement its domestic spending through the general budget, and because the Central Bank of Iraq adopts a fixed rate for exchanging the dinar against the US dollar, through the currency sale window, so the holder of the Iraqi dinar has a right in the reserves Existing foreign currencies as a cover for the local currency and its level should be maintained (Fahad, Abdurrazaq, 2023: 12).

The Central Bank of Iraq also finances government programs in a few cases through internal borrowing, which the Central Bank of Iraq finances directly in the form of direct discounts for securities issued by the Ministry of Finance, which is contrary to the principle of independence of the Central Bank of Iraq Law No. (56) of 2004 Article (4), or indirectly through discounting in favor of local commercial banks, and in both cases it will hurt foreign reserves from which internal borrowing is required to be financed. To acquire the Iraqi foreign reserve policy and its good management, it must lead to choosing the most appropriate criterion for reserve storage of foreign currency to avoid shocks of payments, as well as the costs of depleting the reserves themselves and estimating the lowest alternative cost resulting from keeping the same foreign reserves. It should also choose a criterion for the speed of adaptation or adjustment with fluctuations in the prices of basic and ruling commodities such as oil and its global prices without the availability of a capacity for compensated Iraqi domestic production due to the lack of any flexibility in the supply of exports and the weak flexibility of the exchange system supported by the daily currency auction, which drains foreign reserves, which is what It will lead to a decline in the level of creditworthiness and the ability to borrow from foreign markets (Al-Ali, 2015).

One of the things that was acknowledged was that the Central Bank of Iraq's employment of foreign reserves, which consisted of three main components: gold and foreign currencies (mainly represented in dollars) at a rate of 91.5%, special drawing rights (SDR) at a rate of 6.3%, and gold at a rate of 2.6%. The highest percentage of investment in the reserves of the Central Bank of Iraq was in bonds, at 34.9% of the total foreign reserves, because of the high returns they generate compared to investment in other financial assets. What makes matters more complicated is that the highest investment in bonds was in US Treasury bonds, which yield an estimated return of between 1.6-1.01%, which exceeds the returns on bonds issued by the French Bank and bonds issued by the British Bank, confirming the concentration of capabilities of the Iraqi economy and the investments of the Central Bank. Its foreign reserves internationally are present in American banks (Ahmed, 2019).

4. CONCLUSIONS:

International reserves are closely linked with the applicable exchange rate system, as the demand for reserves increases in economies that adopt exchange rate intervention regimes, and maintaining international reserves in a liquid manner entails a cost called opportunity cost. Therefore, the demand for reserves is inversely proportional to the opportunity cost, as there is a trade-off between three criteria: liquidity, safety, and profitability. The good management of international reserves ensures that they are available at the disposal of the monetary authority. However, the continued presence of Iraq's foreign reserves in the US Federal Bank, which amounted to 39.7 billion US dollars in November, stems from Iraq's continued submission to Chapter VII of the United Nations Charter and now in Chapter VI, and the presence of Iraqi funds in the federal came to be spent with the Sixth Charter and remain under supervision regarding compensation.

Efficient management of reserves is of great importance because it can increase the resistance and flexibility in the economy to face the external shocks that Iraq continues to go through in light of the rentier nature of the Iraqi economy. The abundance of foreign currencies as one of the components of the international reserves in the Iraqi economy enabled the use of part of it to raise the exchange rate of the currency and negatively affects the competitiveness in the medium term for the restrictions that the work of monetary policy.

5. DISCUSSION:

which is calculated according to internationally approved standards.

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Giving priority to the use of reserves is one of the basic needs of the Iraqi economy. Therefore, international efforts are necessary to meet the requirements of economic development, think about encouraging exports, and strive to establish a sovereign fund to invest and manage foreign reserves abroad that aims to maximize returns and achieve liquidity by employing international expertise to manage it to enable The Central Bank of Iraq will protect itself from facing any potential crises (internal or external), as well as to preserve the wealth of future generations from oil revenues. The necessity of financing the Central Bank of Iraq directly so that it does not affect international reserves, and paying attention to the diversification of currencies by creating a basket of currencies and providing returns to avoid risks that harm international reserves, in a way that foreign reserves have an important role in achieving economic stability.
The nature of the management of foreign reserves in the Central Bank of Iraq is linked to the strategic relationship and foreign policy between Iraq and the United States of America, and it is possible to go further by moving from military hegemony and shifting to political, economic and financial hegemony over Iraq. Accordingly, the independent monetary authority was built under the Central Bank Law. In the time of Paul Bremer, this independence must be reviewed more rationally to make the use of foreign reserves a tool for achieving integrated economic development that works to diversify the Iraqi economy.

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