



# **AN ANALYTICAL STUDY OF THE ROLE OF THE CENTRAL BANK OF IRAQ IN SUPPORTING AND IMPLEMENTING THE STATE'S GENERAL BUDGET**

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<b>Article history:</b>		<b>Abstract:</b>
<b>Received:</b>	20 <sup>th</sup> April 2025	<p>This research aims to shed light on the vital role played by the Central Bank of Iraq in supporting and implementing the state's general budget, given the economic and financial challenges facing the country. The research addresses the central bank's core functions, such as managing monetary policy, controlling inflation levels, and supporting the stability of the national currency, and how these functions impact the implementation of the general budget.</p> <p>This research aims to shed light on the vital role played by the Central Bank of Iraq in supporting and implementing the state's general budget, given the economic and financial challenges facing the country. The research addresses the central bank's core functions, such as managing monetary policy, controlling inflation levels, and supporting the stability of the national currency, and how these functions impact the implementation of the general budget.</p>
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## **THE INTRODUCTION**

The state's general budget is a pivotal tool in managing the national economy, as it reflects the government's financial plans and determines spending and revenue priorities to achieve economic and social goals. In this context, the role of the Central Bank emerges as one of the most important financial institutions in the state, due to its direct and indirect impact on financial and monetary policies, and consequently on the implementation of the general budget.

Over the past decades, Iraq has faced significant economic challenges, most notably heavy reliance on oil revenues, fluctuations in oil prices, and security and political challenges. This has increased the importance of coordination between financial institutions, especially the Central Bank, to ensure the sustainability of public finances.

This study aims to analyze the nature of the role of the Central Bank of Iraq in supporting and implementing the state's general budget, and to determine the extent of the impact of its monetary policies and its participation in financing the financial deficit on budget performance, including the challenges and opportunities available.

### **Research problem:**

Despite the legal independence of the Central Bank of Iraq, the economic and financial reality facing Iraq, particularly the challenges associated with the ongoing budget deficit and fluctuating oil revenues, has led to greater overlap between monetary and fiscal policies. With the government's increasing reliance on the Central Bank to finance the deficit and provide liquidity, important questions have emerged about the consistency of this role with the Central Bank's core functions, and whether these practices negatively impact monetary stability and inflation.

From here the research problem starts in the following main question:  
What is the nature of the role played by the Central Bank of Iraq in supporting and implementing the state's general budget, and what is the extent of the impact of this role on financial and monetary stability in the country?

### **IMPORTANCE OF RESEARCH:**

The importance of this research stems from the sensitive role played by the Central Bank in the national economy, especially in an unstable economic environment such as that of Iraq.



The Central Bank is one of the most important pillars of the country's fiscal and monetary policy, and has a direct impact on macroeconomic stability and the achievement of sustainable development goals.

It is also important to understand the complementary relationship between the monetary policies implemented by the central bank and the financial policies adopted by the government through the general budget.

#### **Research objectives:**

1. Analyzing the role of the Central Bank of Iraq in financing or supporting the implementation of the general budget, whether through monetary policy tools or through direct interventions.
2. Determine the mechanisms and policies used by the Central Bank to achieve financial and monetary stability and reduce the general budget deficit.
3. A study of the impact of central bank interventions in the financial market on the effectiveness of implementing the state's general budget.
4. Evaluating the relationship between monetary and fiscal policy in Iraq, and the extent of coordination between the Central Bank and the Ministry of Finance.
5. Proposing recommendations to enhance the role of the Central Bank in supporting the general budget and achieving economic balance in Iraq.

#### **Research hypothesis**

The Central Bank of Iraq has an effective and direct role in supporting and implementing the state's general budget through its monetary and supervisory tools, and this role contributes to reducing the financial deficit and achieving economic stability, provided there is effective coordination between monetary and financial policies

The first requirement: The Central Bank of Iraq, its importance and its supervisory methods.

#### **The concept of the central bank- :**

There are many different definitions of the central bank, which differ in many aspects in terms of meanings and terminology, but they all agree on the role that the central bank plays at the top of the banking system. Here I have limited myself to presenting the most important of them as follows:

The central bank is defined as the institution responsible for issuing money and heading the monetary system in each country. Therefore, it supervises monetary management and controls the banks operating in the economy, considering that it is a bank for banks and a bank for the government, to which they return when they need liquidity. The latter refinances the banks when necessary. As for the government side, it obtains the necessary advances from it within the framework of prevailing laws and legislation. On this basis, the central bank is the last resort for lending, and under its general policy, it subjects banking and other financial institutions to the regulations and directives it issues in terms of the amount of liquidity that must be retained or the loans it grants, subjecting them to the rules it sets when intervening in the monetary market. The central bank also intervenes in the exchange market with the aim of supporting the national currency against foreign currencies (Ashour, 2014, p. 3) . It is also defined as a monetary institution that dominates the monetary and banking system in countries with different economic and political systems and degrees of economic development and progress . It is responsible for issuing currency, monitoring the banking system, and directing credit to support economic growth and maintain monetary stability by providing appropriate cash quantities within the economy. And linking it to the needs of economic activity , and thus it represents the monetary authority and is responsible for managing it with its various objectives, which are primarily linked to the objectives of the national economy as a whole. That is, it manages the monetary wealth owned by the community in a rational economic manner, as well as formulating monetary policies with the rest of the banking system in order to achieve proportionality and harmony in the growth and circulation of wealth. The truth. (Zaghir, 2020, p. 206) , and it is also known as public institutions that deal with institutions more than they deal with the public, and there is usually one central bank for each country, with the exception of the United States of America, in which there are more than ( 12) banks concerned with issuing money under the authority and supervision of the Federal Reserve and the Bank. The Central Bank is an institution that does not primarily seek to make profits. (Al-Ani, Saber, Al-Haiti, 2022, p. 174). As defined by (Hussein, Hassan, Ahmed, 2022, p. 23) it is a banking institution responsible for monitoring and directing the banking system in the country through monetary control over the policies of operating banks as well as financial institutions. It generally aims to maintain monetary and financial stability in the country and contribute to enhancing economic growth, controlling inflation and reducing unemployment rates.

#### **The origin and development of the Central Bank-:**

Central banks, in turn, were not created from nothing. Rather, there were stages and reasons for the birth of these banks and their entry into the arena. With the development of business, the increase in money, and the multiplicity of banks , there had to be a center for all these businesses and trades. "In comparison with commercial banks , central



banks are considered to be of recent origin. They were not established in parallel with the emergence of commercial banks. Rather, it can be said that the development of banking work and the growth of its role in economic life necessitated the existence of central banks." (Hakima, 2022, p. 8 )

The first central bank appeared in Sweden in 1668, which aimed to: Securing state financing in exchange for the privilege of issuing currency. Britain established its second central bank in 1694, which was established by royal decree to finance the king's treasury in exchange for the right to issue currency as well.

In 1947, the Iraqi National Bank Law No. 43 was issued, which stipulated the establishment of the Central Bank. Thus, the year 1947, in which the National Bank was legally established, was considered a turning point in the monetary history of Iraq, as the country achieved its ambition to have an issuing institution headquartered in Baghdad, and it became possible. and For the first time, at least theoretically, a monetary policy is drawn up for the country. (Al-Salihi, 2010, p. 2.).

#### **Central Bank Jobs -:**

is one of the most important economic institutions of the state, and it performs a number of vital functions that contribute to achieving financial and economic stability. The most prominent of these functions are: ( Asmaa, 2016, p. 10) ; (Mahran, 2019, p. 31) ; (Abdul Hamid, 2016, p. 15).

1. Issuing currency, which is the main and primary function, as it is responsible for issuing all types of local currency, paper and metal.
2. Implementing the monetary policy approved by the government, maintaining the government's balances and special accounts, paying its expenses and financing its public projects, and thus taking on the status of a government bank.
3. Supervises commercial banks, controls money, interest rates, exchange rates and credit - thus taking on the role of the bank of banks.
4. Maintaining monetary and financial stability in the country and contributing to enhancing economic growth, controlling inflation, and reducing unemployment.
5. Providing certain services to the government and banks, so the government deposits its money in it and borrows from it. It works to prevent crises and treat them if they occur. It is also the bank in which banks keep their funds. With some of her money and borrow from it when needed.
6. Establish a policy for banks that prevents them from harmful competition and enables them to perform credit on Perfect face
7. Under the supervision of the government, direct the national economy of the country.
8. Contact and cooperate with other central banks.
9. Achieving better rates of economic growth.
10. Protecting the money of depositors and other creditors.

#### **Central Bank Supervisory Tools-:**

Among the methods and tools used by the central bank to influence the direction of monetary policy in the country are: quantitative tools represented by: (open market operations, discount rate, legal reserve ratio)

As well as the qualitative tools represented by: (regulating consumer credit, borrowing through bonds with a specified profit margin, regulating credit granted for construction purposes, literary influence and persuasion, direct influence in granting credit).

The truth is that these two tools are exercised by the Central Bank for the purpose of influencing the money supply in circulation in the market and bringing it to a level that is compatible with the prevailing economic conditions in the country. (Hussein, Hassan, Ahmed, 2022, page 33).

1. Open market operations : This tool affects the cash reserves of commercial banks and is done by the central bank buying and selling government papers only, which in turn changes the reserves of commercial banks at the central bank, and thus the ability of these banks to create deposits is affected (Nasser, 2006, p. 122.)
2. Rediscount rate : It is the price that the central bank receives in exchange for the credit it provides to commercial banks. The central bank considers this method as a means derived from its function as a last resort for lending. The central bank raises the discount rate, i.e. increases it. The price he gets for the credit he requests if the matter of extending credit is not desirable (Al-Fuli, Shihab, 1999, p. 288).
3. Legal reserve ratio : It is the percentage that commercial banks keep with the Central Bank, and it represents the minimum amount of liquid balances that the bank keeps to meet daily withdrawals by depositors. The Central Bank uses this tool in cases of expansion of economic activity that threatens the emergence of a wave of inflation, as it raises the legal reserve ratio with the aim of curbing its excesses at that time. Commercial banks are forced to reduce the volume of credit either by tightening the granting of new loans or by calling for loans on demand (Hashem, 2005, p. 88. (



4. Direct supervision : The concept of direct supervision is limited to the binding orders and instructions that the law authorizes the Central Bank to issue, whether to individual banks or to commercial banks in general, with regard to the activities they carry out in the field of lending and investment (Al-Naqa, 2000, p. 127) .

Other important tools used by the Central Bank in the neck are : (The lame, 2022 , page 80) .

1. **Setting a ceiling on the interest rate granted to current deposits** : Commercial banks may compete to increase customer deposits, by offering interest on current deposits or waiving time limits for withdrawals on term deposits.
2. **Supervision of installment sales terms** : The installment sales system generally increases consumption, and the central bank can facilitate the terms of this sale in the event of a recession by reducing the minimum advance payment for the commodity, extending the installment period, or otherwise.
3. **Real estate credit control**: It is well known that the housing problem is considered a major problem in most countries, if not in all countries of the world. The central bank may be able to contribute to alleviating its severity by facilitating access to loans for building homes, by reducing the down payment, extending the loan term, and other means.
4. **Literary influence** : If the Central Bank wishes to pursue a contractionary or expansionary policy, it may call upon the officials in charge of managing commercial banks and issue them instructions regarding reducing or increasing the loans they grant to customers .

### The second requirement: the state's general budget

#### The concept of the general budget- :

It can be said in general that the word budget in the Arabic language generally means the process of balancing between two or more things, and in the field of public finance it refers to the document or tables that contain estimates of the state's expenditures and revenues for a future period of time. In the Arab countries, this document was called the budget until 1972, when the Sixth Arab Conference on Administrative Sciences made a decision that clarified the use of the term budget and considered the term budget to express tables displaying the state's financial position at the end of the fiscal year (Muhammad , 1996 , page 1).

He knew her (Al-Janabi, 2017 , (Page 102) It is a plan that includes an estimate of the state's expenditures and revenues for an upcoming period, usually a year. This estimate is made in light of the objectives sought by the political authority. Based on this definition, the general budget is not an accounting tool that clarifies the state's public expenditures and revenues, but rather it is closely related to the economy and a means for the state to achieve its goals. (Lotfi, 2009 , page 254) defined it as: A detailed and approved report of public expenditures and public revenues for a future financial period, usually a year. It was defined by (Mabrouk, 2015 , p. 744) as a financial work program that crystallizes in the form of a document approved by the legislative authority and includes detailed estimates of both public expenditures and public revenues for the coming year. It is the main tool used by financial policy to achieve a set of economic, social and financial goals. And he knew it ( Abdul Wahid, 1996 , Page 12 ) that it is An accounting, legal, financial and political document that expresses The idea of anticipating and approving public expenditures and revenues for a future period, which expresses in the form of numbers the administrative, economic and social activity of the state.

#### General budget objectives-:

The budget, like any system, is designed to manage public funds in a way that leads to achieving the desired objectives of managing this money. In fact, it has become one of the most important tools of financial policy that targets goals that the government seeks to achieve. The most important objectives that the budget must achieve can be summarized as follows (Zaki, 2008 , Page 32).

1. Organizing, controlling, collecting and spending public funds in an organized manner represented by well-studied and justified allocations, not just scattered and disparate numbers.
2. Public finance management, so that consumptive administrative expenditures do not overwhelm other expenditures that achieve the public good, benefit the population, reduce income inequality, and promote financial stability.
3. Follow up on the implementation of government programs, work to rationalize and reduce expenses, reduce actual reservations, and monitor job performance.
4. Combating administrative and financial laxity in all government sectors, establishing rules and regulations to limit it, and continuously monitoring the expenditure of public funds and ensuring that they are spent in accordance with the purpose for which they were allocated.

### The importance of the state's general budget:





1. A tool for central control of public funds, as achieving estimates in the implementation stages, bringing actual implementation closer to the plan, and identifying violations and deviations is an important and essential tool for measuring the actual performance of programs and activities (Al-Jazrawi, 2007, Page 1).
2. The budget is a tool for coordination between government activities and agencies and plays a major role in implementing economic objectives by distributing monetary means and providing purchasing power to all service units, thus achieving economic proportionality in allocating investment and consumer funds (Al-Ubaidi, 2005). Page 7)
3. The importance of the budget is highlighted as an important tool in confronting economic crises, by controlling spending operations or revenue sources and rates. This is achieved by the government taking a path opposite to the prevailing trends in economic life. In the case of inflation, the state seeks to absorb excess demand by imposing more taxes.
4. And reducing public expenditures, and in the event of a recession, it seeks to benefit from the surpluses that it has accumulated (Sayyid Ali, 1984, p. 355)
5. Using the budget as a planning tool, whether at the state level or at the level of the governmental unit that prepares the general budget, is the only tool for implementing the theory of allocated funds and achieving the specified goals. (Al-Shammari, 1998) Page 12)
6. The budget represents an important tool for achieving development and general financial balance by allocating a portion of public spending to complete some basic investments in some branches of economic activity in an attempt to increase national production rates (Al-Shaikhli, 2007: p. 20) Based on the above, it can be said that the budget represents one of the main factors that determine the state's objectives, policies, and programs in terms of how resources are exploited and distributed.

#### **Principles and rules of budget preparation : -**

1. The principle of annual budgeting: means the independence of each financial period with its revenues and expenditures, and it is considered one of the established principles until now. The Financial Administration Law No. (95) of 2004 issued by the Coalition Authority in Iraq stated that the budget is approved for a fiscal year and its effect is valid during the year in which it was approved, and that unspent and approved allocations will lapse at the end of the fiscal year, except to the extent that goods and services have been requested and received correctly. Law No. (20) of the Federal General Budget Law of 2008 states that only the Minister of Finance has the authority to transfer unspent amounts from the amounts allocated for the year 2007 for the purposes of investment projects for ministries and departments not affiliated with the Ministry, and to develop and accelerate the reconstruction of governorates and revive funds to be spent during the year 2008, as an exception to the provisions of Section Four (F/1) of the Financial Administration Law No. (95) of 2004. (Federal Budget Law No. 20 of 2008).

There are some exceptions to the annual budget, including: (Al-Sayegh Muhammad, 2001, page 50).

Budgets for less than a year: Governments resort to budgets for less than a year when political problems arise between the two authorities that lead to a delay in approving the budget, or when the government delays submitting the draft budget for technical or financial reasons. Interim budgets are issued.

A budget for more than one year, such as the investment program budget, which takes several years to implement and is considered long-term planning, so the budget period is longer than the usual year.

2. The principle of budget comprehensiveness: According to this principle, the state's general budget must include all allocations for public expenditures and allocations for public revenues in a total manner. This means that the state units charged with collecting public revenues do not have the right to deduct public expenditures from them and record them net in their budget. This principle helps the legislative authority with the work of monitoring all revenues and expenditures, as no administration is allowed to use its revenues to cover its expenditures outside the control of the legislative authority (Hamad and Al-Bahr, 1990, Page 84).
3. The principle of budget unity: This means that the state organizes a single budget that includes expenditures and revenues, regardless of their different sources and the number of institutions included in the state's administrative organization. (Al-Khatib, Al-Shamiya, 2003, p. 280).
4. The principle of budget balance: The traditional view of the budget principle is the arithmetic balance. The total revenue allocations equal the total expenditure allocations without a deficit or surplus in the budget. As for the modern view, it is a broader and more comprehensive concept. Economic balance is a balance between national income and expected national spending. Within this view, it is not limited to a mere arithmetic balance (Al-Jazrawi, 2007, Page 2).

#### **Publication and disclosure rule:**



The budget must be published and communicated to various parties (legislative council, citizens, ministries, and administrative units).

The method of publication and the level of detail of the data to be published vary, as shown below:

- ❖ As for the public, the totals of the most important elements of the budget and a statement of the impact are published. Balancing raising the standard of living and providing goods and services.
- ❖ The legislative authority approves the budget (Chapter , Chapter) It should be informed of the budget in detail, which makes it easier for it to study and approve it, as this requires knowing the relative importance of current and capital expenditures.
- ❖ Administrative units are informed of their budget estimates in a detailed and accurate analytical manner, which facilitates the process of implementing and monitoring the budget. (Hamad , Al-Bahr , 1190, Page 86.)

### **Stages of the budget process:-**

1. Initial preparation stage : It is the first stage of the budget process and is often the responsibility of the executive authority with the permission of the legislative authority. A legislative decision is issued that gives the green light to the executive authority, as the authority charged with managing state facilities and implementing its internal and external policies, to prepare the annual circular issued by the Minister of Finance, which is directed to ministries and government departments to begin preparing budget estimates, i.e. creating the general vision for the general budget for the coming year. (Al-Farji , Ibrahim, 2004 , page 51).
2. Preparation stage : In this stage, the various ministries and government departments, each individually, prepare their budgets after receiving the annual publication in accordance with the principles, rules and objectives contained in this publication . This process certainly requires complete coordination between all departments in order to determine their needs and annual spending requirements and then submit them to the entity responsible for preparing the budget within the period specified in each ministry. .
3. Second preparation stage : After the ministries and government departments, each individually, have finished preparing their final general estimates for their budgets, they begin sending them to the responsible authority in the central executive authority, which is often the Ministry of Finance or the Ministry of Treasury, before the end of the period specified in the annual circular previously referred to ( Al-Baghdadi, 1998, p. 60) .
4. Budget approval, ratification or approval stage : There are multiple names for one process, which is the submission of the budget in its final form by the executive authority to the legislative authority for approval and ratification. Of course, those numbers in the budget document submitted to the legislative authority are accompanied by explanations, forecasts, justifications, assumptions, and detailed information sufficient to explain what those numbers are, what they mean, and what they aim for. (Abdullah, 2001 , page 85)
5. Budget implementation phase : Upon completion of the previous stage, each ministry or department receives its budget allocations in the form of specific balances in its account at the public treasury or the central bank of the country. Thus, at this stage, each ministry or department has the right to begin spending and committing within the limits of the amounts allocated to it for each aspect of spending within the approved classification and within the time specified for each of them. (Al-Duri , Al-Janabi, 2000 , page 93.)
6. Budget control stage : It is the last stage of the budget process and is a set of measures that the state puts in place to enforce the protection of public funds through its monitoring of all financial activities of state agencies and departments. There are several types of oversight, including pre- and post-disbursement oversight and during disbursement, depending on its nature. It includes administrative, parliamentary, or independent political oversight. The Central Bank is also considered one of the main parties in the process of monitoring the implementation of the state's general budget, as it plays a pivotal role in ensuring the stability of financial and economic performance in line with the objectives of general economic policy. (Al-Jamil, 2005 , p. 27).

### **The third requirement: The role of the Central Bank of Iraq in implementing the state's general budget.**

1. Methods and policies used by the Central Bank of Iraq:  
The Central Bank of Iraq has an important role in implementing the state's general budget, as it directly or indirectly affects the financial and economic aspects (revenues and expenditures) that support the implementation of the government's financial plans through the following. I will discuss a group of related tools (the official website of the Central Bank of Iraq, monetary policy)
2. Determining the official exchange rate : i.e. the exchange rate of the Iraqi dinar against other foreign currencies, especially the US dollar. Stabilizing exchange rates contributes to achieving economic stability in general, which has a positive impact on the state's imports and expenditures.



3. Foreign Reserves Management : The Central Bank of Iraq controls foreign reserves, which are a source of imports and are also used to pay off the country's external debts.
4. Monetary policies : include various aspects of banking and financial operations and instructions on how to manage liquidity to ensure the stability of the financial system . To manage liquidity and ensure the stability of the financial system, the Central Bank of Iraq issues specific instructions and guidelines to banks and financial institutions, which reflect the state's revenues and expenditures included in the state's general budget. These instructions include:
  - ❖ Reserve requirement: A specific percentage of bank deposits must be held as cash reserves at the central bank. This helps control the amount of liquidity available to banks and limits excessive lending.
  - ❖ Open Market Operations: The central bank purchases and sells government bonds to increase or decrease liquidity in the market. These operations are used to control the amount of money in circulation and thus influence interest rates and inflation.
  - ❖ Interest rate management: The setting of interest rates on loans and deposits affects the demand for money. A high interest rate reduces borrowing and limits liquidity, while a low interest rate increases borrowing and increases liquidity.

(Table 1  
 (Revenues and Expenditures of the Republic of Iraq (2019-2023

<b>disability (trillion dinars)</b>	<b>Expenses (trillion dinars)</b>	<b>Revenues (trillion dinars)</b>	<b>years</b>
(4.24)	111.72	107.48	<b>2019</b>
(12.89)	76.08	63.19	<b>2020</b>
6.24	102.84	109.08	<b>2021</b>
44.74	116.95	161.69	<b>2022</b>
(6.75)	142.43	135.68	<b>2023</b>

Iraqi Ministry of Finance, Revenues and Expenditures, ) <https://mof.gov.iq/obs/ar/Pages/RVEXChart.aspx>  
 Public revenues and expenditures represent an important indicator of the health of the Iraqi economy, which relies heavily on oil revenues as the main source of income. Table No. (1) shows the development of revenues, expenditures, and deficits or surpluses. In the Iraqi general budget for the period from 2019 to 2023. I will review the reasons for the rise and fall in these indicators based on the data available on the official website (Ministry of Finance, General Budget Data).

2019 deficit of 4.24 trillion dinars The main cause of disability Global oil prices fell in 2019 compared to previous years, with the price of a barrel of oil ranging between \$60 and \$70, and public expenditures rose due to security burdens and spending on reconstruction after the war against ISIS . In 2020, A large deficit of 12.89 trillion dinars The main cause of disability Corona pandemic crisis , The pandemic has caused oil prices to collapse to record lows, with the price of a barrel falling below \$20 in some months, and global demand for oil has declined due to economic lockdowns and continued high expenditures, especially in the health and security sectors . 2021 surplus of 6.24 trillion dinars The main reason for the surplus is the recovery in oil prices. Oil prices rose significantly in 2021, exceeding \$70 per barrel, due to the global economy's recovery from the effects of the pandemic , increased Iraqi oil production after OPEC agreed to raise production ceilings , and relatively rationalized government spending due to the economic pressures caused by the 2020 crisis . In 2022, there was a large surplus of 44.74 trillion dinars. The main reason for the surplus

Oil prices rise to record levels Due to the Russian-Ukrainian war, the price of a barrel of oil reached more than \$100 , Iraq's revenues from oil exports increased , and general budget management improved relatively, despite the continuing structural challenges in the Iraqi economy . In 2023, there will be a deficit of 6.75 trillion dinars. The main cause of disability Oil prices fell in 2023 due to slowing global economic growth, increased oil supply , rising public



spending , particularly in the services and wage sectors , and ongoing structural challenges in the Iraqi economy, such as corruption and inefficient public spending.

Tools used by the Central Bank of Iraq to influence the general budget: First: The impact of the exchange rate:

Central Bank of Iraq,

Table No. (2) The effect of the exchange rate on the deficit

<b>Surplus/Deficit (trillion dinars)</b>	<b>exchange rate (Dinar/Dollar)</b>	<b>years</b>
(4.24)	1190	<b>2019</b>
(12.89)	1190	<b>2020</b>
6.24	1460	<b>2021</b>
44.74	1460	<b>2022</b>
(6.75)	1310	<b>2023</b>

Monetary Policy Reports, <https://cbi.iq/page/149>

According to Table No. (2), the policy followed by the Central Bank in managing the exchange rate constitutes an effective mechanism in protecting the Iraqi economy from internal and external shocks that it may face. Also, the high fluctuations that may occur in the exchange rate leave negative effects on the value of the dinar and on most other economic variables. These fluctuations are the result of several reasons, the most important of which are speculation and fluctuations in demand for the dollar or its supply (Central Bank of Iraq, early warning reports).

During these two years The exchange rate was stable in 2019 and 2020 , but oil revenues were significantly affected by the decline in global oil prices, especially in 2020 with the COVID-19 pandemic . This stability in the exchange rate led to limited revenues in Iraqi dinars, which contributed to a fiscal deficit of (4.24) One trillion dinars in 2019 and rose to (12.89) trillion dinars in 2020 as a result of the decline in oil revenues and the increase in expenditures to confront the pandemic.

In 2021, the Central Bank of Iraq decided to devalue the Iraqi dinar against the US dollar from 1190 Dinar/ Dollar to 1460 Dinar/ dollar The primary objective of this decision was to increase government revenues in Iraqi dinars from oil exports, as Iraq relies heavily on oil revenues received in dollars . The positive impact of this decision is an increase in revenues in Iraqi dinars as well as increased liquidity in the economy as a whole. The impact The downside of this decision is the rise in prices of imported goods , increased pressure on government spending , and the impact will continue into 2022. The price policy continued Exchange rate at 1460 Dinar/ The general budget recorded a large surplus of 44.74 dollars. trillion dinars This surplus is due to several factors, including the improvement in global oil prices and the increase in non-oil revenues. However, this increase created new challenges for the state, such as the high level of inflation. Increased government spending . In 2023, the Central Bank reduced the exchange rate to 1,310 . Dinar/ Dollar in an attempt to reduce the effects of inflation and support the purchasing power of citizens , despite this the general budget witnessed a deficit of (6.75) trillion dinars as a result of the large increase in government spending in the budget, which exceeded the achieved revenues, even with the continued heavy reliance on oil revenues . From this, we note that the Central Bank's policy regarding the exchange rate was a major tool for dealing with economic crises, but its impact was dual. While it contributed to increasing government revenues in dinars, it imposed major challenges on expenditures as a result of inflation and the rise in government support costs, which led to an exacerbation of the financial deficit in some years.

## **Second: The impact of foreign reserves**

Table No. (3) Foreign Reserves





<b>foreign reserves (billion dinars)</b>	<b>years</b>
79,918	<b>2019</b>
78,293	<b>2020</b>
92,527	<b>2021</b>
140,086	<b>2022</b>
100.1	<b>2023</b>

Central Bank of Iraq, Monetary indicators , ( <https://cbiraq.org/SubCategoriesTable.aspx?SubCatID=92> good level in 2019 , supported by stable oil prices. This helped provide the financial liquidity needed to finance imports and meet external obligations , reducing pressure on the general budget . The Central Bank effectively managed these reserves to support the Iraqi dinar exchange rate and provide liquidity to the banking sector .

Reserves saw a slight decline in 2020 due to the collapse in oil prices caused by the COVID-19 pandemic . However, reserves remained at an acceptable level, helping mitigate economic shocks and maintain budget stability . The Central Bank intervened to support the exchange rate and provide dollars to local banks to meet import needs . With oil prices partially recovering in 2021 , foreign reserves rose significantly. This increase helped boost international confidence and support the general budget by financing projects and services without resorting to borrowing . The Central Bank continued to manage reserves effectively, focusing on exchange rate stability and supporting economic growth . Reserves saw a significant jump in 2022 due to rising global oil prices (due to the Ukrainian crisis). This record level of reserves provided the state with significant liquidity, helping to enhance economic and financial stability . The Central Bank has strengthened foreign reserves and invested a portion of them to generate financial returns, while maintaining a stable exchange rate . In 2023 , reserves declined compared to 2022 due to lower oil prices and increasing economic pressures. However, they remained at a relatively high level, providing sufficient liquidity to support the general budget and mitigate the deficit . The Central Bank continued to manage reserves effectively, focusing on providing liquidity to the banking sector and supporting economic activity . Iraq's foreign reserves fluctuated between 2019 and 2023 due to fluctuating oil prices and global economic conditions. However, these reserves continued to play a vital role in supporting the general budget and stabilizing the economy. Through its effective management of these reserves, the Central Bank of Iraq contributed to achieving financial and monetary stability, which positively impacted the national economy as a whole.

### **Third: The impact of tools Monetary policy**

#### **1. Required reserve**

Table No. (4) Legal (mandatory) reserve ratio

<b>the condition</b>	<b>reserve amount (trillion dinars)</b>	<b>Fixed (term) deposits</b>	<b>Current deposits</b>	<b>years</b>
-	<b>9.6</b>	<b>%10</b>	<b>%15</b>	<b>2019</b>
<b>Decrease</b>	<b>9.2</b>	<b>%10</b>	<b>%13</b>	<b>2020</b>
<b>more</b>	<b>11</b>	<b>%10</b>	<b>%15</b>	<b>2021</b>
<b>(stability (increase</b>	<b>12.8</b>	<b>%10</b>	<b>%15</b>	<b>2022</b>

Reserve ratio of current deposits It indicates the extent to which the central bank is conservative in keeping a portion of current deposits as a reserve. Increasing this ratio means reducing the liquidity available to the economy . The reserve ratio of fixed deposits It indicates the extent to which the central bank is conservative in keeping a portion of fixed deposits as a reserve. Increasing this percentage means reducing the funds available for long-term investments . reserve amount Reflects the amount of money held by the central bank to ensure the stability of the



financial system . In 2019 and 2020 The decline in the reserve ratio to current deposits and total reserves reflects the effects of the pandemic on the financial system. In 2021 and 2022, the increase in reserves, coupled with stable ratios, indicates an improvement in the economic situation and liquidity. In 2023 , the significant increase in both ratios and reserves reflects an expansionary monetary policy . We note that the Central Bank is using the reserve ratio to current and fixed deposits as a tool to control monetary liquidity in the economy. By effectively managing these ratios, the Central Bank can enhance financial stability, support economic growth, and reduce risks.

## 2. Open Market Operations

**Table No. (5) Money supply**

<b>Growth % rate</b>	<b>Money supply In the broad sense m2 (trillion dinars)</b>	<b>Growth % rate</b>	<b>Money supply In the narrow sense m1 (trillion dinars)</b>	<b>years</b>
-	103.4	-	86.8	<b>2019</b>
%16	119.9	%19.1	103.4	<b>2020</b>
%16.6	139.8	%16	119.9	<b>2021</b>
%20.7	168.8	%22.1	146.4	<b>2022</b>
%7.7	181.8	%9.5	160.3	<b>2023</b>

Central Bank of Iraq, Monetary Policy Reports, <https://cbi.iq/page/149>

Open market operations are one of the most important tools of monetary policy. We note from the table above that the large increase in money supply in 2020 is due to: Increased government spending to counter the effects of the COVID-19 pandemic. Governments have injected liquidity into the economy to stimulate economic activity and support households and businesses . There has also been an increase in demand for liquidity due to economic uncertainty . The impact on the general budget is the increase in government spending. This could lead to a budget deficit if there are insufficient revenues to cover this expenditure . The reason for the continued increase in 2021 and 2022 is the continuation of expansionary monetary policies to stimulate the economy after the pandemic , as well as the rise in global oil prices in 2021 and 2022, which led to an increase in Iraq's oil revenues and, consequently, increased liquidity in the economy , as well as increased demand for credit by the private sector . But Impact on the general budget : Increasing oil revenues may improve the general budget and reduce the deficit , but if liquidity is not managed properly, this may lead to higher inflation . a reason The decline in growth in 2023 is due to the slowdown in global growth and the decline in oil prices in 2023, which affected Iraq's revenues . Also, the Central Bank tightened monetary policy to control inflation , and the decline in demand for credit due to the slowdown in economic activity . The impact on the general budget Declining oil revenues increase the budget deficit , and a decrease in the money supply helps control inflation, but it may slow economic growth . From 2019 to 2022 The Central Bank of Iraq was a buyer in the open market, increasing the money supply to stimulate the economy . In 2023 The central bank may have started to become a seller (or reduce its purchases) to control inflation or reduce excess liquidity.

## 3. Real Interest Rate

<b>Deposit</b>	<b>Lending</b>	<b>year</b>
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<b>Table No. (6) Real interest rates</b>		<b>2019</b>
		<b>2020</b>
(%1.2)	%5.8	<b>2021</b>
%0.6	%6.7	<b>2022</b>
4.9	%11.4	<b>2023</b>

Central Bank of Iraq, Monetary Policy Reports, <https://cbi.iq/page/149>

Interest rates were relatively high in 2010 , indicating that the central bank was seeking to encourage savings and reduce borrowing to curb inflation or enhance monetary stability . In 2020, interest rates fell due to the impact of the COVID-19 pandemic. The central bank cut rates to stimulate the economy and encourage investment and borrowing to support economic activity during the crisis . In 2021, there was a sharp decline in interest rates, especially the deposit rate, which became negative . This indicates that the central bank was trying to increase liquidity in the market and encourage spending rather than saving to stimulate the economy after the recession caused by the pandemic . In 2022, interest rates began to rise slightly, indicating that the central bank was trying to strike a balance between stimulating the economy and limiting inflation that could result from increased liquidity . In 2023, Interest rates have risen significantly. This suggests that the central bank was trying to curb inflation and encourage savings after a period of monetary stimulus. This increase may also be a response to global inflationary pressures or to strengthen the value of the local currency.

#### **Fourth requirement: Conclusions and recommendations**

##### **First: Conclusions**

1. The Central Bank of Iraq plays a pivotal role in financing the general budget deficit, whether through purchasing government bonds or through managing foreign exchange reserves and currency auctions.
2. The Central Bank's influence on budget implementation depends largely on the level of coordination with the Ministry of Finance, as lack of coordination may lead to adverse results such as inflation or a decline in the value of the dinar.
3. The monetary policy of the Central Bank has contributed, at certain times, to achieving relative stability in the exchange rate, which has supported budget balance, especially in light of Iraq's heavy reliance on oil revenues in dollars.
4. Weak economic diversification and increased reliance on oil revenues weaken the effectiveness of the Central Bank's interventions and increase pressure on it as the government's primary source of funding.
5. The unstable political and security environment negatively affected the independence and performance of the Central Bank in some periods.

##### **SECOND: RECOMMENDATIONS**

1. Enhancing coordination between the monetary policy of the Central Bank and the fiscal policy of the Ministry of Finance, through joint committees and setting unified economic goals.
2. Reducing reliance on the central bank to finance the deficit, by expanding the non-oil revenue base and improving tax administration.
3. Maintaining the independence of the Central Bank of Iraq to ensure that monetary decisions are made based on economic, not political, principles.
4. Updating monetary policy tools and activating new tools, such as the open market and treasury bonds, to reduce reliance on currency auctions.
5. Working on economic and structural reforms such as diversifying the economy and stimulating the private sector, which reduces financial pressure on the budget and reduces the need for central bank interventions.



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