THE MAIN FEATURES OF MONETARY POLICY IN IRAQ AFTER 2003

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ABSTRACT

The purpose of this study is to clarify a description of monetary policy in Iraq after 2003, based on the compatibility of the following factors: Iraq's economic challenges, the need for stability and growth, and the monetary policies in place.

Monetary policy able to ensure inflation targeting, and stability of the exchange rate, but the economic system still suffers from imbalances that do not allow the use of all monetary policy tools in order to ensure the stability of the national economy, the ability of the Central Bank remains high in the field of qualitative tools, especially credit control, and some quantitative tools, particularly controlling the interest exchange rate to influence credit and the exchange rate.

Keywords: Monetary Policy, Macroeconomic Policy, Foreign Currency

INTRODUCTION

After the political change in 2003, Iraq quickly shifted to a market economy system, in the economy the market system has its principles and rules, which impose resort to them in dealing with financial and monetary policies, with the aim of creating a balance in the economy.

Monetary policy is supposed to achieve a balance in the exchange rate and inflation rates, and monetary tools are used to ensure the national economy's stability. However, the case of Iraq indicated there is a problem, the economic system suffers from major structural distortions, the economy relies on oil exports to obtain foreign currency; but, due to the weakness of the production base, which forces it to import to cover the production deficit, the scope of waste and smuggling of foreign currency is widening, as a result, Iraq tends to drain what it gets of foreign currency in various ways; and the lack of confidence in the banking sector makes it difficult to rely on credit policy as an engine of the economy.

The economic and financial imbalances resulting from dependence on oil to obtain the majority of public revenues, results in economic and monetary instability, because the oil market is affected by non-national factors, and then the money supply becomes an internal variable that must interact with fiscal policy with the intention of reaching balance otherwise, the economy will be negatively affected.

Since 2005, the federal government has resorted to financing through a deficit in the general budget, which causes the government to finance it through public debt, to satisfy the budget's needs, which means raising inflation, and monetary policy works to manage inflation through the currency, because the economy and the financial market small and inflexible, and the banking sector does not have enough flexibility to set the interest rate because of the lack of confidence in it, which makes the central bank prefer to employ the currency.

The Central Bank's independence cannot be ignored, which made it tend to raise the value of foreign currency reserves, to ensure general economic stability, and from it the possibility of the Central Bank's intervention to meet the financing needs, which happened in 2014-2015, due to the impact of low oil prices and the rise in Iraq's spending needs; furthermore, it provides a security cover for the national currency, in a way that covers the demand for foreign currency for the purpose of financing import .

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Research Problem

Monetary policy is part of the macroeconomic policy, concerned with regulating and controlling the money supply, and influencing credit, and through this it can achieve several goals: the stability of the money price, the full use of resources, the balance of payments balance, leading to economic growth, but the ability to monetary policy for the purposes of its presence in Iraq is still not flexible despite what it has achieved in terms of stabilizing exchange rates and reducing inflation rates, however, the contribution of this policy's contribution to launching development and achieving economic stability in the country is still weak, raising questions about its efficiency of those policies that have been applied after year 2003.

This problem prompts us to ask numerous questions, and try to answer them in the body of this research, namely:

What is the nature of the Iraqi economy's problems? What are the monetary policy tasks, indications, and tools in Iraq after 2003? After 2003, what has been the relationship between monetary policy and economic stability? What is the assessment of the effectiveness of the monetary policy that was followed in Iraq?

Research Objectives

The research aims to analyze the reality of the Iraqi economy and the tasks that fall under monetary policies, including a diagnosis of the performance of those policies, the tools that were used in them, and what they achieved in terms of macroeconomic stability, and other goals related to the stability of the price of money and others.

Hypothesis

The following hypothesis is presented in the research: that monetary policy in Iraq has limited tools by virtue of the size of the small financial market, and the most important goals that this policy directed to target was inflation, and that policy used multiple tools to reach that end, then the priorities of monetary policy expanded until they became used auctions of currency, legal reserves, treasury transfers and others with the aim of targeting inflation, money supply and exchange rate, developing the financial sector and supporting the promotion of economic growth through the granting of credit.

METHODOLOGY

The research relied on the descriptive analysis approach, to deal with the content of the monetary policies implemented and analyze.

Research Structure

The research is divided into a structure based on three points, as well as an introduction and a conclusion, which can be detailed as follows:

Firstly: - The Tasks, Indicators and Tools of Monetary Policy in Iraq after 2003

In recent decades, the economy in Iraq has been exposed to numerous problem, to the point where the imbalance has become chronic, including a various types of imbalances, each of which needs to be described, diagnosed and treated separately from the others, and some of them are related to monetary policy, which is influenced by what can be developed from monetary policies,

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the economy suffers from structural problems on the following levels: including reliance on a single source of government income and revenue (oil rent), automatic susceptibility to high levels of inflation, low savings and investment, high poverty rates, poor planning of financial policies in relation to the country's development needs, high indebtedness to GDP, widespread corruption and resource waste, and high distrust in the banking sector, and each of them needs specialized studies to find out its causes and effects and how to reduce them. What matters from these indicators is that Iraq achieved a lot of financial revenues due to oil wealth estimated at about 890 billion dollars between 2003-2018 (Al-Shara & Salim, 2019), but the developmental return of public revenues remained low which can be seen through several indicators: The high level of poverty unemployment, weak service projects, obsolescence of infrastructure, and other indicators, it is noted that the federal government has tended to expand public spending since 2004, whether it was operational or investment, but it did not achieve the goal of raising that spending but rather represents an annual loss of public revenues, which is leads to the conclusion: The economy in Iraq suffers from several problems.

Although the Iraqi economy witnessed in the years 2018 and 2019 important transformations through the review of both the World Bank and the International Monetary Fund, which confirmed that the improved the security conditions made the economy leds some growth in GDP, and allowed relative financial stability that allowed the government to pay an important part of the debt it allowed the increase in the volume of foreign currency reserves with the Central Bank, but this also does not negate the fact that the growth rate in the non-oil sectors remained low, and the demands for reform remained high to deal with issues: reducing spending and increasing non-oil revenues, which includes a freeze on public employment, reducing subsidies and raising the value of government fees, which will affect the poorest groups in society considering the weak government measures to protect these groups through the social protection network system, and the expansion of popular demands for the expansion of employment and the expansion of the government services sector.

In general, the most important tasks that are related to monetary policies are: "the stability of the general price level, achieving the comprehensive use of resources, regulating public government debt, achieving economic growth, and the balance of payments" (Ali, 1986); those goals cannot be achieved unless there is coordination between the general policies and financial policies of the government, and most importantly, the independence of the Central Bank, and the identification of the bodies responsible for implementing and controlling the implementation of the procedures related to achieving the previous goals, in addition, to the existence of an appropriate political and security environment, and what monetary policy in Iraq found is that the Central Bank was granted independence in a circumstance of weakness in political and security stability, and the need to expand public spending to address many economic problems that the Iraqi economy suffers from, in the context of the high level of prices, which reached a growth rate of about 27%, 37% and 47.6% in the years 2004, 2005 and 2006, respectively, all of which are important precursors to inflation, and during the period following 2007, the Central Bank was able to reduce the inflation rate dramatically Great, as for the optimal use of resources, the monetary policy did not succeed in finding appropriate treatments for the problem, although it helped to maintain a ratio ranging between 25-30%, despite the fact that the labour market enters annually more than half a million people due to the annual increase in the population, although the weakness of political and security stability affects all productive and economic sectors, and therefore it often imposes an expansion in the scope of unemployment (Khalaf, 2009); and the same applies to financial revenues that ended through waste and corruption processes that justify their weak developmental return after 2003.

As for the extent to which monetary policy contributes to achieving economic growth, it is clear that growth outside the contribution of the oil sector is associated with economic activity, and the economic sectors in Iraq have maintained performance and limited participation in the gross

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domestic product, Monetary policy did not succeed in supporting important growth processes, whether before or after 2014. Poverty and unemployment rates have continued to be high, especially in areas that witnessed security instability in 2014, unemployment reached about 9.9% on average, in addition to its 17% of economic activists suffer from partial unemployment, and unemployment in areas that witnessed security problems is about 20%, more than one fifth of them are not engaged in work, education or training, and in 2018 the real growth rate reached in the gross domestic product of about 0.6%, most of the positive results that Iraq achieved between 2017-2019 were due to oil revenues and not others, as Iraq was able to raise the volume of its foreign currency reserves from about 49 billion dollars in 2017 to about 64 billion dollars at the end of 2018, as for the public debt, it rose from 56.2% of the GDP in 2015 (about 99.9 billion dollars) to about 64.2 percent of the GDP in 2016 (112.5 billion dollars), and to about 58.9% of the GDP (or 115.2 billion dollars) in 2017, and Iraq was able to reduce it to about 49.3% of GDP (or about 110.4 billion dollars) in 2018.

In other words, despite the rise in the size of the gross domestic product after the year 2003, but it was associated with revenue from oil revenues and not growth in other sectors, that is, there is no impact of monetary policies in it.

As for the balance of payments balance, it generally indicates in most years (except for the period between 2014-2016) an account surplus in favor of Iraq, as it amounted to about $4.18 billion in 2005, and the balance of trade observed a deficit in 2015 of $0.1 billion And a deficit of $1.7 billion in 2016, then seen a surplus in favor of Iraq by about $7.6 billion in 2017, then observed a surplus in favor of Iraq of about $13.4 billion in 2018, however, this calculation has some error, because the development programs followed by the state tend to raise the level of investment in excess of the state's ability to save, which automatically pushes to raise the level of inflation, and with the trend to increase the import to cover the community's needs of goods and services, thus there is relative deficit in the balance of payments; so, to achieve a balance in it the government resorted to one of the following methods: "automatic adjustment of exchange rates and the level of prices of goods and services, adjustment of interest rate, taxes and government expenditures, control over customs tariffs, determination of import quotas, limited support for exports, and others", and it is noted here that the Central Bank succeeded in determining the growth in money supply after year 2007, most of the trade balance positions remained mathematically in favor of Iraq, although Iraq does not export important goods and services, except for oil. The indicators under which monetary policy operates are (Hussein & Mahdi, 2018):

A. Capital, the higher of the capital in the banking sector the more flexibility is granted to banks, and their ability to face risks is enhanced, the capital of the banking sector observed a significant increase after 2003, from about 658 billion dinars in 2005 to about 10.1 trillion dinars in 2015, due to the bank’s generalizations the Central Bank increased the capital of banks to reach 250 billion dollars per bank, increased the number of banks in Iraq, and supported merger procedures between banks to support competition between banks.
B. Bank liquidity, which means the ratios of capital that banks maintain to face risks, and it is noted that the ratio of liquidity continued to rise after 2003, for reasons including raising the bank’s capital, and the presence of reservations in most banks about granting credit, and for this reason the liquidity of banks increased by about 10% in 2005, by about 25% in 2010, and then 69% in 2015, despite the fact that the Central Bank reduced the standard ratio for the adequacy of each bank’s capital from 30% to about 12% and then reduced it to 10% in response to the decisions of the Basel Committee 3.
C. Cash credit, Credit is one of the most important tools of the banking sector to support economic growth, and bank credit is observing an annual increase, with the support of the government to stimulate growth, and the volume of credit rose from about 950 billion dinars in 2005 to about 8.5 trillion dinars in 2010, and to about 18.07 trillion dinars in 2015, but that In any case, it remains small and does not exceed 15% of GDP.
D. Foreign monetary reserves, the Central Bank sought ways to ensure the stability of the economy in Iraq by adopting a foreign currency reserve, the volume of reserves in Iraq was about $17.9 billion in 2005, and it reached about $90.4 billion in 2013, but what Iraq was exposed to In the year 2014-2016, due to a

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financial crisis that made it partially dependent on the Central Bank, the reserve decreased to a level of about 45.5 billion dollars in 2016, and then began to rise gradually after that to reach about 64.7 billion dollars in 2018.

E. Public debt, it is expresses an assessment of the performance of the economy's activity. It is noted that public debt: whether internal or external, observed a raise after 2014, for reasons related to the government's tendency to cover the deficit in the federal budget by borrowing, and the total debt amounted to about 99.9 billion dollars in 2015, or about 56.2% of the GDP, to raise to about 115.2 billion dollars, or about 58.9% of the GDP for 2017, and the higher the debt, the more strained the state budget for the purpose of paying it in the coming years.

As for the monetary policy tools adopted by Iraq after the year 2003, it is clear that the Central Bank was independent in adopting what it deems appropriate for the conditions of Iraq in terms of monetary policies, and is subject in auditing its accounts to the international auditing standards of central banks, and as we mentioned above, the goal is to curb inflation, reducing the size of the money supply, raising the value of the national currency, and describing the monetary tools that were used, the following use is noted (Al-Khazraji, 2010):

1. The foreign currency auction, that is selling foreign currency through almost daily auctions, where the central bank offers the dollar for sale in an auction against the national currency, and the dollar is used to cover the local market's needs of foreign currency, and the Central Bank benefits from it by withdrawing a large part of the national currency, to control the available money supply, the bank achieves two important goals: curbing inflation, and influencing the exchange rate, the Central Bank relied on the existence of a surplus of foreign currency compared to what the country assumes need of foreign currency to achieve monetary stability, whether it is calculated on the basis of what is equivalent to the local currency mass (which exceeds the value of $36 billion) or what is sufficient to face external shocks, and thus Iraq achieved important results namely the stability in commodity prices as a result of the stability of the national currency, and reducing the trend towards dollarization (stock the dollar instead of the national currency by individuals), and reducing the tendency to expand with liquidity or liquidity block due to the stability of the value of the national currency.
2. Open market operations, which is defined by Article 28 of the Central Bank Law No. 56 of 2004 in force, which indicated that the bank may carry out open market operations to achieve its objectives in monetary policy, to control liquidity and curb inflation, through: "buying or selling financial instruments and securities issued by various institutions, buying or selling foreign exchange, discounting remittances or bonds, granting loans secured by mortgage guarantees, and accepting deposits.
3. Existing facilities, as the central bank was able to organize liquidity management through Iraqi banks, whether related to lending facilities or deposit facilities, and the central bank remained for a period to control the interest rate to control liquidity or money supply, and then influence inflation levels, where the central bank guarantees the financial position of the banking sector by providing credit to banks that suffer from a liquidity crisis, and encouraging banks to grant credit to citizens to raise the value of credit to the domestic product in a way that supports the development sector.
4. The legal liquidity reserve, as the central bank imposes on the banking sector to place part of the assets as a legal reserve, within a deflationary perspective of the monetary authority, although the Central Bank resorted on more than one occasion to reduce the value of the legal liquidity reserve for the banking sector from about 25% in 2008 to about 10 % to encourage banks to use liquidity in credit.
5. Treasury transfers auction, which benefits the use of bonds and treasury transfers to control liquidity levels in the short-term, reach an appropriate interest rate, and then achieve stability in the financial sector in the long term, the Central Bank worked on using this method to reschedule the internal debts, as they are put up in the form of remittances by auction, to be paid after an appropriate period, and with good financial interest, which allowed not to expand the offer of cash, and to organize and reschedule internal debts.
6. The use of the instantaneous settlement system RTGS, which is a payment system within the country that provides a mechanism for obtaining settlement and processing of payment orders, and is used in many countries, and its adoption by Iraq came as a result of cooperation with the International Monetary Fund and the World Bank, so that the banking sector is able and responsive to retail payment in daily transactions and the settlement of payments in auctions and the stock market, in a way that enhances the money market, and achieves efficiency for the money markets due to the move away from manual settlement, and the link of all banks in managing their financial liquidity to the system.

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The foregoing represents the monetary tools used by the Central Bank in dealing with monetary policy after the year 2003.

Secondly: Monetary Policy and Economic Stability after 2003

The ultimate goal of monetary policy is to achieve economic growth, and growth is to increase the real GDP as a result of an improvement in the ability of the available resources to satisfy the desires and needs of individuals due to technological development, which causes a real increase in the average per capita income and not an increase in the monetary volume, which enables the individual to Buying more goods and services than spending his real income, and growth depends on liquidity and in-kind rates (Abdul Qadir, 2003); as for what is related to monetary rates, they are calculated on the basis of monetary estimates of the volume of in-kind and service products or the size of the gross domestic product, but what affects this matter is the size of inflation and the difference in accounting systems between countries of the world, as for the rates in kind, they are linked to the per capita share of education, health and others of services, given the difficulty of resorting to monetary measurement in the field of services. There are researchers who link the measure of growth and purchasing power, that is, the matter is based on the purchasing power of the national currency within the borders of the state compared to the services that an individual can obtain, and compared to the purchasing power of foreign currencies in other countries (Hassan, 2019).

If we follow the impact of monetary policy on economic growth will notice that monetary policies are of two types: expansionary and deflationary, the first aims to expand the verifiable increase in GDP, while the second aims to reduce inflation rates as long as the increase in money supply does not lead to an increase in output, in both cases the monetary authorities resort to the use of monetary tools, to achieve the purpose of monetary policies, and that there are economic and political variables that affect the course of the economy and growth, and one of the reasons for this is that growth is associated with oil rents and not real economic activities that can be influenced through monetary policies, also the money supply depends here on the rise in those returns and is not associated with the market need as a result of normal economic activities (Al-Obaidi, 2011).

Other tools of monetary policy are followed, it is noted that monetary credit may be a tool to stimulate the economy, especially if there is no accumulation of national capital through the expansion of national savings, or that the flow of foreign investment is limited, which forces the banking sector to use credit to pay the business sector, except it is noticeable that the liquidity credit granted by the various banks in Iraq to the gross domestic product is still small, and does not reflect a trend towards revitalizing the economic reality, which is noted in the attached table:

Table 1
CREDIT GRANTED IN PROPORTION TO GDP DURING THE PERIOD 2003-2015

Year/Indicator	The credit granted is trillion Iraqi dinars	Ratio of cash credit to GDP in %
2003	0.612	2.10%
2004	0.824	1.50%
2005	1.7	2.30%
2006	2.66	2.80%
2007	3.459	3.10%
2008	4.587	2.90%
2009	5.69	4.40%
2010	11.7	7.20%

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2011	20.3	9.40%
2012	28.4	11.20%
2013	29.9	10.90%
2014	34.1	13.20%
2015	36.7	19.20%

Reference: Central Bank, Annual Statistical Bulletin, for the years (2005-2015)

If we expand from the economic perspective, and move from growth to economic stability, it is noted that monetary policy can affect economic stability through:

1. Monetary indicators, and they include a number of sub-indicators including: the general level of prices, although the increase in the mass of money leads to an increase in the total income of individuals, but the expansion of issuance leads to an increase in inflation and thus affects the level of real income, the problem in Iraq is that there is no full use of resources, and therefore the increase in the volume of the liquidity block has become insufficient to secure the same volume of goods and services, especially in the period between 2003-2008.
2. The real indicators, which include the growth of GDP, unemployment and the balance of payments, in the case of growth in the gross domestic product, it is noted that it means the increase achieved in goods and services over the previous year, and monetary policy here uses all tools with the intent of making an impact on economic activity, however, what cannot be denied is that the impact of this policy depends on the extent of the development of the economy and the financial sector in particular, and then it affects the efficiency of capital and economic growth, as for unemployment and the balance of payments, any stimulus to the national economy will be reflected on each of the workers: Unemployment and balance of payments.

Thirdly: Evaluate the Effectiveness of Monetary Policy

The Central Bank of Iraq has tended to activate monetary policy in Iraq, especially after the 2014 crisis, as it developed in the year 2016 what was known as (the strategic plan of the Central Bank of Iraq (2016-2020)), its priorities were identified as follows: Supporting and achieving financial stability, consolidating and strengthening the banking sector and monetary institutions, developing the organizational and organizational structures of the Central Bank, developing human capital, and activating and integrating internal and external relations. The Bank continued to set its major tasks and have been divided into six categories: issuing and managing the currency, maintaining price stability, preparing and implementing monetary policy, the most important of which is at the level of exchange rates, managing foreign reserves, continuing to be the financial agent of the government, and organizing the banking sector to advance a competitive and stable financial system (Al-Aagebi, 2018). Also cannot be forget that the central bank does not work in the light of local policies only, but there are obligations on it with international financial institutions, including the World Bank and the International Monetary Fund, and there are also obligations of the Basel Committee (for banking systems and supervisory practices), which is concerned with measuring capital adequacy and adherence to international standards, and other issues related to monetary systems in the world.

The foregoing prompts to evaluate the monetary policy in Iraq, those policies observed important developments after 2003, in terms of the interest rate and growth in the money block, the volume of foreign currency reserves, and others; however, it is undeniable that the monetary authorities were facing several challenges during establishing those policies, the most important of which are (Al-Aadh, 2018):

1. Inflation, price stability, the escalation of inflation are due to problems in supply, and the expansion of demand as one of the aspects of expansion in public spending, as the demand for goods and services does not equal national production, the relatively low inflation and moderate prices after the year 2008,

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but it is related to the Central Bank's tendency to expand the sale of foreign currency, and the impact on interest rates, as Iraq did not achieve significant growth rates outside oil revenue.

2. Coordination with fiscal policy, it is known that fiscal policy is linked to the aspects of revenues, spending and deficits in the general budget, the financial authorities in Iraq have tended to deal with important crises, including: unemployment, poverty, stagnation, the provision of services and other structural problems in the Iraqi economy, which are treatments that often require treatments that conflict with monetary policy, as all of them require pushing towards raising the level of public spending, as long as the financial resources available to Iraq are not commensurate with raising spending, the budget is financed through the deficit, and this is lead to a conflict, especially at the level: the size of the liquidity block and inflation, which contradicts the trend towards economic growth, and the latter is subject to many factors especially the political, security and external factors that hinder and sometimes prevent the productive sectors from meeting the demand for goods and services.
3. Dollarization, as the instability that characterized the Iraqi economy in the nineties of the last century, prompted individuals to acquire dollars, and it continued after 2003 as a result of weak political and security stability, as long as the national currency cannot be relied on as a strategic stockpile for individuals by virtue of persistent inflation expectations.
4. One of the tasks required of monetary policy after the stabilization of inflation rates is the tendency to support economic growth, however, the country issued the amended Investment law No. 13 of 2006 to encourage the flow of foreign investment, which imposes pressures on: freedom of flow and movement of capital, and flexibility in the exchange rate, while the international financial institutions are pressuring Iraq to get rid of dependence on oil revenues as the only source of revenue, this is not commensurate with Iraq's current situation, especially the widening of the demand base by raising government spending, which will impose pressure on monetary policy in the coming years, and perhaps monetary crises will occur because of it.

Monetary policy has worked hard in order to achieve its short-term goals in targeting the money supply (controlling the money mass in order to maintain a balance between supply and demand for money), with the aim of controlling the inflation rate (Ling, Chin, Ying, Gan, Kuan & Lim, 2013); this is due to the awareness of the Central Bank of the problems afflicting the Iraqi economy, a policy based on deflation, that is, the withdrawal of the local currency through the currency auction. Dr. Amer Al-Adad to criticize the monetary policy in Iraq by saying that the Central Bank adopts a deflationary policy with the intention of reducing the level of inflation, and pushes Iraq to lose part of its resources (the difference in selling currency between the bank rate and the market price), while the existence of inflation and high prices of goods and services do not It is related to the monetary mass only, but it is affected by factors such as: the high costs of commercial operations, corruption, and the environment that repels investment, the required from the monetary policy was to reverse the deflationary policy by lowering the interest rate, providing liquidity to the markets, and unifying the exchange rate with the market to prevent foreign currency smuggling, all of which benefit the direction of money to investment and promote growth.

Referring to Dr. Mazhar Muhammad Salih saying to analyze the problem of the monetary system: "The foreign currency accumulation mechanism begins with the Central Bank of Iraq through the Ministry of Finance bartering its foreign exchange earnings from the country's oil exports in return for obtaining what it wants from the Iraqi dinar from the Central Bank Iraqi, to enter the dinar into circulation, but through the exchange doors in the general budget of the state. Since the task of the Central Bank of Iraq is to maintain the stability of the value of the dinar, such a matter has determined the monetary policy directions of the bank and restricted them in how to use the available foreign exchange and dispose of it from the balance of the foreign reserve itself, this for confrontation the total spending or the local market demand on foreign goods, services and benefits. Therefore, monetary policy has set its priorities, which is to reduce inflation rates and control the general level of prices in a way that helps achieve stability by being an incubator of employment and economic growth, in accordance with the Central Bank of Iraq law No. 56 of 2004. In a rentier economic system in which oil production constitutes about 55% of the GDP components, the base money in the balance sheet of the Central Bank has become affected in its

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composition and components by the movement of the current account of the balance of payments and the movement of the general budget in its revenues and expenditures. And in the face of the dilemma of the structural forces that generate inflationary expectations, which depend on rentier activity and inflows of foreign exchange, and thus the monetary system was designed on the ruins of two schools of different direction and integrated in achieving the goal of stability and containing inflationary expectations. The foreign currency represents about 90% of the resources of the general budget (exported oil revenues), and therefore find that the balance sheet of the Central Bank, in terms of its assets, depends on foreign assets in place of domestic assets as a major component of the basic liquidity. The public finance of the general budget assets is from foreign exchange and is being exchanged with the Iraqi dinar in a process called the vertical creation of money, and then we are here in front of the applications of the currency school, which tried to prove that the heavy issuance of currency is the main cause of price inflation.

Iraq is currently adopting foreign currency coverage for basic liquidity, while reducing inflationary expectations requires restricting the liquidity issuance, maintaining the equivalent of gold. The Iraqi case indicates that the general budget is the source of the inflows of foreign currency and the generator of reserves from it, while the market represents the outflows of foreign currency, apparently that displays the existence of a separation in the form of foreign flows between the market and the state, and thus the monetary policy of the Central Bank was subjected to two different directions: the currency school towards the state's economy (which provides the inward flowing foreign currency when creating money and generating it vertically), and the banking school in the face of excess market demand for goods and services by absorbing excess liquidity levels in Iraqi dinar and interfering with the sale of foreign currency through open market operations. The composition of the Iraqi economy, which depends on oil export revenues in achieving inflows and market behavior in generating outflows through the banking market, made monetary policy double the two schools in its dealings with the state economy and the market economy. And that duplication has affected the movement and direction of the balance sheet of the Central Bank itself, as it is the basis of operational objectives in monetary policy operations. Nevertheless, the inclination towards the currency school of vertical money creation and full coverage of base money in foreign currency by monetary liabilities, it remained a continuous state in the formation of the monetary system, as long as the national economy did not leave the problems of the rentier economic system until the moment (Salih, 2018).

CONCLUSION

At the end of this research, the following conclusions were reached:

1. Monetary policy has achieved important goals in macroeconomic stability by: targeting inflation and ensuring that it does not rise by more than 3% (except for the years 2011 and 2012 in which the inflation rate rose relatively), which gives confidence in the national currency, and ensures the stability of the purchasing power of the citizen.
2. The Central Bank of Iraq succeeded in controlling the general price level by adjusting the rates of the national currency exchange rate against foreign currencies, and giving the national currency more confidence by reducing the tendency to keep foreign currency as a reserve for the public, that is, reducing the dollarization phenomenon that was prevalent in Iraq due to the continuous weakness of the currency national.
3. Despite the independence granted to the Central Bank of Iraq but the monetary policy is affected by the economic policies of the federal government, especially at the levels: fiscal policy, budget deficit, expanded borrowing from countries and international institutions, and weak protection of the local product from political targeting.
4. The Central Bank continued to grant greater flexibility to the banking sector, as one of the most important monetary policy tools, that is removing financial restraint at the levels of interest rate determination,

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setting the credit plan for each bank, supporting competition between different banks, and providing great support for the development of banking work.

5. Iraq continued to suffer from a continuous rise in the level of internal public debt to finance the deficit in the federal public budget, as it reached the equivalent of about 4.5 billion dollars in 2005, or about 7.3% of the gross domestic product, despite its reduction to the level of 3.2 billion dollars in 2008, or about 2.5% of the gross domestic product through rescheduling and expansion by issuing treasury transfers, however, it returned and rose after the year 2010 until it reached the level of 14.8 billion dollars, or about 6.6% of the GDP in 2014, then to about 26.8 billion dollars, or about 15.4% of that output in 2015, and reached the level of 42 billion dollars, or about 19.02 % of GDP in 2018, which will impose burdens on the public budget in the coming years with the intention of paying it off.
6. Iraq still needs to develop the banking sector, on the following levels: Enhancing the intensity of banking spread to levels close to (one bank for every 5,000 citizens), With the need to strengthen the capabilities of banks to expand the credit base appropriate to the needs of development support, and it also needs to reconsider the large government banks which controls most of the activities of the banking sector, with the need to search for enhancing confidence in the banking sector through various tools, including financial inclusion, strengthening investment portfolios in the banking sector, ensuring the security of deposits with banks, and others.

In conclusion, the research achieved the content of the hypothesis from which it was launched: that monetary policy succeeded in targeting inflation, and today the priorities of monetary policy are expanding until it is using currency auctions, legal reserves, treasury transfers and others with the aim of achieving several goals, including: targeting inflation, money supply, exchange rate and sector development financial support and the promotion of economic growth through the granting of credit.

At the end of this research, we make the following recommendations:

1. Achieving the ultimate goal of all policies: financial, monetary and economic is to achieve long-term economic stability and achieve growth, but this requires monetary policy to work on three tracks: Continuing to achieve the goals of short-term monetary policy in price stability and inflation targeting, and work to support the credit operations carried out by banks with the intention of supporting job creation and motivating the economy to reduce poverty, and it is necessary to reduce the level of public policy's influence on monetary policy, the matter is not related to the independence of the central bank as it exists, but rather in the impact of public policy on the productive capacity or through the expansion of the use of deficit financing in the federal public budget, all of which contribute to pressure on the exchange rate and inflation.
2. The necessity of working to diversify the basket of foreign currency reserve currencies with the Central Bank, especially the euro and the Chinese Yuan as describe the largest economic forces in the world, as well as the expansion of gold reserves, which requires reducing dependence on the dollar as the country's reserve currency, thus reducing the possibility of Iraq's reserves being exposed to potential fluctuations in the future that is exposed on the dollar to global markets.
3. It is necessary for the Central Bank to work on developing and strengthening the financial market in Iraq, one of these entrances is activating the stock market, and the Central Bank has important tools in this regard, including: remittances and government bonds, and stimulating the banking sector to enter this market, because it would stimulate the sector greatly financial.
4. Iraq still suffers from weak capital formation suitable for launching strategic development projects, and the private banking sector does not encourage this for various considerations, which suggests for example devising ways to withdraw a large part of the cash liquidity from the public by offering government bonds to the public as an optional savings tool In front of individuals, one of the entrances is to strengthen both the stock market and banking habits.
5. Iraq needs to deduct part of the oil revenue and transfer it to a sovereign fund, and to prove this in the federal general budget within the title of the face of investment spending, and invest its money in various sectors and commercial activities inside Iraq and outside, in a way that subsequently provides sources of financial revenue for the Iraqi state.

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