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# THE EFFECTIVENESS OF MONETARY POLICY AND ITS IMPACT ON SUSTAINABLE DEVELOPMENT IN IRAQ FOR THE PERIOD (2003-2024): PROBLEMS AND SOLUTIONS

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## Abstract

Sustainable development has become the main concern of all global economies, and all countries are directing their economies to achieve the goals of sustainable development, allocating all their resources and economic policies to achieve this aim. Here, the significant and effective role of monetary policy in achieving these goals becomes evident. The study examined the most important tools of monetary policy in Iraq and how to direct these tools towards achieving sustainable development goals for the period (2003-2024), as well as the key problems and obstacles facing these policies. A set of conclusions and recommendations was reached that could contribute to making monetary policy more effective in achieving sustainable development goals.

**Keywords:** Sustainable development, monetary policy, GDP, unemployment, inflation, exchange rate.

## Introduction

Monetary policy is considered one of the most important components of the economic policy of any country and is assigned numerous tasks, including managing the expansion and contraction of money supply and controlling it in order to influence macroeconomic variables such as employment, inflation, consumption, investment, and savings, aiming to achieve the desired economic stability and always working on an expansionary monetary policy to confront recession and unemployment. Given that sustainable development has become a concern for economists and researchers, this study was conducted to explore all the necessary means and procedures to direct monetary policy towards achieving the goals of sustainable development, which has become the primary objective pursued by most countries in the world in order to preserve economic resources and ensure their sustainability for future generations.

The study examined the most important monetary policy tools and the challenges they face in Iraq for the period (2003-2024), and how these tools can be activated to achieve sustainable development goals at minimal cost.

### **Importance of the research**

1. The importance of the research stems from the importance of monetary policy and its impact on macroeconomic variables.
2. The need to achieve the goals of sustainable development.

### **Research problem**

The ineffectiveness of monetary policy in directing its tools and economic capabilities to achieve sustainable development goals during the study period.

### **Research Hypothesis**

The study assumes the possibility of activating monetary policy tools to become a primary source for achieving sustainable development goals in the future.

### **Study Methodology**

The researcher used the case study approach and both the inductive and deductive methods to collect and analyse information and data, leading to conclusions and providing the necessary recommendations.

## **1- Monetary Policy (Concept, Objectives, Tools, Challenges)**

### **1-1 The Concept of Monetary Policy**

Monetary policy is considered one of the most important tools of general economic policies as it affects economic activity through its impact on many macroeconomic variables. Monetary policy is defined as (a set of means, rules, decisions and procedures undertaken by the monetary authority to influence and control the supply of money in a way that suits the level of economic activity to achieve specific economic objectives over a certain period) (1). It is defined by Bache as: (everything the government does that effectively affects the size and composition of liquid assets held by the non-banking sector, whether in currency, deposits, or government bonds) (2).

Monetary policy can also be defined as a set of texts, laws and procedures adopted by the monetary authority to influence the money supply or contraction in order to achieve economic objectives (3).

### **1-2 Tools of Monetary Policy**

Monetary policy tools fall under the direct control of the monetary authority, through which it can achieve the ultimate objectives it seeks, and these objectives vary from one economy to another depending on the development of the banking system and the strength of the economy.

Researchers differ in classifying monetary policy tools, but the modern classification divides them into indirect (quantitative) tools and direct (qualitative) tools, as follows:

### **1-2-1 Indirect Tools of Monetary Policy**

Monetary policy relies on market forces by using these tools to influence various economic variables in order to achieve the desired objectives.

#### **1. Open market operations**

These refer to the central bank buying and selling treasury bills, government bonds and securities in general to achieve objectives through the following dimensions.

- One dimension: Affecting the excess reserves of commercial banks, either increasing or decreasing them, which impacts both the volume of credit and the money supply and the demand for investment in line with the state's economic objectives.
- Two dimension: Establishing a stable relationship between the interest rate in both the money market and the capital market so that their movements are consistent, whether rising or falling, in order to influence the cost of granting bank credit and consequently the level of investment in the country.
- Third dimension: Overcoming any short-term seasonal or incidental fluctuations in the money supply resulting from market factors (4).

#### **2. Discount price**

It is one of the tools used by the central bank to influence the volume of bank credit and, consequently, the money supply. The discount rate is the rate at which the central bank discounts commercial papers presented to it by commercial banks or re-discounts papers previously discounted by these banks for their clients. The discount rate affects the cost of credit operations provided to clients. When the central bank raises it, this increases the cost of obtaining borrowed funds from commercial banks, leading to a rise in interest rates and a decrease in loan demand, and vice versa (5).

#### **3. Legal reserve ratio**

The reserve requirement ratio is considered one of the influential credit tools that affects the money supply, as commercial banks deposit a certain percentage of customer deposits in the central bank's vaults (6).

The reserve requirement ratio is one of the most used tools in developing countries due to the lack of developed financial markets that allow the central bank to implement an open market policy, and this tool is not directly linked to the interest rate, which gives it a special advantage when the central bank wants to influence the structure of commercial banks' funds without affecting the interest rate (7).

### **1-2-2 Direct tools of monetary policy**

Direct tools refer to instruments that directly affect the supply of money or the holders of money, focusing on the amount of circulating cash. The most important of these tools are:

- 1- Credit framing for financing ceilings: where monetary authorities directly set limits on loans granted by commercial banks according to specific rates.

2- Credit reduction: this refers to the central bank's influence on the distribution of loans towards the most vital sectors for development, which are given priority, such as financing agricultural, industrial, and commercial sectors.

3- Central bank performing certain banking operations: this method is used in some developing countries where monetary policy tools have limited effects, with central banks competing with commercial banks by performing certain banking tasks either regularly or exceptionally, such as providing loans to key sectors of the economy when commercial banks are unable or unwilling to do so.

4- Minimum liquidity ratio: Through this method, the central bank forces commercial banks to maintain a minimum ratio determined by certain assets attributed to liabilities, and this requirement arises from the risk of excessive lending by commercial banks (8).

5- Literary influence: Through the central bank advising commercial banks not to expand the scope of loans, especially loans used for speculation, when the central bank sees a risk to the national economy (9).

6- Media: This method is used through articles and bulletins, with officials focusing on the administration to influence financial institutions towards the desired direction (10).

7- Consultation with banks operating in the government: When setting monetary and credit policies, the central bank consults with commercial banks to ensure proper management of money and to support the credit plans of commercial banks (11).

### **1-3 The Objectives of Monetary Policy**

Monetary policies are among the most important policies in the economy due to their focus on and direct work with money, which is considered the key variable in the economy, as any change in it affects individuals, companies, the state budget, and all other variables in the economy (12).

One of the most important objectives of monetary policy is:

#### **1. Stabilizing the general price level**

Most economists agree that the primary goal of monetary policy should be to maintain the stability of the general price level and the purchasing power of the local currency, with an inflation rate ranging between 1-4% annually, and that the monetary authority should refrain from financing the deficit by increasing the money supply (13).

#### **2. Full employment**

Any full operational investigation and optimal utilisation of the available economic resources, and achieving this goal, means reducing the unemployment rate by between 3% and 5% through increasing effective demand by the authorities raising the money supply, thereby lowering interest rates and encouraging businessmen to invest and increase employment (14).

#### **3. Increased economic growth rates**

It is considered a long-term goal, and monetary policy works to contribute to raising economic growth rates, especially in developing countries, by achieving a high savings rate,

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influencing the investment rate in capital goods, increasing credit expansion, and directing bank credit and savings towards developmental objectives (15).

#### **4. Balance of payments balance**

This means ensuring a favourable balance of payments for the state by encouraging exports and reducing imports using the money supply, interest rates, or exchange rate policy. In the event of a balance of payments deficit, the central bank can address it by raising the rediscount rate, which causes commercial banks to increase interest rates on loans, leading to reduced credit and domestic demand for goods and services, resulting in lower prices within the country, thereby encouraging exports and reducing imports (16).

#### **5. Achieving economic stability**

Most economies are exposed to cyclical economic fluctuations (expansion, contraction, recession, boom), and these fluctuations affect the economy, especially during the contraction phase, where they impact economic performance and employment rates. Here, monetary policy can intervene to mitigate the negative effects of these fluctuations by adopting an expansionary credit policy during times of contraction and a restrictive credit policy at the peak of a boom, which is accompanied by high inflation rates (17).

#### **6. Meeting the financial requirements of economic activity**

The central bank is supposed to meet the needs of different economic sectors through credit (18).

#### **1-4 Challenges Facing the Effectiveness of Monetary Policy**

##### **One of the main problems facing monetary policy, which limits its effectiveness (20):**

1. Weakness and imbalance in the credit structure.
2. Weak awareness and lack of banking culture due to low income and a high tendency to save, in addition to banks being concentrated only in urban areas.
3. Narrow scope of financial markets and weak activity.
4. The seasonal nature of economic activity in many developing (agricultural) countries.
5. Underdeveloped banking technologies resulting from the backwardness of the financial sector, reflected in the limited use of commercial papers and cheques.

##### **For monetary policy to be more effective, a set of factors must be available, most importantly (19):**

1. Precisely defining the objectives of monetary policy and ensuring there is no conflict among them.
2. Developing savings awareness among various economic agents.
3. Availability of organised and developed financial and monetary markets.
4. Combating the phenomenon of the informal hidden economy.
5. Independence of the central bank from the government.
6. Rehabilitating commercial banks through opening up to partnerships of various kinds.

7. Intensifying the banking environment and increasing the number of local and foreign private and public banks to encourage a market economy based on competition.
8. Give a greater role to commercial banks and reconsider the relationship they have with state institutions, granting them greater freedom while ensuring the state's rights and obligations are maintained.
9. Improve and diversify services provided to savers, adopt more dynamic policies regarding all resources, diversify payment methods and promote their widespread use.

## **1-5 The Effectiveness of Monetary Policy in Developing and Developed Countries**

### **1-5-1 The Effectiveness of Monetary Policy in Developing Countries**

Monetary policies in developing economies are generally considered less effective than in developed countries due to the imbalances these economies face, their external economic relations, and the constant impact of the external world. Therefore, tools such as the discount rate and open market operations do not have a significant effect, and reliance is placed on the legal reserve ratio, liquidity, and direct qualitative instruments. There are several reasons that limit the authority of the central bank and thus the effectiveness of monetary policy, the most important of which are:

1. Lack of investment flexibility in response to interest rate changes due to high risk levels and low marginal capital efficiency.
2. The local currency's value is linked to foreign currencies such as the dollar and euro.
3. A large proportion of national income results from exporting a single type or limited types of primary resources.

As a result of the above reasons, the economies of developing countries are not independent but dependent, and their exports are affected by the prevailing economic conditions in other countries (21).

### **1-5-2 The Effectiveness of Monetary Policy in Developed Countries**

Developed countries are characterised by economic openness, increasing international trade, free flow of capital, and the presence of a developed and organised financial, monetary and banking system, as well as advanced financial institutions and markets (22).

The discount rate and open market operations significantly influence the total credit available to the banking system, whereas the statutory reserve ratio does not affect the monetary base but impacts bank deposits and bank credit. Quantitative tools work through central bank open market operations (23).

## **2- Sustainable Development: Concept and Objectives**

### **2-1 The Concept of Sustainable Development**

The concept of sustainable development is an update to the concept of development in a way that aligns with and adapts to the requirements of the present era, taking into account the available economic and environmental resources and the possibility of making them available to achieve development.

- Definition from the Portland Report issued by the World Commission on Environment and Development (1987)

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Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

- Definition by Sahar Al-Rifai (2009): Sustainable development is an interactive dynamic development that undertakes to achieve harmony among its three pillars: humans, environmental resources, and economic development.
- Definition by Mohammed Sharqawi (2014): Sustainable development is the process aimed at achieving the highest level of economic efficiency for human activity within the limits of available renewable resources and the natural vital capacity of humans to absorb them, while safeguarding the needs of future generations.

## **2-2 Sustainable Development Goals**

The most important Sustainable Development Goals defined by the United Nations can be identified as (25):

1. No poverty
2. Zero hunger
3. Good health and well-being
4. Quality education
5. Gender equality
6. Clean water and sanitation
7. Affordable and clean energy
8. Decent work and economic growth
9. Industry, innovation, and infrastructure
10. Reduced inequalities
11. Sustainable cities and communities
12. Responsible consumption and production
13. Climate action
14. Life below water
15. Life on land
16. Peace, justice, and strong institutions
17. Partnerships to achieve the goals.

## **3- The Role of Monetary Policy in Achieving Sustainable Development Goals in Iraq**

### **3- The Reality of Monetary Policy in Iraq**

Monetary policy in Iraq has set general economic goals and specific monetary objectives, including maintaining the stability of the Iraqi dinar, preserving the general price level, achieving economic balance, and providing the central bank with foreign currency coverage (26).

To provide a clear picture of monetary policy in Iraq, it can be divided into two main periods:

#### **1. Monetary Policy in Iraq Before 2003**

The increased oil prices and the increased oil production during the period (1973-1975) created a huge financial surplus in the 1970s, estimated to be about (95) billion dollars per year during the period (1973-1980), which gave an aura of confidence that there were plenty

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of financial resources to finance development with no constraints and encouraged industrialization at the expense of agriculture, very high levels of cash and consumption spending, very high levels of development spending, and widespread disguised unemployment. This increased dependence on oil revenues did not bring in any additional tax revenue (27).

Although the 1980s saw a drop in the price of oil, resulting in a decline in oil revenues and a drop in the value of the US dollar (in which oil was sold), and although the Iran-Iraq War of the early 1980s exacerbated Iraq's economic problems, the cost of financing the war added to the state burden, and the Central Bank of Iraq printed savings bonds known as Qadisiyah Bonds to pay for the budget deficit (public debt) (28).

In the 1990s and early 2000s (1990-2002), the Central Bank's policy was characterized by an adjustmentist approach, primarily aimed at financing the government deficit resulting from the Second Gulf War and the economic sanctions imposed on Iraq at the time. Monetary policy during this period suffered from the following:

1. A decrease in the supply of foreign currency due to the cessation of oil exports as a result of economic sanctions, the freezing of Iraq's foreign currency reserves, and the loss of its sole source of foreign currency financing.
2. A deterioration in the exchange rate of the Iraqi dinar against foreign currencies due to the policy of extensive monetary issuance.
3. The significant and continuous rise in prices is a result of the financial deficit generated by government spending on internal security and providing food rations.

The Central Bank has taken several measures to address this situation, including:

- Reducing government spending
- Reducing the issuance of new monetary instruments and increasing state revenues from taxes and fees (29).

## **2. Monetary Policy in Iraq After 2003**

The political changes of 2003 ushered in a new reality for the Iraqi economy, marked by a shift towards a market economy after more than forty years of a state philosophy that oscillated between central planning and state capitalism. The Central Bank implemented several measures, including:

- 1- Replacing the old Iraqi currency, estimated at 4.5 trillion dinars, with a new edition featuring several advantages, including restoring public confidence in the Iraqi dinar, reintroducing it for use throughout Iraq, and ensuring its quality and durability to combat counterfeiting.
- 2- In 2004, the Central Bank announced the abolition of fixed interest rates, allowing banks and financial institutions to freely determine their rates.
- 3- Beginning to grant licenses to foreign banks to operate in Iraq.
- 4- Restructuring Rafidain Bank and Rasheed Bank, which controlled 90% of banking activity. In order to grant the Central Bank its independence, the state enacted a set of laws aimed at ensuring its complete autonomy:
  - Law No. (56) of 2004, under which the Central Bank obtained full independence from the government.

- Law No. (93) of 2004, which pertains to combating money laundering, the financing of terrorism, and crime.
- Law No. (94) of 2004, which transformed the Central Bank's supervisory tools from regulatory banking supervision to preventive banking supervision. (30)

### **3-1 Key Indicators of Monetary Policy in Iraq for the Period (2003-2024)**

In order to examine the role of monetary policy in Iraq in achieving economic stability during the study period, we address some indicators of the Iraqi economy that are directly related to monetary policy, as follows:

#### **1. Gross Domestic Product (GDP)**

Gross domestic product is considered one of the key indicators that show the level of a country's economic performance, and the amount of gross domestic product provides a clear picture of the country's economic situation compared to different countries in the world. GDP has gone through multiple stages characterised by development, especially during the study period.

During the period from 2003 to 2014, it rose from \$21.92 billion in 2003 to \$228 billion in 2014. It then fell in 2015 to \$166.77 billion due to the country experiencing a wave of terrorism during that period, and subsequently recovered in the following years to reach \$279.64 billion in 2024, as shown in Table (1), which also illustrates the per capita GDP for the period 2003-2024, showing that the per capita rate is relatively good.

Table No. (1) Gross Domestic Product and Per Capita Share in Iraq (2003-2024)

<b>Year</b>	<b>Gross Domestic Product (GDP) Billion Dollars</b>	<b>Per capita income Dollars</b>
2003	21.93	817.9
2004	36.63	1328.4
2005	50.07	1762.4
2006	65.15	2276.6
2007	88.84	3729.0
2008	131.61	4543.0
2009	111.66	3714.7
2010	138.52	4461.8
2011	185.75	5775.5
2012	218.00	6477.6
2013	234.64	6650.4
2014	228.42	6249.4
2015	166.77	4440.1
2016	166.74	4334.4
2017	187.22	4759.3
2018	227.37	5646.7
2019	233.64	5671.9
2020	180.90	4295.2
2021	209.69	4868.5
2022	287.37	6520.7
2023	268.88	5965.3
2024	279.64	6273.6

**Source:** World Bank data for different years (31)

## 2- Unemployment

Iraq witnessed an increase in unemployment rates in 2003 and thereafter due to the chaos caused by the occupation, the collapse of state institutions and the dissolution of many, such as media and defence, as well as the layoff of thousands of employees in security institutions (32).

Table No. (2) shows the unemployment rates for the period from 2003-2024. It can be observed from the table that unemployment rates are continuously increasing, which is attributed to several reasons including population growth and the weakness of the private sector, which is unable to absorb the annually increasing workforce, as job opportunities are largely limited to the public sector. Unemployment rates ranged between 8-9% during the period from 2003 to 2013, 10-14% for the period from 2014 to 2019, and 15-16% during the period from 2020 to 2024.

Table No. (2) Unemployment rates in Iraq for the period (2003-2024)

Year	Unemployment rates%
2003	9
2004	8.7
2005	8.6
2006	8.4
2007	8.6
2008	8.5
2009	8.4
2010	8.3
2011	8.2
2012	8
2013	9.2
2015	10.6
2016	10.8
2017	13
2018	13.5
2019	14.1
2020	15.8
2021	16.2
2022	15.5
2023	15.4
2024	15.5

Source: World Bank data for different years (33)

## 3. Exchange Price

The exchange rate is considered one of the most important indicators of monetary policy as it directly affects the balance of payments through exports and imports, and the exchange rate has witnessed significant stability after the central bank intervened through the foreign currency selling window.

From Table 3, it can be observed that there are fluctuations in exchange rates caused by direct interventions by the central bank in raising or lowering the exchange rate. The table shows that the exchange rate was 2223 dinars per dollar in 2003 due to the start of the occupation, then began to decrease at the beginning of 2007 to 1254 dinars per dollar. From 2008 to 2020, it stabilised at a minimum of 1200 dinars per dollar, then rose from 2021 to 2022 to 1450 dinars per dollar due to the central bank raising the selling rate, and subsequently the central bank reduced the rate to 1312 dinars per dollar in 2023 and 2024.

In short, the central bank is the one that controls the exchange rate.

Table No. (3) Exchange Rate in Iraq for the period from (2003-2024)

Year	The exchange rate is one dinar per dollar.
2003	2223
2004	1453
2005	1472
2006	1467
2007	1254
2008	1139
2009	1170
2010	1170
2011	1170
2012	1166
2013	1166
2014	1166
2015	1187
2016	1182
2017	1184
2018	1182
2019	1182
2020	1192
2021	1450
2022	1450
2023	1312
2024	1310

**Source:** Central Bank of Iraq, General Directorate of Statistics and Research, various annual publications (34)

#### 4. Money supply

One of the central bank's most important tasks is the proper management of the money supply by maintaining the stability of the national currency and its purchasing power, and achieving acceptable rates of increase in the general price level through an acceptable rate of inflation. Thus, the money supply is one of the fundamental factors of monetary policy in terms of its impact on other economic variables and its direct effect on commercial banks and the

everyday life of citizens, since any exaggeration or increase in the money supply has a negative effect on economic performance.

One of the most important measures used for money supply is the narrow concept (M1), which consists of net currency in circulation outside the banking sector and demand deposits. The other concept is the broad money supply (M2), which consists of the narrow money supply (M1) plus quasi-money (bank deposits, government and corporate bonds, stocks, investment funds, certificates of deposit, fixed deposits, and financial markets).

Table No. (4) shows the narrow and broad money supply and the growth rate for each during the period from 2003 to 2024. It is observed from the table that there has been a significant increase in the money supply during the study period, with the narrow money supply reaching 5.773 billion dinars in 2003 and rising to 147.981 billion dinars in 2024, while the broad money supply increased from 6.935 billion dinars in 2003 to 176.972 billion dinars. A decline in both the narrow and broad money supply was noted during the years 2014-2015 due to Iraq facing a wave of terrorism.

Table No. (4) Narrow and Broad Money Supply with Growth Rates in Iraq (2003-2004)

Year	Narrow money supply M1 (lion dinars)	Growth rate%	Broad money supply M2 (lion dinars)	Growth rate%
2003	5.773	-	6.953	-
2004	12.219	111	12.254	76.2
2005	13.795	12.6	14.684	19.8
2006	17.521	27	21.080	43.5
2007	28.808	64.6	26.956	27.8
2008	42.859	48.7	34.920	29.5
2009	45.270	5.6	45.438	30.1
2010	53.810	18.8	60.386	32.1
2011	58.698	9	72.178	19.5
2012	63.391	8	75.466	4.5
2013	73.259	15.5	87.679	16.1
2014	66.231	-9.6	90.728	3.4
2015	57.888	-12.6	82.595	-8.9
2016	62.591	8.2	88.082	6.6
2017	65.691	4.9	92.857	5.4
2018	67.161	2.2	95.391	2.7
2019	78.253	16.5	103.441	8.4
2020	88.861	13.5	119.906	15.9
2021	110.137	24	139.886	16.6
2022	145.242	31.8	168.291	20.3
2023	165.156	13.7	180.976	7.5
2024	147.981	-10.4	176.972	-2.2

**Source:** Ministry of Planning, Central Statistical Organization, Annual Bulletins for various years (35)

Growth rates compiled by the researcher based on the table

## 5. Inflation

Inflation is considered an important indicator reflecting the effectiveness of monetary policy, as a low inflation rate directly indicates the strength of monetary stability. Table No. (5) shows the inflation rates in Iraq for the period (2003-2024), and it is evident from the table that the inflation rates have decreased, which indicates the effectiveness of monetary policy and monetary stability in Iraq.

Table No. (5) Inflation rate in Iraq for the period (2003-2024)

Year	Inflation rate
2003	33.6
2004	26.9
2005	5.3
2006	53
2007	12
2008	12
2009	-6.37
2010	3.37
2011	6.0
2012	6.09
2013	1.88
2014	2.24
2015	2.3
2016	0.6
2017	0.2
2018	0.4
2019	-0.2
2020	0.6
2021	6.0
2022	5.0
2023	4.4
2024	-12.3

Source: World Bank data for different years (36)

## 6. Legal reserve ratio

The statutory reserve ratio is considered one of the indirect tools of monetary policy used by the central bank to determine the statutory reserve ratio of depositors' funds in commercial banks, and we note from Table No. (6) a decline in the statutory reserve ratio, especially in recent years, which reflects the strength of bank credit and the reliability of commercial banks.

Table No. (6) Legal Reserve Ratio for Commercial Banks in Iraq (2004-2024)

Year	Legal reserve ratio%
2004	25
2005	25
2006	25
2007	75
2008	75
2009	25
2010	15
2011	15
2012	15
2013	15
2014	15
2015	15
2016	15
2017	15
2018	15
2019	15
2020	15
2021	15
2022	15
2023	15
2024	15

**Source:** Central Bank of Iraq, General Directorate of Statistics and Research, Annual Statistical Bulletins for different years (37)

### 3.2 Challenges facing monetary policy in Iraq

Monetary policy in Iraq faces a number of challenges and problems, including:

#### 1. Inflation of the money supply

After 2003, the Central Bank issued new currency as a necessity to finance development projects, fund state institutions, and resolve problems with the old currency. By the end of 2004, the issued currency balance reached about 8 trillion dinars, then doubled in 2005 to reach 16 trillion dinars, continuing to increase significantly to reach 83 trillion in 2020, 100 trillion dinars in 2022, and 104 trillion dinars in 2024. This poses a major challenge for monetary policy due to the increased money supply and the Iraqi economy's lack of a real investment environment capable of absorbing this amount of banknotes, contributing to the country's exposure to inflation risks (38).

#### 2. Limited private sector participation in banking activity

The number of private sector banks is 17, with 185 branches, while the number of government banks is 7, with 331 branches. Despite the increase in the number of private banks, the relative importance of all private sector bank assets does not exceed 10%. The relative importance of total private sector deposits constitutes 6% of the total deposits of the

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Iraqi banking system. The limited structure of the private banking sector poses an obstacle to the transmission of monetary policy effects through these banks (39).

### **3. Small size of the financial and monetary market**

The Baghdad Stock Exchange was established in 2004, and despite the long period since its establishment, it remains an emerging market where trading occurs without scientific standards. It suffers from low liquidity of the listed securities due to the limited number of investors, restricted to Iraqi investors only. As previously mentioned, the effectiveness of monetary policy requires the existence of large, efficient, and developed financial markets alongside strong and active banking institutions to play their role through the function of creating the financial market. This market should possess the capacity to absorb large amounts of government bonds offered by the Central Bank through open market operations (40).

### **4. The size of the external public debt**

Public debt, along with the interest accrued on it, constitutes a heavy burden on monetary policy. After 2003, public debt reached 127 billion dollars, in addition to war compensations amounting to 452 billion dollars, with interest on the debt at about 40%. These debts were settled and reduced in agreement with the Paris Club (41).

Most of the debts and compensations have been paid, but recently there has been a significant increase in government expenditure resulting in a deficit in public budgets, which has been financed through domestic and foreign borrowing. By the end of 2024, this debt had reached approximately 120 billion dollars, posing a burden on the effectiveness of monetary policy.

### **5. The dependence of monetary policy**

One of the problems facing monetary policy is dependency, and there have been two opinions on this matter. Most economists emphasised the necessity of full independence for central banks because they view monetary policy, especially inflation control, as ineffective when subject to government dominance. Specifically, those managing the central bank should be specialists with the competence to maintain long-term stability in the general price level at minimal economic costs, and those managing monetary policy should remain detached from politics.

**6. Other obstacles, such as high unemployment rates**, which constitute a constraint that can affect the central bank's monetary policy and conflict with the investment policy needed by the country, in addition to the balance of payments deficit due to the primary reliance on oil revenues, which are characterized by volatility. (43)

### **3-3 The possibility of activating the role of monetary policy in achieving the Sustainable Development Goals in Iraq**

The role of monetary policy can be activated and directed towards achieving the Sustainable Development Goals in Iraq. It can play a role in guiding investments towards the strategic plans developed by the state that serve sustainable development. The Central Bank has played

a role in financing development investments in general, and sustainable investments in particular, to achieve sustainable growth.

The Central Bank can contribute further to achieving development goals through the following:

1. Maintaining the stability of the local currency exchange rate.
2. Aligning public spending with the requirements of sustainable development.
3. Strengthening and enhancing foreign exchange reserves.
4. Making interest rates attractive to investment.
5. Enhancing monetary policy mechanisms and promoting financial partnerships for sustainable development.
6. Activating credit activity that stimulates sustainable growth.
7. Allocating a budget specifically for supervising the banking system to serve as a means of achieving the Sustainable Development Goals.
8. Increase banking density by expanding the number of private banks to foster competition and achieve development goals.
9. Improve the services provided by the banking sector and modernize electronic payment systems.
10. Support private banks and direct the money supply and savings towards achieving sustainable development goals.

### **Conclusions**

1. Monetary policy is one of the most important elements of economic policy and has a direct impact on all economic variables.
2. The Central Bank of Iraq enjoys complete independence.
3. The effectiveness of monetary policy was somewhat weak due to the low activity of financial and banking institutions.
4. The Central Bank relied heavily on open market operations through the foreign currency selling window.
5. Among the main objectives of monetary policy are price level stability, full employment, achieving high growth rates, and influencing interest rates and exchange rates.
6. Monetary policy was somewhat able to maintain reasonable inflation rates and price level stability.
7. The absence of an economic vision and clear objectives for the economic system in Iraq.
8. Heavy reliance on oil revenues to finance government spending, exposing it to significant risks due to oil price fluctuations.
9. Monetary policy faced many difficulties, including an increase in the money supply, balance of payments deficit, and external debt.
10. Iraq was subjected to political and economic conditions such as wars and terrorism, which severely weakened its economy and drained most of its resources.
11. Weakness of banking institutions, their limited number, and failure to keep up with modern technological developments.
12. Financial markets are characterised by lack of regulation and limited size.

13. The banking habits and culture of the public have not developed, and there is a lack of trust in banking institutions, especially private banks.
14. Monetary policy began working towards achieving sustainable development goals late and is still in its initial stages.

### **Recommendations**

1. Use all instruments of monetary policy and avoid relying on specific tools.
2. Increase support for financial and banking institutions and give them a greater role in economic activity.
3. Work towards achieving all monetary policy objectives according to specified timelines.
4. Develop a clear future vision for the nature and tasks of monetary policy.
5. The central bank must participate in financing economic plans that aim to achieve sustainable development goals.
6. Work on developing financial and monetary markets, increasing their numbers, and keeping them up to date with modern technological developments.
7. Control the money supply and balance it with the gross domestic product.
8. Work to eliminate or reduce structural imbalances in the Iraqi economy and avoid relying solely on oil imports.
9. Update tax and fee systems to increase state revenues.
10. Reduce government expenditures, especially non-essential ones.
11. Develop future plans for sustainable development objectives and monitor their implementation.
12. Work through media and social networks, and hold seminars and conferences to raise public awareness and encourage dealings with banking institutions, increasing confidence in them.

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