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EVALUATING INTERNATIONAL MONETARY POLICIES ON THE STABILITY OF FINANCIAL MARKETS IN IRAQ

Lecturer Mustafa Ismail Khalil 1,
Esraa Saad Fahad 2
mustafaismaeel@tu.edu.iq 1, israa.saad@uomustansiriyah.edu.iq 2
Department of Economy /College of Administration and Economics/
Tikrit University.1
Department of Economy /College of Administration and Economics/
Al-Mustansiriya University.1

Abstract
Through research, the relationship between international monetary policy indicators and the financial stability of the Iraqi stock market has been clarified. A comprehensive indicator reflecting the financial stability of the Iraqi stock market was used to provide appropriate suggestions for policymakers to address the financial stability issue in the Iraqi stock market. The study also focused on the current analysis of crises in financial markets and provided solutions to avoid future crises. From here, the research question arises regarding the impact of international monetary policy on the stability of global financial markets, including the Iraqi stock market. The period from 2000 to 2022 was chosen based on annual data, and the relationship between international monetary policy indicators and financial market stability was studied. The study supports the hypothesis that monetary policy affects financial market stability through the financial market stability indicator. It has been found that lending policies increase the financial market stability indicator. Suppose the national treasury succeeds in proposing the establishment of a sovereign fund to play a supportive role in helping the Iraqi stock market overcome the crisis. In that case, the Central Bank of Iraq needs to adopt this indicator to deal with the negative impact of international monetary policy on the Iraqi economy.

Keywords: international monetary policies, aggregate index, financial markets.

تقييم سياسات النقد الدولي على استقرار الأسواق المالية في العراق

المستخلص:
ومن خلال البحث قمنا بتوضيح العلاقة بين مؤشرات السياسة النقدية الدولية والاستقرار المالي للسوق المالية العراقية استنادا إلى مؤشر شامل يعكس الاستقرار المالي للسوق المالية العراقية، يهدف إلى تقديم الاقتراحات المناسبة لواضعي السياسات لحل مشكلة المالية. استقرار في السوق المالية العراقية. الأزمات الحالية في الأسواق المالية ووضع الحلول لتجنب الأزمات المستقبلية. ومن هنا يتضح سؤال البحث وهو أن السياسة النقدية الدولية تؤثر على استقرار الأسواق المالية العالمية بما فيها العراق. ويتمثل القيد الزمني في اختيار الفترة الزمنية من 2000 إلى 2022 بناء على البيانات السنوية، بينما ينعكس القيد المكاني في دراسة العلاقة بين مؤشرات السياسة النقدية الدولية واستقرار الأسواق المالية. وتدعم الدراسة الفرضية القائلة بأن السياسة النقدية تؤثر على استقرار الأسواق المالية من خلال مؤشر استقرار الأسواق المالية. تبين أن

سياسات الإقراض تزيد من مؤشر استقرار الأسواق المالية. وإذا تمكنت الخزانة الوطنية من اقتراح إنشاء صندوق سيادي للقيام بدور مساند في مساعدة السوق المالية العراقية على تجاوز الأزمة، فإن البنك المركزي العراقي بحاجة إلى اعتماد هذا المؤشر للتعامل مع التأثير السلبي للسياسة النقدية الدولية على الاقتصاد العراقي. السوق المالي.

Introduction

In the 1990s and early 2000s, the consensus was that central banks should adjust interest rates in response. For amplification and (possibly) output. This consensus has been repeatedly expressed in the form of Taylor's rules, as initially formulated by Taylor (1993). However, the global financial crisis of 2007-2009, the subsequent slow recovery, and finally, the pandemic undermined this consensus and sparked fierce debate over the appropriate role. For central banks (Semts, 2014). At the same time, interest rates in developed economies reached zero; central banks of various countries tried new methods such as quantitative easing and forward guidance, effectively overcoming the traditional Taylor rule framework. This trend continues in the wake of the COVID-19 pandemic as central banks consider newer approaches to monetary policy. Policies and objectives that go beyond traditional goals (see, for example, Board of Governors of the Federal Reserve System, 2020; European Central Bank, 2020).

Before the global financial crisis, financial stability was viewed primarily from a microeconomic perspective. In other words, financial risk is often viewed as the sum of the risks of a single financial institution (Acharya, 2013; Allen and Carletti, 2013). However, the global financial crisis demonstrated that the way these institutions respond could create negative externalities that exacerbate risks to the entire system (i.e., systemic risks). However, they do not increase personal risk (Board, 2011). These negative externalities are reflected in aspects such as the financial cycle as systemic risks intensify and emerging market economies recover. Credit and asset prices subsequently lead to a collapse (Borio et al., 2001).

The first topic: the methodology of the study

1. **Importance of research**

   The importance of the research lies in determining the impact of international monetary policy on stability in financial markets using the ARDL model in addition to an indicator that reflects the stability of financial markets in Iraq to reach a more stable financial market due to the impact of the financial market on those policies issued by the international monetary system.

2. **Search problem**

   Due to the impact played by international monetary policies on the economies of the world, including Iraq, the stability of the financial market in Iraq was affected by those policies, and the fact that the central apparatus relies on scattered indicators to neutralize the extent of financial stability.

3. **Research Objective**

- Determine the nature of the relationship between international monetary policy and financial stability in Iraq's financial markets. Building an aggregate index that reflects the stability of financial markets in Iraq.

- Analysis of the reality of international monetary policy and financial stability in Iraq through the synthesis index.

4. Research hypothesis

The research is based on the premise that states that "the financial policy of the International Fed has an impact on the stability of the financial markets in Iraq through the aggregate index."

5. Research Methodology

The inductive method, measurement, and economic analysis were used to verify the relationship between international monetary policy and stability in Iraq's financial markets.

Second Theme: Previous Studies

- Evolution of financial stability indicators in Iraq for the period (2000-2022)

The fiscal policy was characterized by breadth during the period (2010-2013) due to the most important reasons for the rise in global demand for oil, causing a rise in oil prices, oil is the most critical resource in financing its expenses, and in the period (2014-2016) oil witnessed a decline in its prices weak global demand for it, which reflected negatively on the financial market in Iraq, as the state spending was far from the vital sectors that contribute to raising and developing economic performance.

- Components of the financial market

The Capital Market consists of the following components:

1- Lenders

They are individuals and financial institutions whose income exceeds their consumption needs, and the financial institution can play the role of lender or investor in the financial markets, but the savings of individuals represent the primary source of investment (Abdul Khaleq, 2010)

2- Investors

It is represented in individuals and financial institutions whose income levels are below meeting their consumption needs, and this category can obtain the required funds through the issuance of financial assets that are negotiable in the financial market, while individuals can borrow through direct borrowing from financial institutions (Kharboush, 2012)

3- Financial Intermediaries

They represent the link between the surplus units of the saved funds and the deficit units of those funds, and they transfer the savings to the institutions in deficit to provide the necessary financing where this financing is indirect. In contrast, direct financing lenders borrow money from the saved units (Al-Quraishi, 2009).

- Tasks of the Capital Market

1- Encouraging savings by providing areas to operate the funds that are provided to the group whose savings exceed their expenses and do not have enough time to follow up on the investment projects they wish to establish, as investing in the capital market provides good

investment opportunities that motivate savers to increase their savings by investing in the market (Saudi Capital Market Authority, 6).

2- Financial markets provide individuals and projects with financial information related to the various financial assets available in the financial market and provide information related to the financial situation of companies, and this reduces the cost of obtaining information (Karagouli, 2016).
3- Providing liquidity to investors, which encourages investors to invest their savings in buying securities for easy conversion into present cash, and providing liquidity contributes to supporting and expanding long-term investments (Abbas, 2018).
4- Mitigating risks from the development of financial investments in which joint stock companies operate by establishing markets and financial portfolios that contain different types of securities for different sectors to distribute and reduce risks (Hindi, 1997).
5- The stock market is a means of storing wealth for savers, providing profits and security, and reducing risk compared to other forms of wealth, such as other assets, such as real estate and cars (Al Tohme, 2014).

- Financial stability indicators in financial markets

  Many studies show the indicators adopted in the inference of financial stability, and the Central Bank of Iraq follows ten indicators to determine the status of financial stability according to Table (1)

Table 1 Financial Stability Indicators

Sub-indicators	Main indicators
• Capital adequacy ratio.	Capital adequacy
• The ratio of debt to total loans.	Asset Quality
• Rate of return on assets. • Return on equity rate.	Profitability
The absolute value of net foreign currency to capital ratio	Exchange Rate Risk
Ratio of loans and advances to total deposits. The ratio of liquid assets to total assets.	Liquidity

Some of the indicators used in determining financial stability (public expenditures, capital, gross national product index, interest rate, total revenues) are presented in Figure 1, Figure 2, and Figure 3:

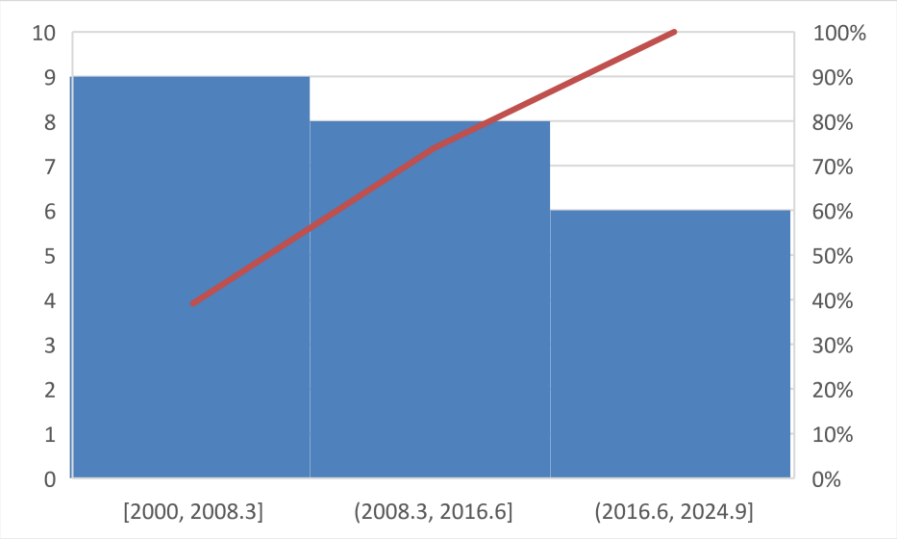


Figure 1: Public expenditures in Iraq for the period 2000 (-2022)

Source: Prepared by the researcher based on API indicators

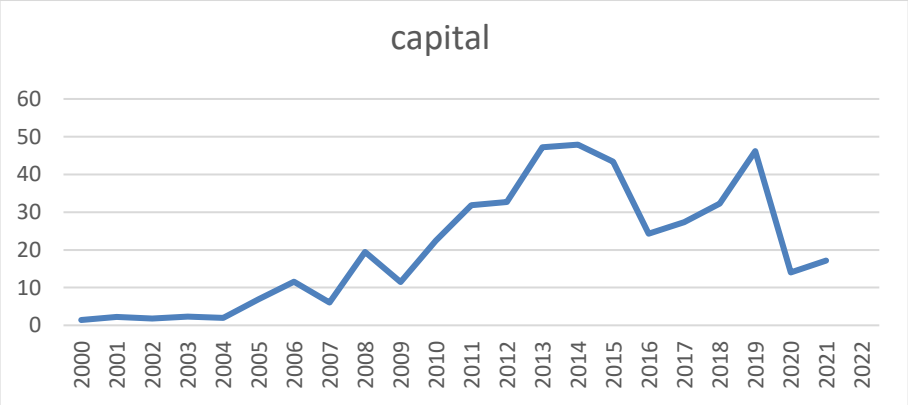
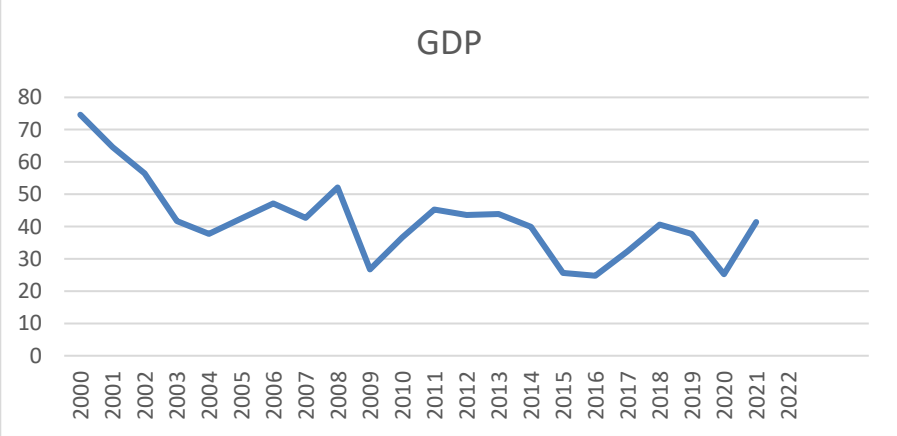
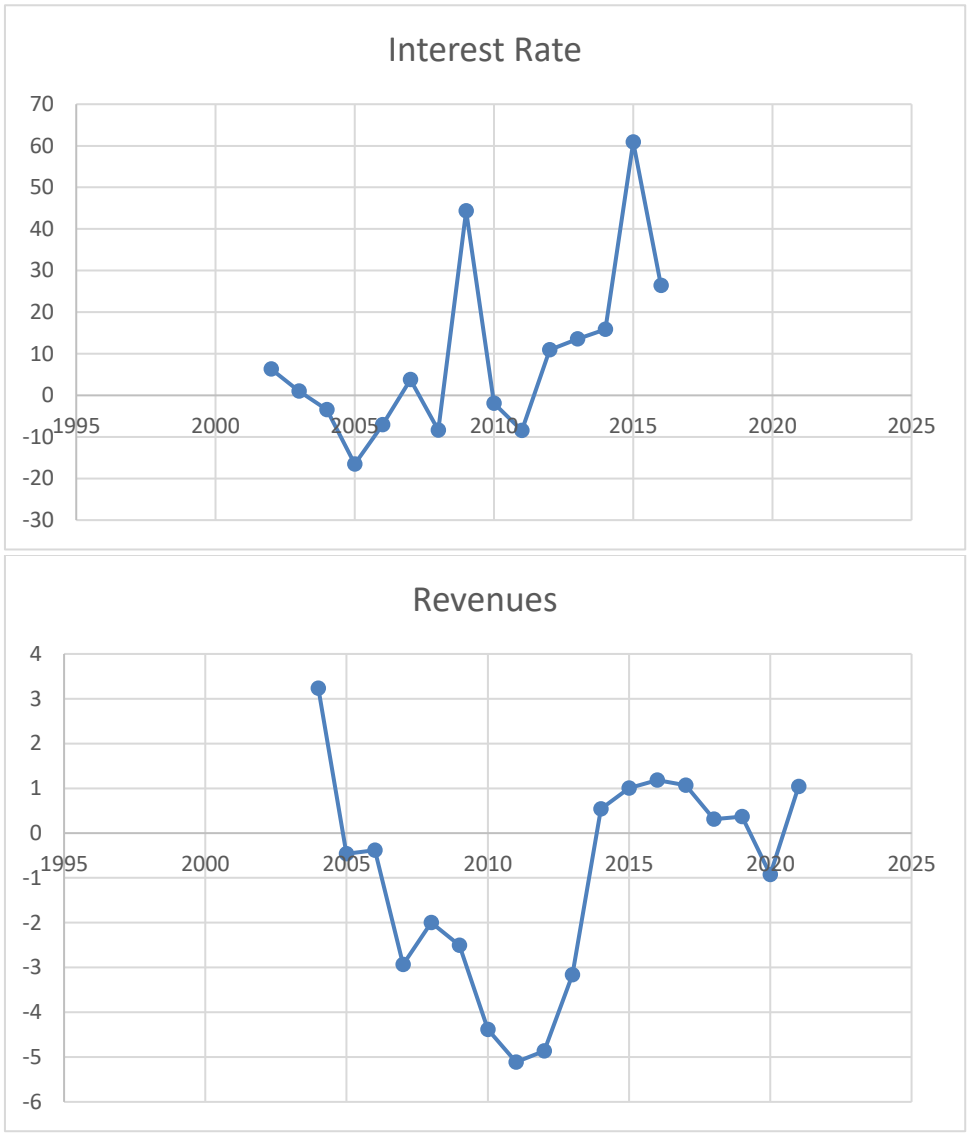


Figure 2: Capital and GNP Index in Iraq for the period (2000-20222)



Source: Prepared by the researcher based on API indicators

Figure 3: Interest Rate and Total Revenues in Iraq for the Period (2000-2022)



Source: Prepared by the researcher based on API indicators

The third topic: the standard model used in the study

For testing the research hypothesis, a distributed deceleration autoregression mode (ARDL) was used

$$index = f(expenditure, revenue, ratio\ of\ debt\ to\ GDP) \qquad (1)$$

Index: represents the financial stability index

: Public expenditure of the State of expenditure

: Public expenditures of the State of Revenue

: represents the ratio of external debt to gross national product

Fourth Theme: Analytical Aspect

2.1 Sleep test

The stillness test was carried out because it is the first step before the start of estimating the standard model, where the ranks of the variables were determined in terms of stillness to choose the appropriate model for estimation; table (2) shows the results of the Duki Fuller test

if it is one of the most accurate tests in the case of small samples (OLKAMO, 2021). It was found that the variables (Expenditure, revenue, ratio) were stable at the first difference I(1) while the variable (index) was stable at level I(0). Based on this result, the ARDL model can be chosen.

Table 2 Dickey-Fuller Root Test Results

Variable	Level			First difference		
	Fixed limit	Fixed limit and general direction	Without fixed limits and general direction	Fixed limit	Fixed limit and general direction	Without fixed limits and general direction
	P.value	P.value	P.value	P.value	P.value	P.value
Index	0.2678	0.0293*	0.069			
Expenditure	0.7659	0.1767	0.3573	0.0314*	0.2920	0.9189
revenue	0.0850	0.2596	0.2279	0.0006*	0.0142*	0.0493*
Ratio	0.7198	0.3110	0.5594	0.0319*	0.2188	0.2567
The chain is stable at a significant level of 0.05						

Source: Prepared by the researcher based on the results of the analysis in the program (EViews12)

The p-value corresponding to the value of the critical calculated t was chosen; if the p-value is more excellent than (0.05), it is not significant, but if the value is less than (0.05), the value is significant.

2.2 Cointegration testing

The joint integration test is one of the critical steps within the model (ARDL) for the purpose of verifying the existence of cointegration between the economic variables that make up the standard model. The F-bounds test for joint integration was carried out as in Table (3).

Table 3 F-Bounds Test Results for Subscriber Integration

Calculated F value	F=5256.558	
Critical value	**The bare minimum I (0)**	**Upper limit I (1)**
10%	2.72	3.77
5%	3.23	4.35
2.5%	3.69	4.89
1%	4.29	5.61

Source: Prepared by the researcher based on the results of the analysis in the program (Eviews12)

It is clear from the results of Table (3) that the calculated F value (5256.558) is greater than the upper limit (4.35) and the lower limit (3.23) at a significant level (0.05), where the null hypothesis states that there is no cointegration between the model variables was rejected. The alternative hypothesis that states that there is a standard integration between the model variables was accepted.

3.2 Model estimation

After verifying the existence of joint integration, the results in Table (4) show that the explanatory power of the model reached (99.996%) according to the value of the coefficient

of determination (R square), while the value of the adjusted coefficient of determination reached (99.999%), which gives strength to the model in addition to the significance of the model, where the value of (F = 3831.542) and the probability value (0.012), which is less than (0.05), and this result confirms the significance of the estimated model.

Table 4 Standard Model Quality Test Results

Credibility test results	
R-squared	0.999935
Adjusted R-squared	0.999674
F-statistic	3831.542
Prob(F-statistic)	0.012116

2.4 Estimation of the long- and short-term relationship

The results of Table (5) show that the index of stability of financial markets in Iraq is associated with an inverse non-moral relationship with public debt, and the positive relationship shows non-significant in the long term for the state's inability to pay debts represented by the Ministry of Finance, which will show a negative impact on stability in the financial market, as for the relationship of public revenues of the state, the results in Table (5) show the positive moral impact on the financial stability index in the short term of the state's dependence on the oil quarter as well as Short-term financing instruments The results also show the positive impact of state revenues in the long term on stability in the Iraqi financial market, as for the relationship between the variable of state public expenditures and the aggregate index, the results show that the relationship is inverse in the short term as well as in the long term as a result of the expenditure policy followed, which raised the inflation rate, which affects purchasing power, and therefore there must be delicate balances with regard to the policy of public expenditures, as well as due to the weak turnout of citizens with banks. Eligibility due to complexities and guarantees in relation to granting loans, in addition to the impact of debt, which this study showed a negative impact on the stability of the financial market in the short term and the short term.

With regard to the value of the error correction coefficient (ACT*=-0.66302), it indicates that the model tends to balance in the long term according to the correction coefficient as its value is negative. The corresponding probability value is (0.0022), which confirms its significance if it is the necessary condition for achieving long-term balance quickly (0.66) per year.

Table 5 ARDL test results for the effect of independent variables on the dependent variable

Short-term relationship		
Modulators	Coefficient	Prob.
Index(-1)	0.336980	**0.0430**
Expenditure	-1.567334	**0.0154**
revenue	0.028265	**0.0132**

Ratio	-0.058661	0.0807
C	2.870201	**0.0147**
ACT*	0.66302-	**0.0022**
Long-term relationship		
Variables	Coefficient	Prob.
Expenditure	-1.567334	**0.0154**
revenue	0.028265	**0.0132**
Ratio	-0.058661	0.0807

Source: Prepared by the researcher based on the results of the program (Eviews12)

Conclusions

1- International monetary policies witnessed significant changes during the period (2000-2022) due to multiple factors, including changes in oil prices and changes in global demand for it, and this confirms that the stability of the Iraqi financial market was negatively affected due to the state's dependence on the revenues of the oil quarter, which in turn exposed the Iraqi economy to external shocks**.**

2- The financial markets in Iraq witnessed continuous fluctuations during the period (2000-2022), which showed a negative impact due to government expenditures, which in turn led to a rise in the inflation rate in recent years.

3- The Iraqi financial markets have witnessed constant instability due to the increase in the external debt of the state, which showed an increase in the debt owed by Iraq from the World Bank, according to a bulletin issued, where the total loans in 2021 amounted to $ 3.61 billion, while they were at the lowest in 2015 with a total of $ 1.76 billion for the year 2015.

Recommendations

1. Diversify the Iraqi economy, as it still depends on oil revenues, and work to develop the institutional structure in the field of financial markets.
2. The need for sovereign funds to work for the purpose of employing the surplus in fiscal policies in times of prosperity to face the financial crises resulting from international monetary policy, in addition to building strategic plans to employ external loans in projects that contribute to supporting GDP.
3. The Central Bank of Iraq should update the indicators to measure the financial stability of the financial markets and keep abreast of the ongoing developments in the financial markets sector.

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