"The Central Bank's Vision moving from Monetary Stability towards Financial Stability and Growth"

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Historical Stages of CBI: Functions & Policies



- > First Era (1947-1989): Establishment and Traditional policy
 - CBI was established after the cancellation of the Iraqi currency board which was founded in 1931 in London (UK) for the purpose of issuing the banknotes.
 - Complying with 100% foreign currency reserve coverage requirements
 - o In 1955 the currency peg turned from the British pound to the US\$ at the rate of \$2.8/IQD
 - 1964 the government nationalized all banks and insurance companies

Historical Stages of CBI: Functions & Policies



- > Second Era (1990-2003): Financial Policy Domain and Loss of Role
 - Serious challenges and interventions by the government due to first gulf was 1990
 - o CBI lost its independency
 - o CBI was used as vehicle for financing the was machine
 - o Reserves were completely depleted
 - IQD collapsed reaching IQD3000/US\$ and inflation rose to crucial level exceeding 3 digits
 - CBI lost its role to achieve price stability due to hyper inflation

Historical Stages of CBI: Functions & Policies



- > Third Era (2004-2014): Independency, Monetary and Price Stability
 - New political regime towards market economy based on competition
 - o A new law was issued in 2004 preserving CBI independency from any government intervention including any lending
 - o The interest rate (reached more than 20%) and currency auction were the main tools to fight inflation



The New Era

- Toward financial Stability and Economic Growth
- Started 2015
- "The Primary objectives of the CBI shall be to achieve and maintain domestic price Stability and to foster and maintain a stable and competitive market-based financial system.
 Subject to these objectives, the CBI shall also promote sustainable growth, employment, and prosperity in Iraq "*

*- Central bank of Iraq law NO .56 of 2004 Article 3



Vision of the new Era

 CBI is focused (in new era) on macroeconomic issues of monetary and price stability, the achievement of such macro objectives rests on the basis of maintaining micro-level financial stability, in the payment system in the banking system, and smooth working of the financial system more broadly.



New Era (2015-0ngoing)

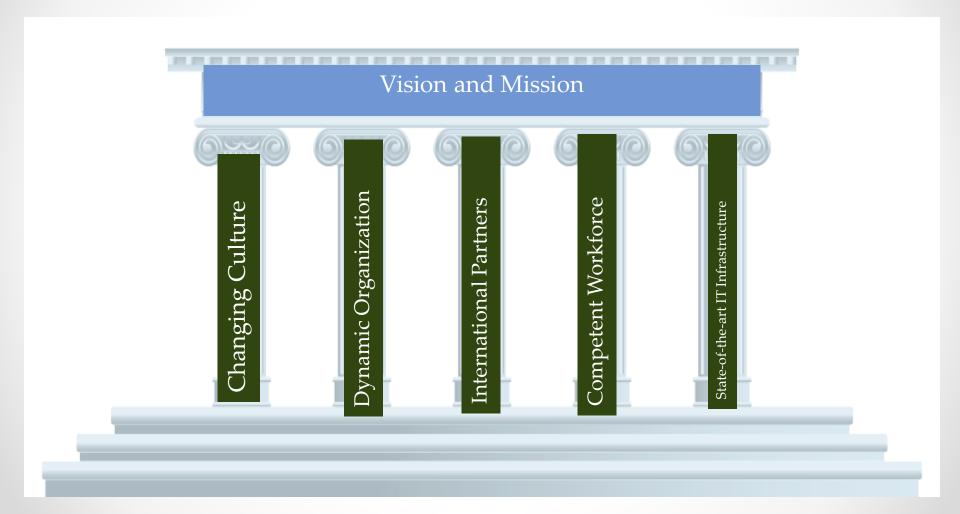
Transition from Monetary Stability to Financial Stability & Economic Growth

 In 2015, a new era for CBI started with a new vision to move from a single objective driven organization (monetary policy) to be multi-dimensional institution in response to new challenges and changes in central banks mission around the world

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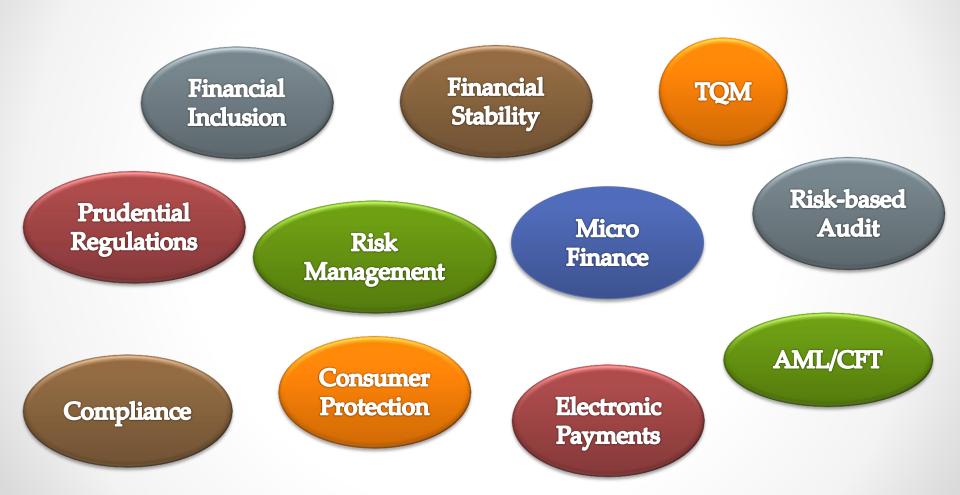
Pillars of the new Vision



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New Era with New Functions



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Transition from Monetary Stability to Financial Stability and Growth



 "For good macro economic performance it is necessary, and almost sufficient by itself, to have low and stable inflation maintained by the monetary authorities. of course, now we know that is wrong: the damage done by the financial crisis is far greater than damage that might be inflicted by all but rampant inflation."

*- Joseph E.Stiglitz, The Euro.2016, page 147

New CBI Objectives:



Financial Stability and Growth

- 1. Financial Stability (Safe and Sound Approach).
- 2. Safeguarding the Financial System.
- 3. Enhancing Economic Growth.



Financial Stability

A-Safe and Sound Banking & Financial Sector.

B- Contain Fiscal Deficit.



"Financial Stability is a situation in which the financial system is capable of satisfactory performing its three key functions, First, the financial system is efficiently and smoothly facilitating the inter-temporal allocation of resources from savers to investors, Second, forward-looking financial risks are well managed, Third, the financial system is in such condition that it can comfortably, if not smoothly absorb financial and real economic surprises and shocks."

*-Financial stability, Economic Growth, and the role of law .Douglas W.Arner, Cambridge University press, 2007, page 135



 "A safe, efficient and effective banking sector is absolutely essential to support financial development and economic growth. UN safe banks can led to systemic financial crisis and economic collapse." *

*- Financial Stability, Economic Growth and the Role of Law, Douglas Warner, Cambridge University press, 2007p.p 225.



Pillars of Financial Stability



Financial Safety Net