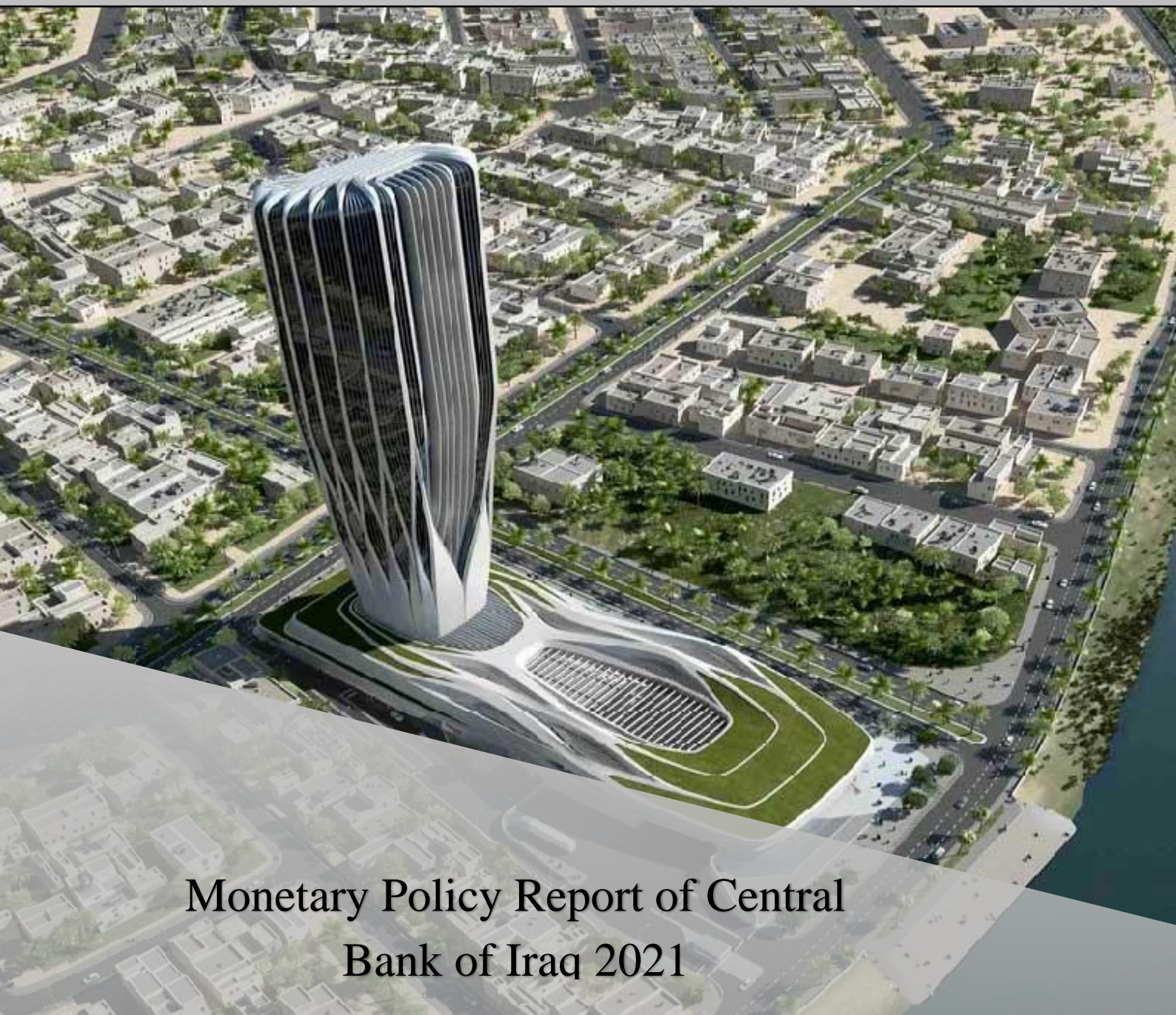


**Central Bank of Iraq
Statistics & Research Department**



**Monetary Policy Report of Central
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Monetary Policy Report 2021

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INTRODUCTION

CBI plays a leading and pivotal role in moving the wheel of economy and adopting a fundamental policy that supports the financial and spending orientations of the state in a manner that serves the advancement of the monetary and financial reality. As to accelerate the construction of an integrated economic system through money supply and exchange rate control, enhance deposits and sound management of its reserves, as well as directing financial institutions to be in line with the fiscal and monetary policy. All this is done to provide credit and bank financing, address causes of stagnation to avoid a rise in inflation rates through strategic initiatives and projects aimed at developing economic sectors and keeping them in line with international standards, in light of the promising growth opportunities available in these sectors. Also the CBI was able, to achieve financial & monetary stability after the double shock faced meet to the Iraqi economy (represented by Covid-19 & the drop in international oil prices).

- The Monetary basis balance (M0) recorded a rise of (23.9%) at end of 2021 compared to the previous year, while money supply (M1) recorded a rise of (16.1%) at end of 2021. Also money supply (M2) recorded a rise of (16.7%) compared to the previous year due to the growth in money supply (M1) and the expanding effect of net foreign assets, as well as monetary stability coefficient reached (6%) and Money multiplier recorded (1.27) against (1.35) in 2020. Foreign reserves balance recorded a rise of (18.2%) at end of 2021 to reach IQD (92.5) trillion compared to IQD (78.3) trillion at end of 2020.
- General inflation rate for this year recorded 6.0%, while core inflation rate recorded (6.4%) after excluding all oil derivatives (oil & gas) and (fruits& vegetables groups).
- As regarding monetary policy, CBI continued to adopt a policy rate of 4% and ceased operation with the investment deposits for maturities of (7, 30) days in Iraqi dinar since 2020/6/14 until a further notice. In addition to that CBI ceased issuance of Islamic deposit certificates with all maturities of (30, 91, 182 and 364) days and CBI treasury bills, while it restored the reserve requirement ratio to (15%) instead of (13%) public & private current deposits which were calculated in June 2021 – with the improvement of economic & social situation after Covid-19 crisis.
- In order to meet demand on foreign currency and achieve monetary policy targets, on June 2021 CBI decided to increase cash sold amounts of foreign currency to licensed banks, exchange house companies and all intermediary companies that deal with buying & selling foreign currency – as shown below:

- US\$ 300000 a week for a bank.
 - US\$ 2200000 a week for a type A of exchange house company.
 - US\$ 750000 a week for a type B of exchange house company.
 - US\$ 70000 a week for a type C of exchange house company.
- Monetary policy activated financial sector & financial institutions roles to secure financial system stability and ensure its efficiency reaching a free of crisis financial system within the best international standards for banking supervision. CBI provided banking facilities through rescheduling banking loans from its initiatives to the private sector, especially loans that was overdue on small & medium enterprises SMEs, in addition to extend the maturities for future standing loans related to most exposed sectors to the spillovers of COVID-19 and reduce borrowing costs.
- As regarding funding financial deficit of the general budget 2021, CBI issued, in cooperation with Ministry of Finance (MOF), National Bonds for the public entitled “Sanadat Binaa” with the value of IQD 1 trillion and IQD 2 trillion to be listed in “Iraq Stock Exchange”. It also issued a circular to state-owned & private banks to promote those bonds and encourage the public to deal with.

Concepts Guide

Monetary Policy: is a group of measures & instruments used by monetary authority represented by the central bank to achieve a group of targets.

Commercial Banks: include all national (state-owned & private) and foreign banks operating in Iraq that are licensed & subject to CBI supervision, including specialized & Islamic banks. All these banks are licensed to operate according to CBI Law & Banking Law (CBI Law No. 56 of 2004 – Article 40 8th Section & Banking Law No. 94 of 2004 Article 4 and Islamic Banks Law No. 43 of 2015).

Banking System: includes Central Bank of Iraq (CBI) and Commercial Banks operating in Iraq.

Issued Currency: is cash issued by CBI to circulation except cash with CBI vaults.

Currency outside banks: is cash issued by CBI to circulation except cash with CBI vaults minus existing cash with the commercial banks vaults.

Deposits: include all types of economic sector deposits with the commercial banks.

Monetary Basis (M0): represents issued cash (Currency outside banks+ Currency with banks) plus current balances of commercial banks with CBI vaults (in Iraqi dinar & US dollar).

Narrow Money Supply (M1): represents issued cash outside banks plus transferable deposits with commercial banks (in Iraqi dinar & US dollar).

Broad Money Supply (M2): represents money supply (M1) plus other deposits for all of economic sectors (except central government sector) with commercial banks (in Iraqi dinar & US dollar) and postal saving deposits.

Money Multiplier (m): is the ability of banks to create money in the economy; it is the outcome of dividing money supply (M2) by monetary basis (M0).

Foreign Assets (net): include foreign assets with the banking system minus foreign liabilities on the banking system represented by CBI & operating banks in Iraq.

Domestic Assets (net): represent total net debts on government, private sector, other sectors and net other items.

Reserve Requirement: is a percentage of total deposits of all types with commercial banks held at the CBI representing: (15%) of current deposits in Iraqi dinar & US dollar, (10%) of saving & fixed deposits in Iraqi dinar & US dollar for commercial banks and (5%) for Islamic banks.

Exchange rate of Iraqi dinar against US dollar: is the price set by CBI through foreign exchange selling window at the CBI.

General Consumer Price Index: measures the general level of prices of a fixed basket of goods & services consumed by an Iraqi family with a certain base year (100=2012) - calculated by Central Statistical Organization CSO/ Indexes Dept.

Core Inflation: is calculated after excluding some goods of fluctuating prices related to fruits & vegetable groups/ food & non-alcoholic drinks item, in addition to oil & cooking gas/ housing item - calculated by Central Statistical Organization CSO/ Indexes Dept.

Spread Coefficient: represents the difference between interest rate on deposits and interest rate on loans.



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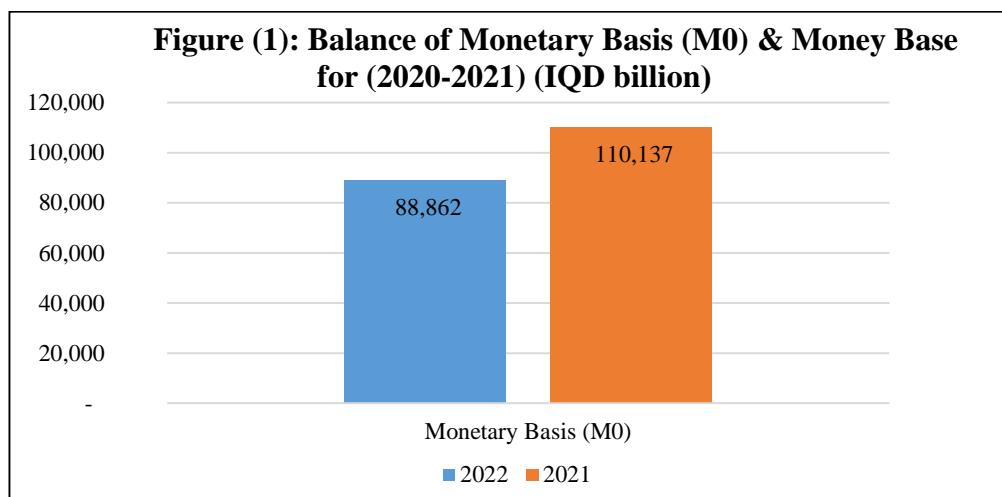
CHAPTER ONE

Money Supply Developments and Monetary Policy Instruments

First: Money Supply Developments

1- Monetary Basis (M0)

The balance of the Monetary basis recorded an increase of (23.9%) to record an amount of IQD (110,137) billion in 2021 against IQD (88,862) billion in 2020 due to an increase in issued cash by (16%).

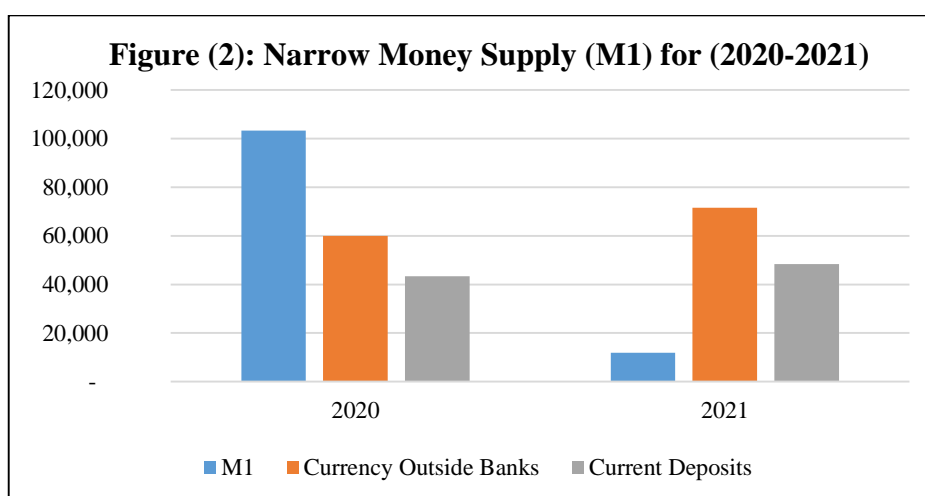


2- Narrow Money Supply (M1)

Narrow Money supply (M1) recorded a rise of (16.1%) at the end of 2021 compared to 2020, to reach IQD (119.9) trillion against IQD (103.4) trillion in 2020. This rise is mainly attributed to the growth of the currency outside banks by (19.2%) to record IQD (71.5) trillion against IQD (60) trillion in 2020 as to constitute (59.6%) of money supply (M1). While current deposits recorded a rise of (11.6%) to reach IQD (48.4) trillion against IQD (43.4) trillion in 2020 and constitute (40.4%) of money supply (M1) - as shown in table (1). By analyzing the structure of money supply (M1), it is noted that the currency outside banks still constitute high contribution rates due to the lack of development of the banking system in a manner that facilitates domestic monetary transactions.

Table (1): Narrow Money Supply (M1) for (2020-2021)

Components	(IQD billion)	
	Dec. 2020	Dec. 2021
Narrow Money Supply (M1)	103,353	119,944
Growth Rate %	19.1	16.1
Current Deposits	43,366	48,418
Current Deposits Ratio to Money Supply (M1)	42	40.4
Currency Outside Banks	59,987.1	71,526.1
Ratio Of Currency Outside Banks to Money Supply (M1) %	58	59.6



3- Broad Money Supply (M2) (Domestic Liquidity)

Broad Money supply (M2) (domestic liquidity) recorded a rise of (16.7%) at the end of 2021 compared to 2020. It recorded IQD (139.9) trillion against IQD (119.9) trillion in 2020 to constitute (46.4%) of GDP in current prices - as shown in table (2).

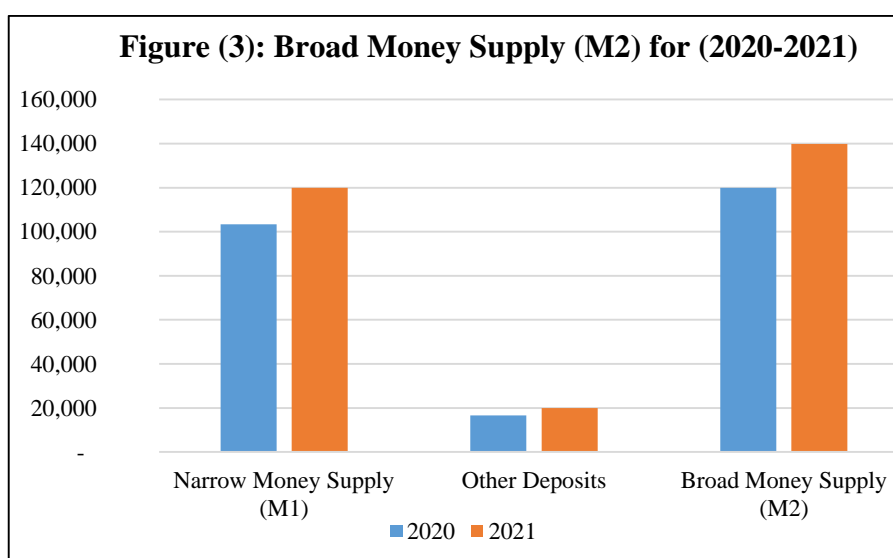


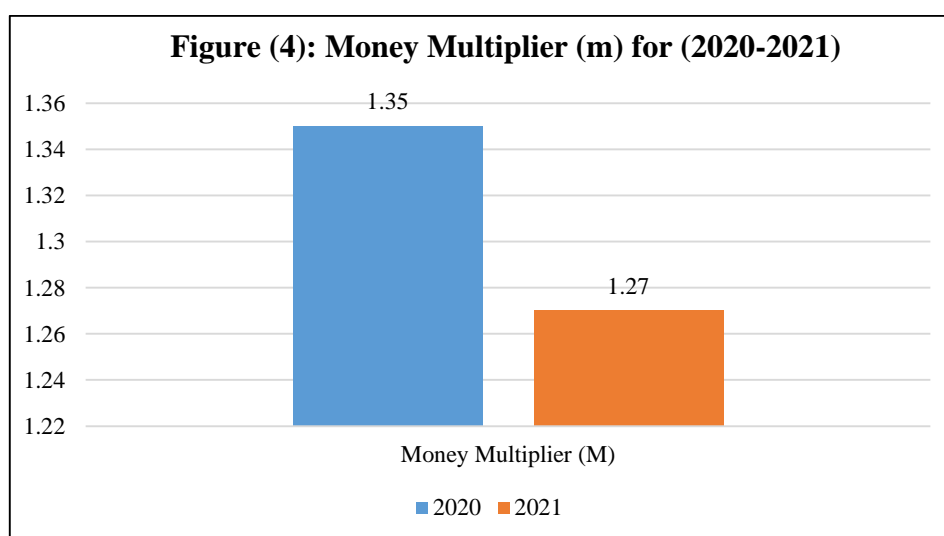
Table (2): Components of Domestic Liquidity (M2) for (2020-2021)

Components	(IQD billion)	
	Dec.2020	Dec.2021
Narrow Money Supply (M1)	103,353	119,944
Others Deposits	16,553	19,942
Broad Money Supply (M2)	119,906	139,886

The increase in domestic liquidity (M2) came as an outcome of the growth in narrow money supply (M1) by (16.1%) and the increase in other deposits (fixed, saving, postal, and insurance deposits) by (20.5%) to record IQD (19.9) trillion in 2021 against IQD (16.6) trillion in 2020. It is noted that other deposits still constitute a low percentage reaching (14.3%) of total (M2) in 2021 against (13.8%) in 2020. This rise indicates improvement in the public's confidence in the banking sector after the increase in salary domiciliation rates.

4- Money Multiplier (m)

It measures the ability of banks to create money and affect its size within the national economy. This is done through the process of creating deposits, as it represents the ratio of money supply (M2) to the monetary basis (M0). Whenever the value of the money multiplier is greater than (1), the greater the money supply when the monetary basis remains stable or changes by less than the change in the size of the money supply. The money multiplier recorded (1.27) in 2021 against (1.35) in 2020 with a decrease of (-5.9%). This decrease is due to the rise of growth in the monetary basis by a percentage that exceeds the increase in money supply as an outcome of the rise in issued currency.

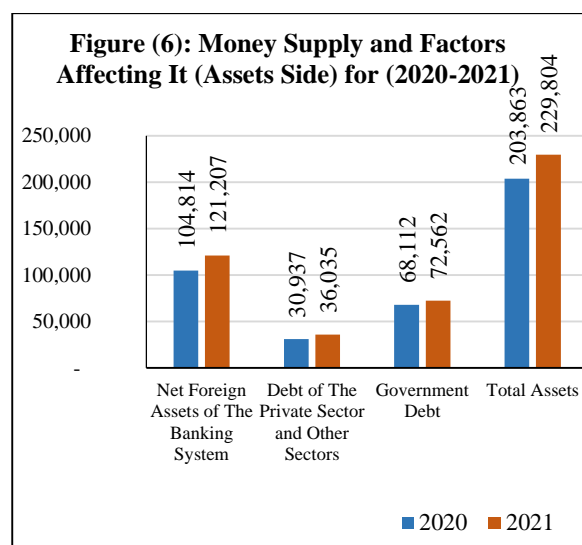
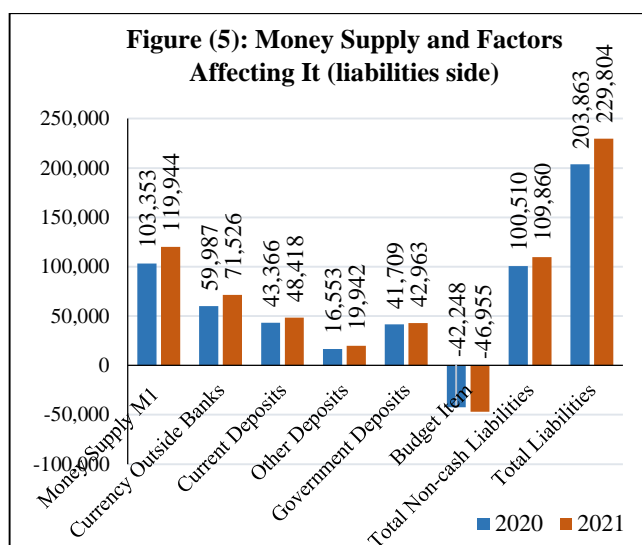


5- Factors Affecting Money Supply

The expansionary factors represented by (net foreign assets with the banking system, net government debts, private sector debts and other sectors) had a clear role in increasing money supply during 2021. As the balance of net foreign assets increased from IQD (104,814) billion at the end of 2020 to IQD (121,207) billion at the end of 2021 with an increase of (16%) to constitute (66.4%) of the total expansionary factors amounted IQD (24,687) billion. As for the net government debts which represent the difference between (credit granted to the government in the form of drafts, loans and deposits) - it also represented an expansionary role. As the expansion amounted IQD (3,196) billion with a contribution rate of (12.9%) due to the rise in government debts by IQD (4,450) billion because of the increase in borrowing to finance budget deficits when oil prices decreased and the increase in government deposits by IQD (1,254) billion. The Private Sector and other sectors` debts had an expansionary role in increasing the money supply, as it increased by IQD (5,098) billion to record IQD (36,035) billion against IQD (30,937) billion in 2020 with an increase of (16%). This is due to the increase in the volume of lending to the public, whether from banks or from the CBI's initiatives, especially after increasing the amounts allocated for the IQD (5) trillion initiative. This item constituted (20.6%) of the total expansion factors, while the budget and other deposits items constituted a deflationary factor on money supply, as the deflationary factors amounted IQD (8,096) billion. Both items accounted for (58.1%) and (41.9%), respectively, of the total deflationary factors - as shown in table (3).

Table (3): Money Supply and Factors Affecting it for (2020-2021)

The statement	(IQD billion)			
	Dec.2020	Dec.2021	Amount of change from last year	Growth rate %
Net Foreign Assets with Banking System (The Central Bank +Banks)	104,814	121,207	16,393	16
Private Sector and Other Sectors Debts	30,937	36,035	5,098	16
Government Debts	68,112	72,562	4,450	7
Total Assets	203,863	229,804	25,941	13
Money Supply (M1)	103,353	119,944	16,591	16
Currency Outside Banks	59,987	71,526	11,539	19
Current Deposits	43,366	48,418	5,052	12
Other Deposits	16,553	19,942	3,389	20
Government Deposits	41,709	42,963	1,254	3
Budget Item	(42,248)	(46,955)	(4,707)	11
Total Non-Monetary Liabilities	100,510	109,860	9,350	9
Total Liabilities	203,863	229,804	25,941	13



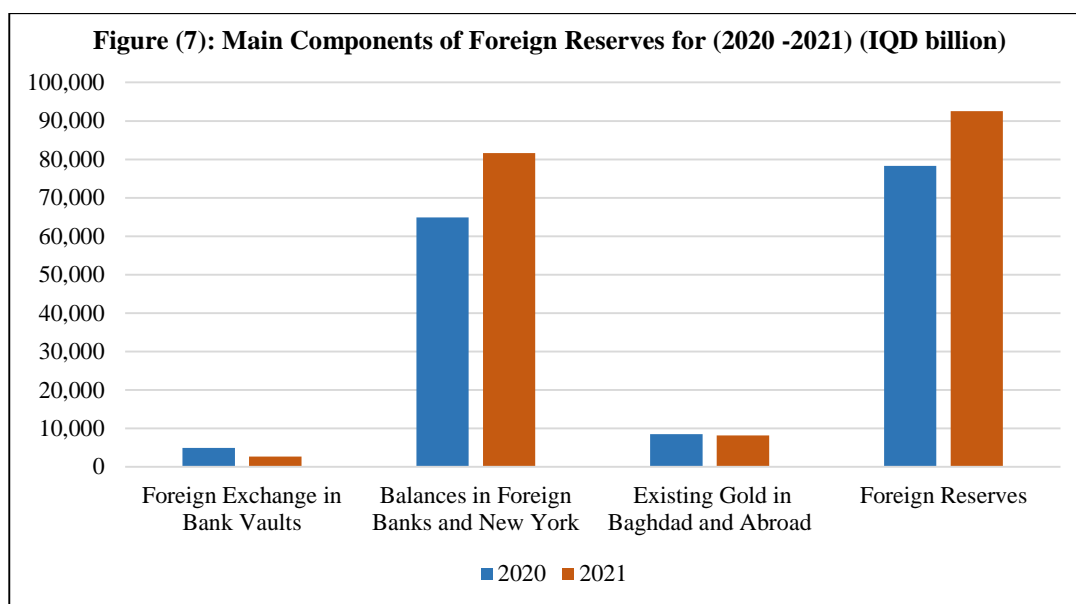
6- Foreign Reserves With the Central Bank

The balance of foreign reserves at the end of 2021 increased by (18.2%) of the previous year to reach IQD (92.5) trillion against IQD (78.3) trillion at the end of 2020, as shown in table (4).

This increase is mainly due to the increase in foreign investments abroad by (25.8%) to reach IQD (81.6) trillion in 2021 against IQD (64.9) trillion for the previous year. While the balance of existing gold in Baghdad and abroad decreased by (-3.7%) which amounted to nearly IQD (8.2) trillion at end of 2021 against IQD (8.5) trillion at the end of 2020. Also the balance of foreign exchange in CBI vaults recorded an amount of IQD (2.7) trillion in 2021 against IQD (4.9) trillion in 2020.

Table (4): Main Components of Foreign Reserves for (2020 – 2021)

Item	(IQD billion)	
	2020	2021
Foreign Exchange at CBI Vaults	4,887	2,719
Balances at New York & Foreign Banks	64,919	81,639
Existing Gold in Baghdad & Abroad	8,487	8,169
Foreign Reserves	78,293	92,527



Second: Developments of Indirect Monetary Policy Instruments

1- Foreign Currency Selling Window

Sold amounts of US\$ at the CBI selling foreign currency window (cash & enhancing banks' balances abroad) for 2021 declined by (-15.8%) of the previous year (2020) to record US\$ (37.1) billion against US\$ (44.1) billion. This decline is due to decrease in Iraq's imports by (-15.4%) because of the continuation of the crisis that it was exposed to represented by the spread of pandemic and restrictions imposed on supply chains that the world witnessed due to pandemic. Also the change in exchange rate - which in turn led to a rise in the prices of imported goods, as well as the rise in the prices of international goods. Cash sales rose by (96.5%) in 2021 as a result of the increase in demand from individuals for the purposes of travel or treatment abroad, after the gradual increase in the relaxing of restrictions on travel between countries during this year.

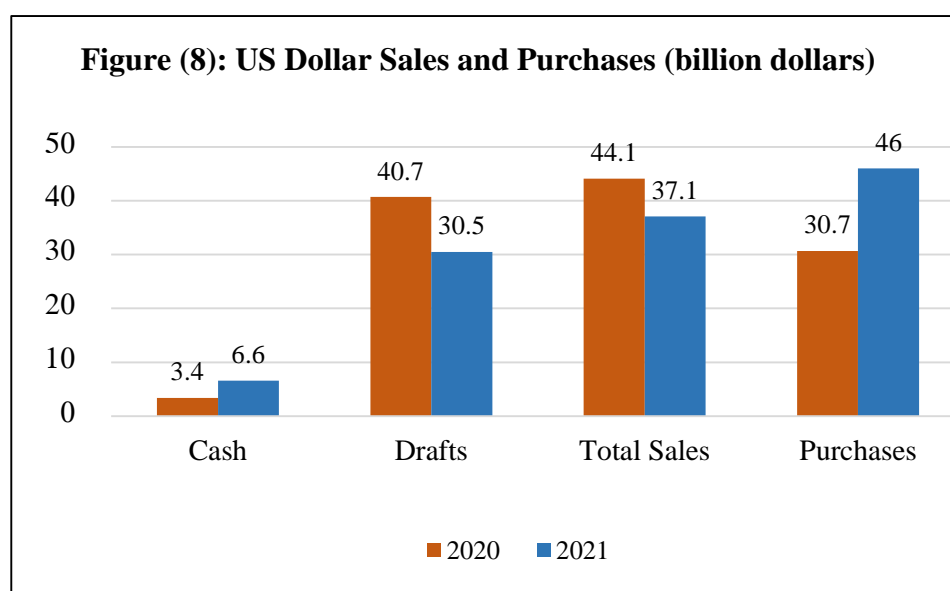
Central Bank of Iraq introduced Foreign Currency Selling Window for the first time on 4/10/2003; until present. The window aimed at limiting the excessive increase in money supply and control volume of domestic liquidity through an stable exchange rate. As well as unify foreign exchange rates in Iraq and achieve homogeneity in the exchange market mechanism by satisfying the markets desire for foreign currency. In addition to meet the needs of private sector to finance all its imports. Also raising purchasing power of the Iraqi Dinar and reflected the improvement in the real value of incomes. As for banks, this instrument provides them with foreign currency resources that enable them to open documentary credits, letters of guarantee and carry out transfers of amounts in foreign currency.

CBI foreign currency sales were distributed to US\$ (30.5) billion to enhance the balance of banks' abroad & US\$ (6.6) billion in cash, as the drafts sales to enhance balances abroad constituted (82.2%) & cash sales constituted (17.8%) of the total sold amounts. While sold amounts as balance enhancement abroad & cash constituted (92.4%) & (7.6%), respectively, of total sales in 2020.

As for purchases of foreign currency from Ministry of Finance by CBI, they recorded an increase of (49.7%) to reach US\$ (46) billion in 2021 against US\$ (30.7) billion in 2020 due to the increase in government revenues from crude oil as a result of the rise in crude oil prices in global markets by (59.5%) due to the increase in demand for energy, which the world witnessed on one hand. On the other hand, the approval of stat's general budget and the accompanied rise in public spending.

Table (5): Sold Amounts of US\$ Through Selling Foreign Currency Window at CBI (Cash, Enhancing Banks' Balances Abroad) for (2020-2021)

	(US\$ billion)				
	Cash	Drafts	Total Sales	Purchases	Gap
2020	3.4	40.7	44.1	30.7	-13.4
2021	6.6	30.5	37.1	46	8.9
Growth Rate %	94.1	-25.1	-15.8	49.7	



2- Standing Facilities

During this year, CBI continued to adopt a policy rate of (4%) annually, while it ceased operation with the investment windows for (7) and (30) days according to the board of directors' decision No. 6/5/929 dated 14/6/2020 in order to provide liquidity for banks to face the effects of the Pandemic crisis.

CBI have ceased operation with all financial products in US\$ (deposits, drafts, and Islamic deposit certificates) according to circular No.6/6/1930 dated 1/8/2019 because of weak response of banks in diversifying their investments portfolio in a way that achieves the required goals for the mentioned period with continued maturities of the principal amount with interest.

As for standing lending facilities, CBI continued to operate with this instrument in implementing its monetary policy goals aiming at granting credit to banks, in order to ensure the control of banking liquidity and affect it through interest rates (pricing signals) which was set for each kind of them as follows:

- Initial credit (6%) annually.
- Secondary credit (7%) annually.
- last resort loan (7.5%) annually

None of the state-owned or private banks had applied for any of these credits during 2021.

3- Reserve Requirement

In accordance with the adopted monetary policy trends with its high resilience to support economic development process, the requirement reserve ratio was restored to (15%) instead of (13%) for government and private current deposits that were calculated in June 2021 - as the economic and social situation improved after Corona crisis.

At the end of 2021, reserve requirement recorded an increase by (19.8%) to reach IQD (11) trillion in 2021 against IQD (9.2) trillion in 2020 due to the increase in reserve requirement on private bank deposits by (33.6%) to record IQD (1.4) trillion against IQD (1.1) trillion in 2020. The reserve requirement on state-owned banks deposits increased by (18%) to record IQD (9.6) trillion against IQD (8.1) trillion in 2020.

Based on CBI Board of Directors Decision No. (111) of 2021 and further to circular No.6/3/320 dated 3/2/2021, it was decided to restore the reserve requirement ratio to (15%) instead of (13%) for current & of current nature deposits in IQD for state-owned and private banks deposits to be calculated in June 2021 report in order to retain a provision for July



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CHAPTER TWO

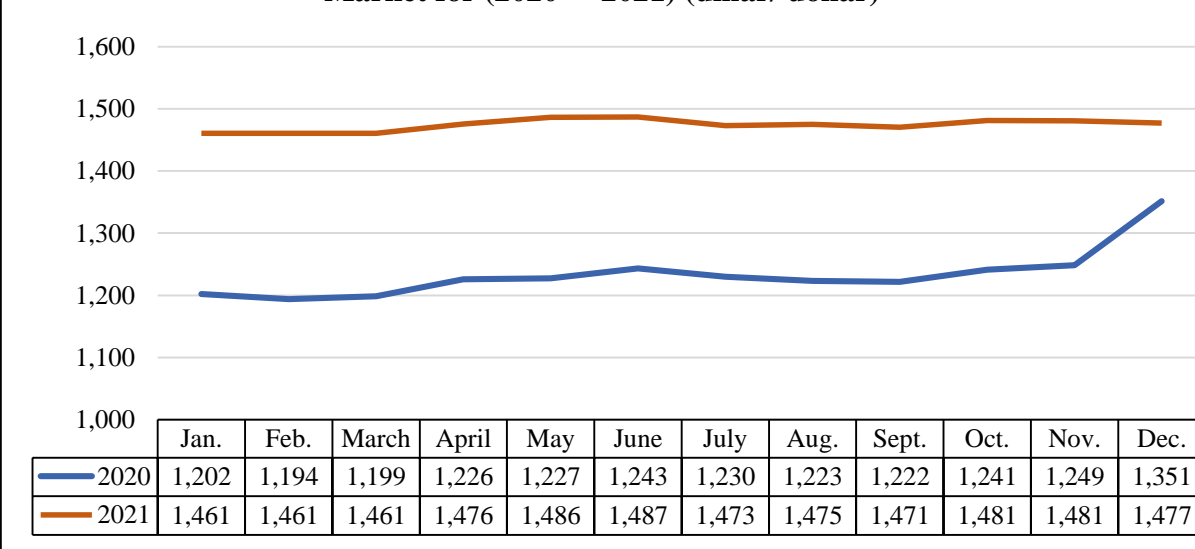
The Prices

1- Exchange Rate

The price of selling US dollar to banks through the foreign currency selling window maintained its value of (1460) dinar per 1US\$ - after it was changed at the end of 2020. On the other hand, the exchange rate of the Iraqi dinar against US dollar in domestic market recorded (1474) dinar per 1US\$ in 2021 against (1234) dinar per 1US\$ in 2020. While exchange rate gap reached (0.3%) in 2021, which is an evidence of exchange rate discipline with a rate not exceeding the standard ratio of ($\pm 2\%$) of the official exchange rate.

The gap is equal to = (Exchange rate in the domestic market / window exchange rate)-1 * 100

Figure (9): Monthly Average of Iraqi Dinar Exchange Rate per 1US\$ in Domestic Market for (2020- – 2021) (dinar/ dollar)



2- Trends of Consumer Price Index in Iraq

The consumer price index in Iraq (as an indicator of inflation) showed an increase in growth rate to reach (6%) against (0.6%) for the previous year to record (111.5) points in 2021 against (105.1) points in 2020. While the consumer price index recorded (113.1) points in 2021, after excluding (Oil derivatives (oil & gas) and vegetables & fruits group), against (106.2) points in 2020 recording a rise of (6%) in 2021 against (1%) in 2020. This rise came as a result of reducing Iraqi dinar exchange rate against the US\$ to face the

double crisis (low oil revenues & health crisis) that the country has experienced. On the other hand, Iraq is affected by prices change (up and down) with trading partners and external shocks caused by fluctuations in oil prices and the rise of some basic commodities, especially (food, iron and transport wages) in global markets. In addition to measures taken by countries to confront the pandemic. All these factors led to a rise in inflation due to limited ability to replace imported goods. When comparing the main components of consumer basket`s commodities for 2021 with the previous year, it is noted that most groups of the index have increased, except for the decrease in the education group. The following is a detailed analysis of the developments of inflation rates in 2021 compared to 2020 by commodity aggregates - as shown in table (7).

Developments of inflation rates by commodity groups for 2021 compared to 2020

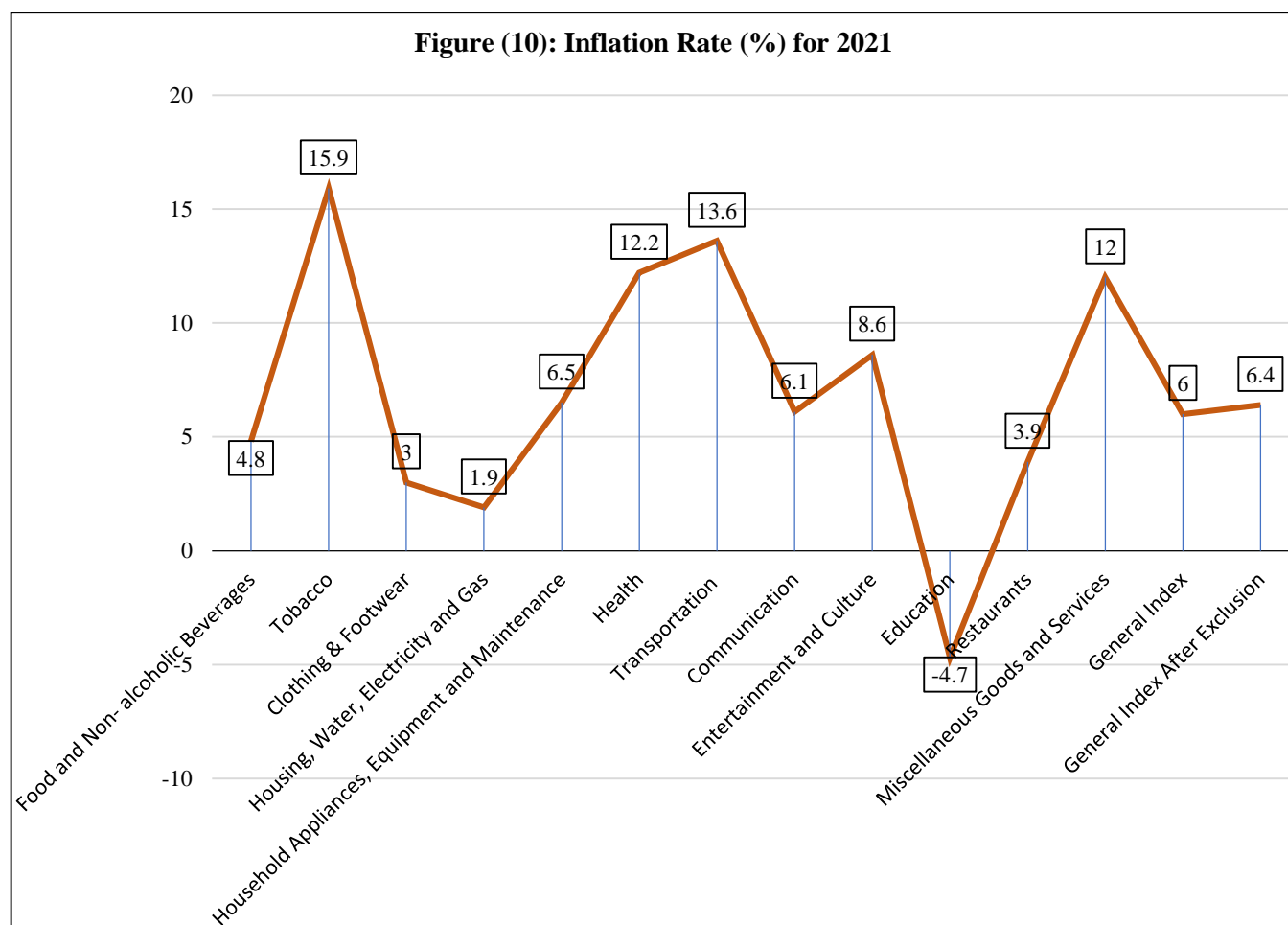
Tobacco group recorded a remarkable rise of (15.9%) due to the increase in cigarette prices in the Iraqi markets after the depreciation of the Iraqi dinar against US dollar. Transportation group recorded a rise of (13.6%) due to the rise in land transportation wages from Baghdad (the capital) to some governorates and neighboring countries. Also (Health) group increased by (12.2%) due to the increase in demand for medical equipment, supplies and medicines with increased prices, in addition to the increase in visits to private clinics as a result of the outbreak of the corona virus and the increased number of infection with this virus. Followed by the group of miscellaneous goods and services, which recorded an inflation rate of (12%) as a result of the increase in global gold prices. While the entertainment and culture group recorded an increase of (8.6%) due to the restoration of tourism and recreational facilities after easing prevention measures. The group (household equipment & supplies) recorded an inflation rate of (6.5%) due to the increase in the prices of household appliances & furniture and equipment by (7.5%) and (4.6%), respectively. Whereas communication group recorded an inflation rate of (6.1%) due to the rise in the prices of mobile devices and the increase in demand for internet services in light of the e-learning. On the other hand, (food & non-alcoholic beverages, restaurant & hotels and clothing & Footwear) recorded inflation rates of (4.8%, 3.9%, 3.0%), respectively, due to the high prices of food stuff and transportation in global markets. As for clothing and footwear, they have

increased by (3%) as a result of in-person presence to schools, universities and state departments, while (housing, water, electricity and gas) recorded an increase of (1.9%) due to the increase in demand, in addition to the increase in the prices of imported goods as a result of the devaluation of the Iraqi exchange rate. Whereas (education) group recorded a remarkable decrease of (-4.7%) in 2021 as a result of reducing tuition fees in parallel education, evening studies, universities and private schools.

**Table (7): Consumer Price Index in Iraq for 2021 compared to 2020
(2012=100)**

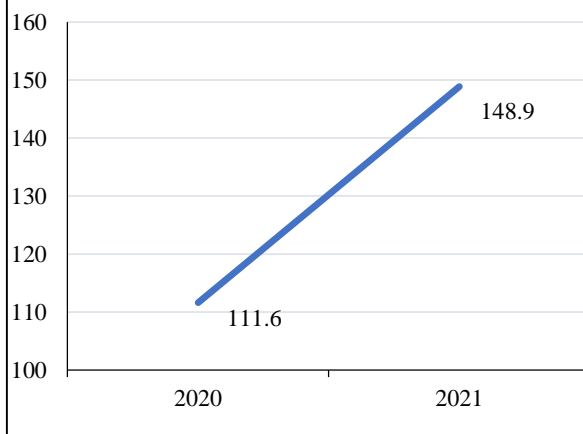
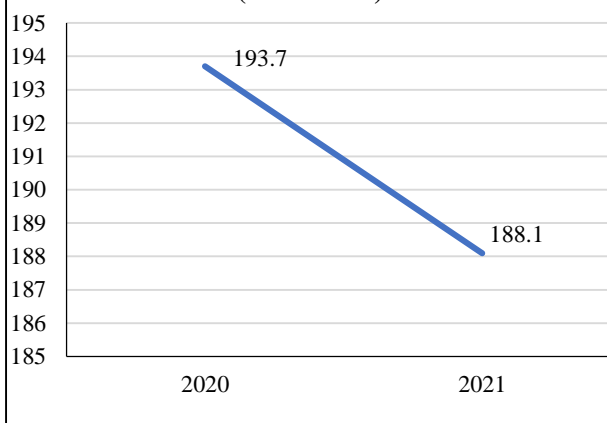
T	Groups	Average of 2020	Average of 2021	Inflation Rate of 2021
1	Food and Non- alcoholic Beverages	97.0	101.7	4.8
2	Tobacco	121.9	141.2	15.9
3	Clothing & Footwear	101.9	104.9	3
4	Housing, Water, Electricity and Gas	113.8	116	1.9
5	Household Appliances, Equipment and Maintenance	96.1	102.3	6.5
6	Health	131.2	147.3	12.2
7	Transportation	97.5	110.8	13.6
8	Communication	109.1	115.8	6.1
9	Entertainment and Culture	95.1	103.3	8.6
10	Education	154.7	147.5	-4.7
11	Restaurants	112.2	116.5	3.9
12	Miscellaneous Goods and Services	115.2	129	12.0
	General Index	105.1	111.5	6.0
	General Index After Exclusion	106.2	113.1	6.4

Source: Ministry of Planning/ Central Statistical Organization.



3- Implicit Index (Implicit GDP Deflator)

The GDP deflator witnessed an increase from (111.6%) in 2020 to (148.9%) in 2021, as the GDP at current prices increased by (37.2%) in 2021, mainly due to the rise in crude oil prices recording the average price of US\$ (64.9) per a barrel in 2021 against US\$ (40.69) per a barrel in 2020. As for the domestic product at constant prices, it increased by (2.8%) due to the increase in the amount of oil production according to the (OPEC+) agreement to reach (3.4) million barrels per a day in 2021. As for the implicit deflator of GDP without oil, it decreased from (193.7%) in 2020 to (188.1%) in 2021. Thus it can be said that the Iraqi economy is a rentier economy that still depends on the activity of crude oil as a primary source of income.

Figure (11): Implicit Deflator (%) for (2020 - 2021)**Figure (12): (Implicit Index) GDP Deflator Excluding Oil % for (2020-2021) Base Year (2007 = 100)**

The implicit deflator of GDP prices reflects the change that had occurred on the prices of all goods and services, whether they were consumptionary, intermediate, or productive. It includes both wholesale and consumer prices, as many international organizations, especially the International Monetary Fund, rely on it as an indicator or an evidence of the existence of inflationary pressures in the economy. It is greatly affected by oil prices as oil constitutes an important percentage of the value added, which may create a gap between calculating inflation through using the deflator and calculating inflation through using consumer price indices. If the index is more than (100%) - then this means that there is an increase in prices, and if it is less than (100%) - this means that there is a decrease in prices, but if the implicit index is equal to (100%) - this means that the prices have not changed.

Table (8): (Implicit Index) GDP Deflator for (2020-2021) (2007=100)

	2020	2021
Gross Domestic Product (IQD billion)		
Current Prices	219,768.8	301,439.5
Constant Prices	196,985.5	202,468.3
GDP Deflator %	111.6	148.9
Non-Oil GDP (IQD billion)		
Current Prices	156,433.1	163,766.1
Constant Prices	80,742.8	87,043.4
GDP Deflator %	193.7	188.1

Source: Ministry of Planning/ Central Statistical Organization.

4- Index of Imports (Imported inflation)

Iraq is affected by the inflation of its trading partners as a result of its heavy dependence on imports to cover aggregate demand, which is known as (imported inflation) that is reflected negatively on the Iraqi economy as it bears the cost of other states' inflation. While inflation of major trading partners is considered one of the most important long-term inflationary determinants. The imported inflation average declined in 2021 to reach (85.24%) against (101.02%) in 2020 due to the decline in imports and the increased dependence on some domestic goods on the one hand, and the rise in GDP on the other hand. Despite the rise in global inflation, which is an evidence of the improvement in non-oil GDP on the one side with the change in the exchange rate that made imported goods considered as high-priced from the point of view of the Iraqi consumer on the other side, the matter that had reduced demand for them - as shown in table (9).

After 2003, Central Bank of Iraq used the exchange rate instrument as a nominal anchor to curb imported inflation.

Table (9): Imported Inflation for (2020-2021)

Year	Global Inflation (%)	Imports (IQD billion)	GDP at Current Prices (IQD billion)	Imported Inflation (%)
2020	3.18	69,817.5	219,768.8	101.02
2021	4.35	59,067.2	301,439.5	85.24

$$\text{Imported inflation} = \text{imports} / \text{GDP at current prices} * \text{Global inflation} * 100$$

5- Real Interest Rate

Data indicate that the average interest rate on lending and real deposit decreased notably during 2021 to reach (5.8%) and (-1.2%), respectively, against (11.7%) and (4.6%), respectively, in 2020. This decrease is due to the rise in inflation rate during 2021 reaching (6.0%), despite the decline in interest rates for lending and deposit during this year, as lending interest rate declined to reach (11.8%) in 2021 against (12.3%) for the previous year. While deposit interest rates declined from (5.2%) to (4.8%), as shown in table (10). As for the spread coefficient, it recorded (7%) which

is considered a high percentage relative to the standard percentage of (3-4%); this difference is considered an obstacle against monetary policy goals in achieving prices stability and support of economic growth.

Table (10): Average of Real Interest Rate on Lending and Deposit (%) for (2020-2021)

Items	2020	2021
Average of Interest Rate on Short Lending in IQD	12.3	11.8
Average of Interest Rate on Deposits for one Year in IQD	5.2	4.8
Spread Coefficient of Average Interest Rate	7.3	7.4
Average of Real Lending Interest Rate	11.7	5.8
Average of Real Deposit Interest	4.6	-1.2
Spread Coefficient of Average Interest Rate on Deposits	7.1	7
General Inflation Rate%	0.6	6.0

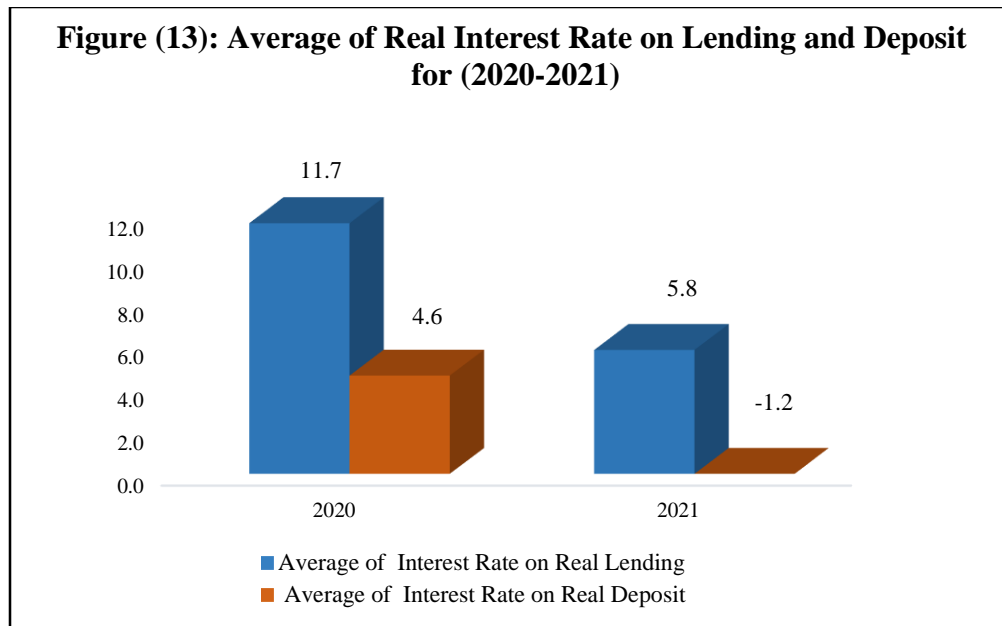
*** Preliminary Interest Rates

Real interest rate reflects the real cost of the borrower's money and the real return to the lender or the investor. The short lending interest rate in Iraqi dinars is used to indicate the interest of real lending, and the interest on one-year deposits is used to indicate the real deposit interest rate.

On March 2004, Central Bank of Iraq decided to completely liberalize interest rates for deposits, loans, credits and other securities; which is a radical transformation in banking business. This means activating interest rate signals in accordance with market rules with access to reach the equilibrium price and reduce the gap between credit interest rates (Lending interest rate) and debit (deposit interest rate). This liberation came in accordance with the financial liberalization of the markets in Iraq.

Average of real lending interest rate =
Average interest rate on short-term lending - general inflation rate.

Average of real deposit interest rate =
Average interest rate on deposits for one year - general inflation rate.





البنك المركزي العراقي

CHAPTER THREE

Developments of Monetary Policy Performance

1- Analysis of Official Reserves Ratio to Issued Currency

The Central Bank of Iraq continued to follow up on domestic and global economic changes that directly and indirectly affect the Iraqi economy to maintain its economic and financial stability. Perhaps among the tasks that fall upon the CBI is the stability of the value of the Iraqi dinar by maintaining foreign reserves that cover (100%) of dinars' amount which are issued by the Central Bank. Its decision at the end of 2020 to change the exchange rate of Iraqi dinar had a major role to maintain the amount of official foreign reserves at a time when crude oil prices were low due to the Corona pandemic outbreak. The data indicates a rise in the issued currency by (16%) to record IQD (76.6) trillion in 2021 against IQD (66) trillion in 2020 due to the discount of treasury bills at CBI to cover the budget deficit. On the other hand, official reserves recorded an increase of (18.2%). It reached IQD (92.5) trillion, against IQD (78.3) trillion dinars due to the improvement in oil revenues after lifting the general closure and restoring global transportation. As well as the rise in the quantities of oil production according to the (OPEC +) agreement, which led to a rise in the ratio of official reserves to the issued currency to reach (120.8 %) in 2021 against (118.6%) in 2020. This ratio is considered higher than the standard ratio which is (100%) due to the precautionary policy of the Central Bank, which maintained the balance of foreign reserves at high levels. As for the ratio of official reserves to the broad money supply (M2), it exceeded the standard ratio of (20%), as it increased from (65.3%) in 2020 to (66.1%) in 2021 due to the rise in official reserves by a greater percentage than the rise in the broad money supply (M2), as shown in table (11). Also the index regarding months of imports had exceeded the specified standard as it recorded (13.5) months in 2020 and (18.8) months in 2021.

This ratio is considered an indicator for the adequacy of the official reserves with the Central Bank, in addition to other standard indicators:

- Ratio of reserves to broad money supply (M2) (20%).
- Ratio of reserves for months of imports (6 months).
- Ratio of reserves to short-term foreign debts (maturity of 12 months).
- Collective standard of International Monetary Fund.

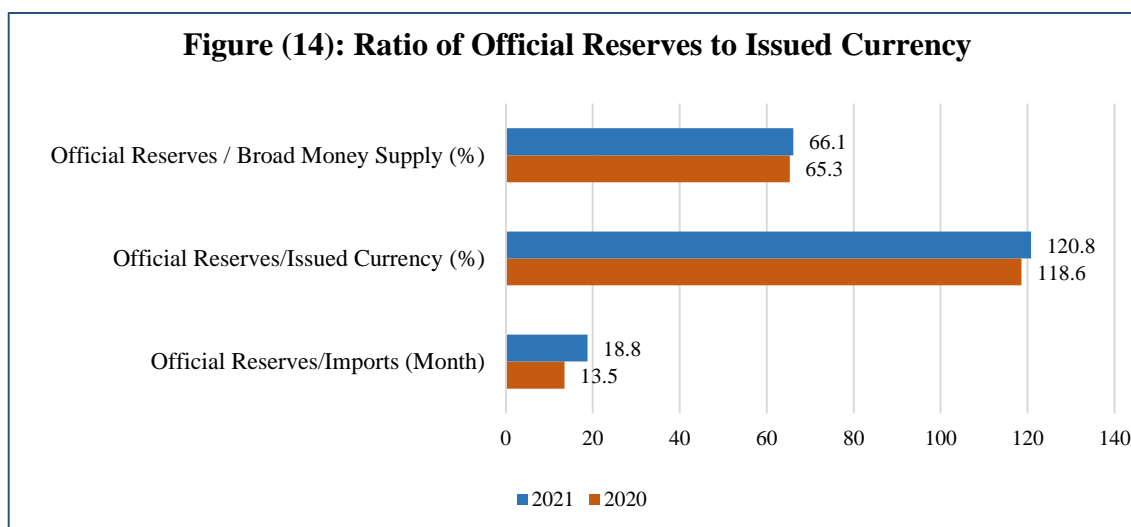


Table (11): Ratio of Official Reserves to Issued Currency for (2020-2021)

	(IQD trillion)	
	2020	2021
Official Reserves	78.3	92.5
M2	119.9	139.9
Issued Currency	66	76.6
Official Reserves / M2 (%)	65.3	66.1
Official Reserves/ Issued Currency (%)	118.6	120.8

2- Velocity of Money Circulation

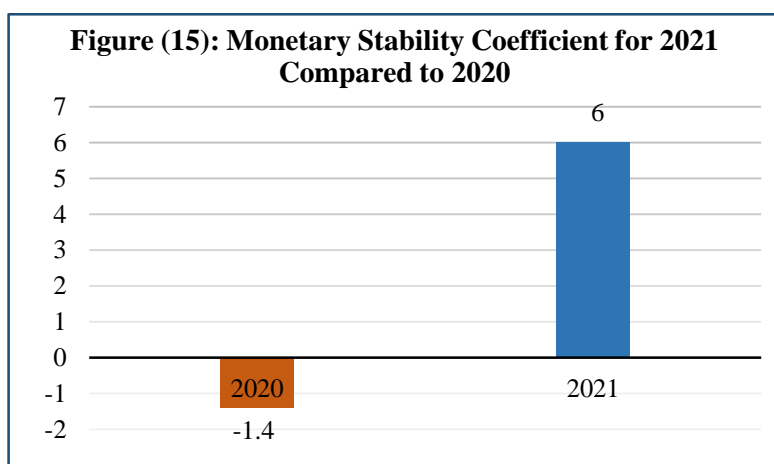
Data indicates a rise in the velocity of money circulation from (2.1) times in 2020 to (2.5) times in 2021. This means that there is an increase in the number of times a one Iraqi dinar is spent during the year, which indicates an improvement in the level of economic activity and its exit from the state of recession witnessed in 2020 due to the health conditions that the country witnessed and the subsequent preventive measures - as shown in table (12).

Table (12): The Velocity of Money Circulation and the Factors Affecting It for (2020-2021)
(IQD billion)

Year	GDP at Current Prices (1)	Money Supply (M1) (2)	The Velocity of Money Circulation (2/1)
2020	219,768.8	103,353	2.1
2021	301,439.5	119,944	2.5

3- Monetary Stability Coefficient (Inflation Pressure Gauge)

The monetary stability coefficient for 2021 reached (6%) against (-1.4%) for 2020, as growth rate of domestic liquidity increased by a greater percentage than the GDP growth rate - as the balance of the broad money supply (M2) (domestic liquidity) recorded an increase of (16.7%) at the end of 2021, while the annual growth rate of GDP reached (2.8%) at constant prices for 2021. This means that there is an inflationary trend in the domestic economy and that high domestic liquidity led to a rise in the demand for consumer goods more than the demand for investment goods because of the weakness in the production base of the country.



Monetary stability coefficient (B) clearly explains the extent of inflationary pressures (the inflationary gap) experienced by the economy; the essence of this measure is that the disproportion between the rise in the quantity of money with the rise in domestic product will lead to an imbalance between the monetary flow and the supply flow of goods & services, which drives prices to a continuous rise. The more indicator (B) approaches one - the more monetary stability increase in the country; whenever its value equals one - this means that monetary stability has occurred. If the average rate increase over one - this means that there are inflationary pressures with possible increases in prices. If the average rate is less than one - this means that inflationary pressures has disappeared.

4- Purchasing Power of Money

Money maintained its value for 2021 despite a slight decrease to reach (0.89%) in 2021 against (0.96%) in 2020; meaning that the Iraqi dinar maintained its purchasing power in 2021 despite the depreciation, which means that the country has sufficient foreign reserves to defend the exchange rate at levels close to the official rate. In general, this stability in the value of the domestic currency indicates the effectiveness of monetary policies and the hypothesis adopted by the government and the Central Bank represented by money supply and inflation control, attract investment and maintain the stability of exchange rates.

It also indicates that the purchasing power of the dinar when using the index after excluding (general inflation) did not differ much from its value when using the general index, as it reached (0.88%) in 2021 against (0.94%) in 2020.

The purchasing power of money = $1 / \text{Consumer Price Index} \times 100$

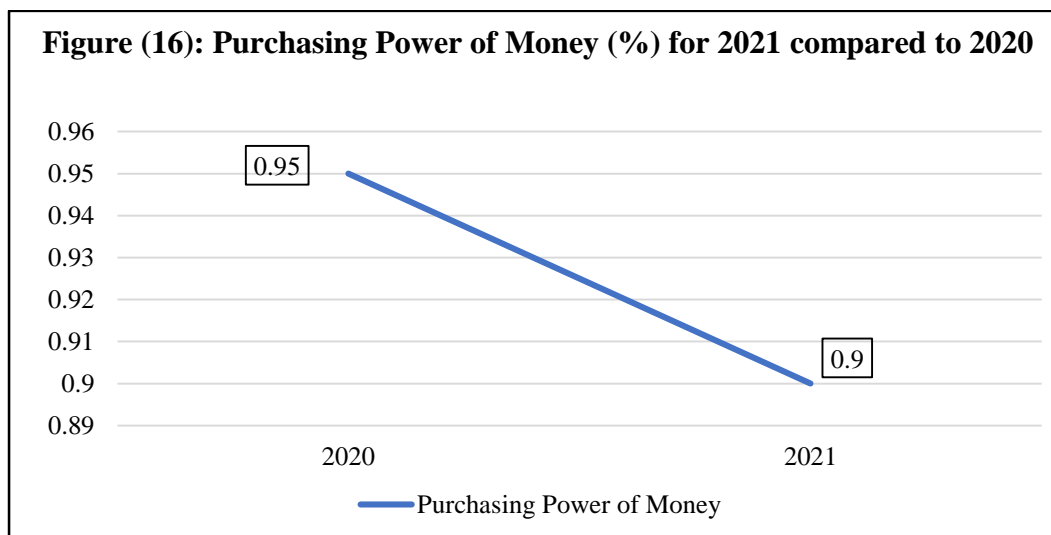


Table (13): Purchasing Power of Money for 2021 compared to 2020

Year	Index After Exclusion %	Purchasing Power of Money %	Price Index Based on (2012=100)	Purchasing Power of Money %
2020	106.2	0.94	105.1	0.95
2021	113.1	0.88	111.5	0.9

Outlook for Some Economic Variables

Today, the world has witnessed a state of uncertainty due to the acceleration of political, economic and technological developments. This in turn has led to an increased interest in Outlook in order to serve as a guide for decision makers in formulating economic policies. Central Bank of Iraq is concerned with the expectation issue, especially since the country is highly dependent on oil resource, which is susceptible to external shocks.

The following is the outlook for the most important economic variables:

Inflation rate is expected to rise but not to exceed (7%) for 2022 due to the rise in the prices of some basic commodities, especially (food and non-alcoholic beverages, transportation and fuel) in global markets. As for most countries of the world, the Russian invasion against Ukraine caused a shock in the Iraqi domestic markets. Where Iraq entered the high global prices crisis at an early stage, taking into account that the country is a major importer of foodstuffs, especially grains and vegetable oils - whose prices have rose driven by fears that supplies from Russia and Ukraine will stop. According to the Central Bank of Iraq policy, it is expected to continue adopting a Policy–Rate of (4%) and foreign reserves are expected to grow by (12%) in light of the rise in oil prices as well as the rise in gold prices in the investment portfolio.

It is expected that **economic growth** will improve with the growth of GDP to (9%) in 2022 with the increase in the price of a barrel of oil at the end of the OPEC+ agreement. As well as the increase in the quantities of exported oil that can reach (4.5) million barrels per day, the matter that will lead to an increase in public revenues which are directed towards investment spending. The recovery of government spending and rapid lending growth supported partly by CBI lending initiatives will drive non-oil growth by (5%) in 2022.

The **constraints that limit growth** are: the continuation of the Ukrainian-Russian crisis with the accompanied rise in basic commodity prices, the entry of the Iraqi economy into a wave of imported inflation - which will expand the support item in the general budget in favor of supporting the weak and poor segments and addressing the spillovers of inflation by means of supportive financial policy - including support of the ration food card and reducing some aspects of taxes.

With regard to **exchange rates**, it is expected that the market and window exchange rates will continue at their current rates of (1,460) dinar per 1US\$ at the window exchange rate and (1,474) dinar per 1US\$ in the domestic market. As for

the broad money supply (M2), the money supply is expected to grow by no less than (9.2%) from 2022. This increase is due to the expected growth of net foreign assets as a result of the increase in the prices and quantities of exported oil. The country's dependence on the first government resource of oil revenues made the monetary basis (the issued currency into circulation and the reserves of banks with the Central Bank) affected by variables of Basic macroeconomics, especially GDP and oil in particular.

Table (14): Outlook for Some Economic Variables

	Actual 2021	Expected 2022
Inflation Rate %	6.0	7
Interest Rate %	4	4
Foreign Reserves Growth %	18.2	12
GDP Growth (at Current Prices) %	37.2	9
GDP Growth (Non-Oil) (at Current Prices) %	4.7	5
Window Exchange Rate (IQD to US\$)	1,470	1,470
Market Exchange Rate (IQD to US\$)	1,474	1,474
Broad Money Supply Growth %	16.7	9.2

PREPARATION TEAM OF MONETARY POLICY REPORT 2021

DR. IMAN ABDULRAHEEM KADHIM

DR. ALI FAREED ABDULKAREEM

ALI NOORI OBAID

HASAN HAZIM LAFTA

MOHANAD ALI HAMZAH

AYAT MOHAMMED ATIYAH

GHUFRAN HELEAL ZIDANE



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