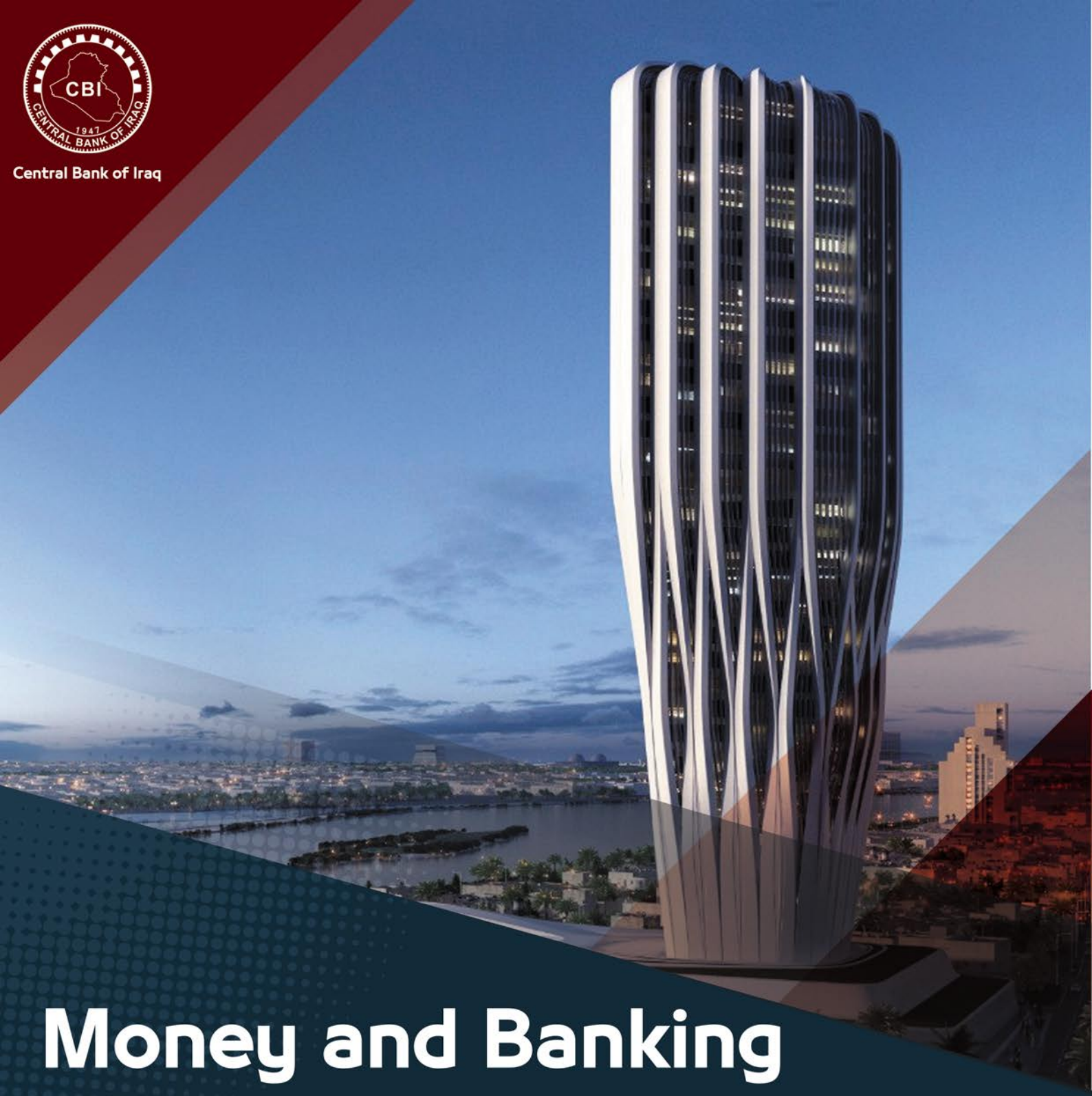
Central Bank of Iraq



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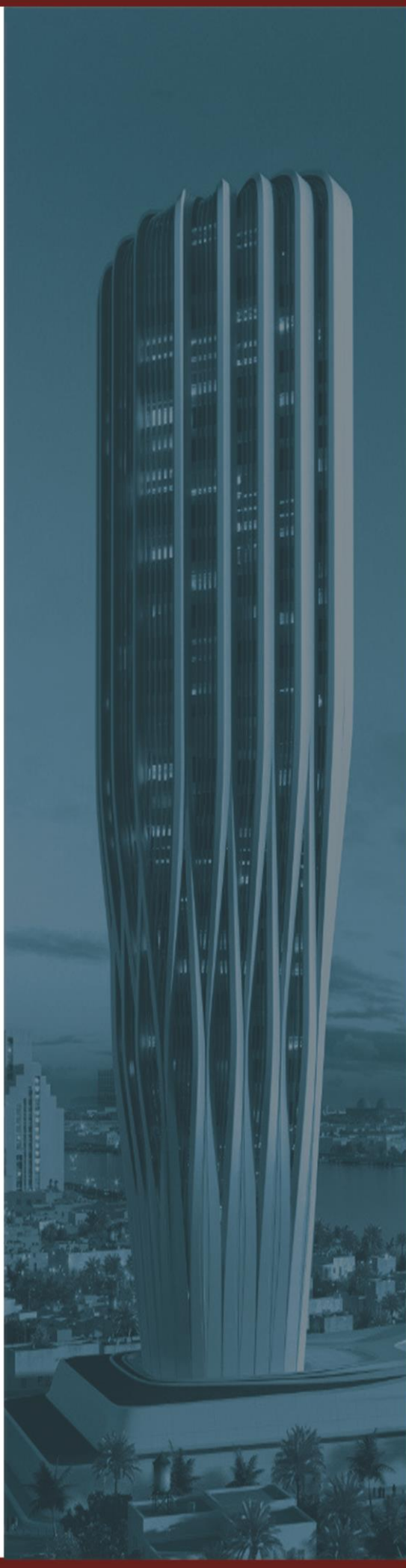

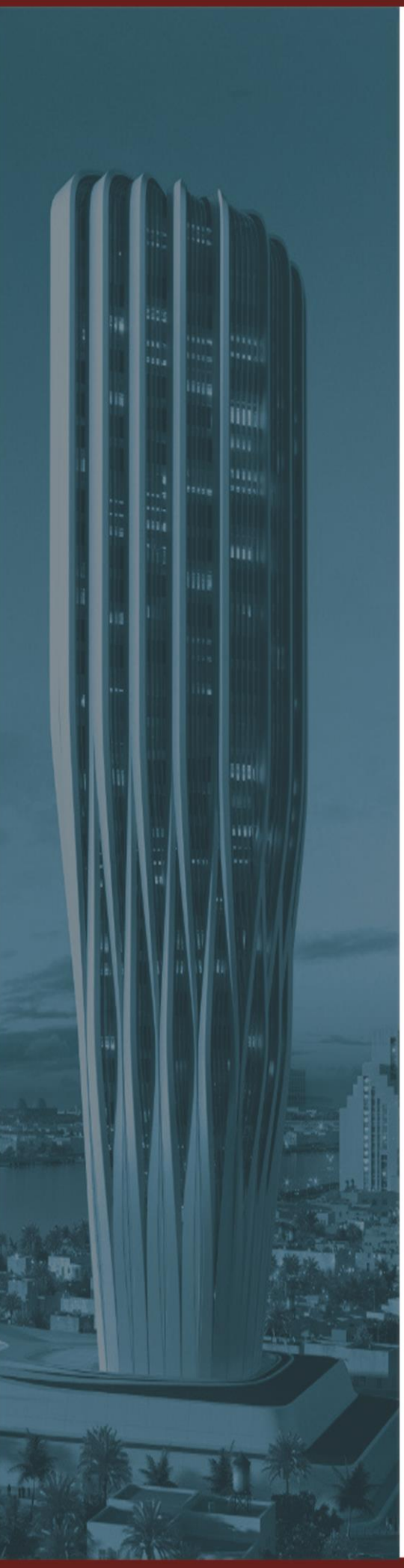

Contents

“ Devaluation of the Iraqi Dinar (Constraints and Alternatives) ”

Ali Mohsen Ismail - Governor of the Central Bank of Iraq

Introduction:

Currency devaluation refers to the official reduction of the national currency's exchange rate against a benchmark international currency. This means fewer units of foreign currency can be obtained for one unit of the national currency. In Iraq's case, this specifically refers to reducing the value of the Iraqi Dinar against the US Dollar. It differs from currency depreciation, which is a decline in the exchange rate influenced by market supply and demand mechanisms.

The relationship between currency devaluation, reducing the trade balance deficit, and stimulating the national economy is not automatic; rather, it's contingent on numerous factors and Constraints, as demonstrated by the experiences of various countries. In Iraq, currency devaluation stems from an attempt to reduce the public budget deficit due to unprecedented increases in expenditures. In this scenario, the factors and Constraints become more extensive, and the nature and content of their impacts can vary. This devaluation might lead to adverse and negative effects, potentially causing deflation due to inflationary pressures resulting from rising prices of imported raw materials and supplies. Under conditions of weak institutional frameworks and general instability, currency devaluation can have negative and amplified repercussions across multiple levels and sectors.

In this study, we examine the undeniable impacts of national currency devaluation. The study concludes that the objective of devaluation in Iraq's case is to alleviate the public budget deficit by purchasing dollars from the Ministry of Finance at a higher exchange rate. This issue should first be addressed through structural reforms aimed at increasing state revenues, controlling unproductive expenditures, and rectifying numerous imbalances and deficiencies in public policies (economic, commercial, financial, and investment) before resorting to the option of devaluing the Iraqi Dinar.

First: Factors and Constraints of Devaluing the National Currency:

The decision to devalue the national currency against foreign currencies is tied to several key factors, most notably:

1) External Sector Status (Balance of Payments):

Iraq holds a strong position in its external sector (balance of payments). This is clear from:

- The current account records an adjusted surplus of (USD 28.4 billion) in 2023, representing approximately (11%) of the GDP.
- Foreign reserves amounted to about (IQD (145.3 trillion) (USD 111.8 billion) in 2023, which is approximately (33.9%) of GDP at current prices. The reserve adequacy ratio is around (80%) of broad money supply (M2), noting that the standard benchmark is (20%), which indicates the strength and cohesion of the reserves.

Normally, a clear and persistent deficit in the balance of payments would be a reason to resort to devaluing the national currency. However, this isn't applicable to Iraq's situation in the near term, according to the factors mentioned.

2) Impact of Devaluation on Consumer Prices:

The effect of currency devaluation on consumer prices depends on the following points:

- Proportion of Imports in National Consumption: The greater this proportion, the more significant the impact of devaluation. This is evident in Iraq, which suffers from limited domestic production, a lack of diversification, and a primary reliance on imports.
- Availability of Local Products: The impact of currency devaluation lessens with the availability of local alternatives that can substitute imports. This condition, however, does not apply to Iraq.

The table below illustrates the components of the Consumer Price Index (CPI) basket that are likely to be affected by the devaluation of the Dinar, along with their weights in the basket and the percentage of imported goods within them. It also demonstrates that devaluing the

Dinar affects the consumer basket. Assuming a (30%) devaluation of the Dinar and that (50%) of goods are imported, consumer price inflation would increase by (12.9%).

Table (1)		
Category	**Weight**	**Consumer Basket**
Agricultural Products	31.633	Food and Non-Alcoholic Beverages
Services	24.386	Housing, Water, Electricity, Gas
Vehicles	12.467	Transportation
Furniture	6.040	Furnishings, Household Equipment, and Maintenance
Yarn and Textiles	6.472	Clothing and Footwear

Source: Central Statistical Organization.

- **Core Inflation Level:** The impact of currency devaluation is higher in countries with high core inflation, as producers adjust their prices quickly. While Iraq does not suffer from high inflation, its reliance on imports means it will still experience a secondary effect from this phenomenon.
- **Scale of Devaluation of National Currency:** If the scale of currency devaluation is significant, it will lead to a substantial rise in the inflation rate, especially if other factors do not help curb inflation. However, if the currency devaluation is minor, producers might delay adjusting prices to maintain their market share. In Iraq's case, given its reliance on imports to meet consumer needs, the impact of currency devaluation is typically rapid and direct, regardless of whether the devaluation is low or high.

3) Impact of Currency Devaluation on Growth and Trade:

Some countries devalue their national currency to stimulate and increase exports. A cheaper currency positively impacts their foreign trade, employment levels, and growth. Alternatively, devaluation might be implemented to substitute imports, whose prices become elevated due to the weaker currency, with nationally produced goods. Therefore, the impact of national currency devaluation depends on the composition of exports and imports, as well as market flexibility.

The experiences of various countries, especially developing ones, alongside economic theories, have consistently demonstrated that the link between devaluing a currency to curb trade deficits and stimulating the national economy is not automatic. Instead, it's a conditional relationship, shaped by each country's unique factors, constraints, and specific circumstances. Two critical factors stand out as the most significant in determining how effective any exchange rate policy based on currency devaluation will be:

- The capacity of national production depends on its technological, financial, and human resources to manufacture the same goods currently imported, ensuring comparable or reasonable quality and competitive prices, and thus replacing them with domestic products.
- The price elasticity of exports and imports, meaning the extent to which demand for exports and imports responds to price changes resulting from currency devaluation.
- Iraq can only achieve a limited benefit in this framework (growth & trade) due to the following factors:

Iraq's exports are almost exclusively limited to crude oil. Consequently, devaluing the national currency has no impact on its exports, and therefore no significant added value is realized.

- Iraq's domestic industries are weak and unable to replace imported goods.

From a practical standpoint, a significant reduction in imports typically stems from cutting capital goods imports. This, however, negatively impacts the advancement of national production.

4) Impact of Devaluation on Government-Dependent Social Segments:

In Iraq, the number of employees, retirees, and individuals covered by the social protection network system reached more than (7) million citizens. Considering they also support their families (at an average of 5 individuals per family), the vast majority of Iraq's population relies on salaries and government support for their income. In this context, we note the following:

- Devaluation negatively impacts the purchasing power of broad segments of the population who rely on fixed incomes. Mitigating this effect would necessitate increasing government spending on salaries, wages, pensions, and social security net

beneficiaries. However, this directly contradicts a primary goal of national currency devaluation: improving public finances.

- Devaluation also leads to increased government expenditure on subsidies provided through the Public Distribution System, commonly known as the ration card system.
- Remittances from abroad to citizens' relatives could potentially mitigate the impact of devaluation, contributing to the purchasing power of recipients. However, in Iraq's case, these remittances don't constitute a significant amount.

5) Effect of Devaluation on Public Debt:

When a country is indebted and repays its debts and interest in the creditor country's currency, the burden of these debts on the state's public budget increases. This is because a larger quantity of its national currency must be allocated to settle its foreign currency debt. However, if the indebted country pays in its national currency, it pays the same amount of debt and interest in its devalued national currency. In this scenario, it benefits from its national currency's devaluation by the same amount as the devaluation itself, as is the case for Iraq.

- Iraq's external debt (in foreign currency) in the first half of 2024, stands at approximately USD (14.799) million. This figure excludes the unresolved debt, which includes obligations to the Gulf Cooperation Council (GCC) countries, totaling an additional USD (40.401) million.
- Iraq's domestic debt (in Iraqi Dinars) stood at approximately IQD (70.6) trillion in 2023 and rose to IQD (81.1) trillion by November 2024, representing an increase of (14.9%). This debt comprises various instruments, including (discounted bills from the Central Bank, treasury bills held by commercial banks, various bonds, loans from financial institutions, electronic Treasury Bills-CSD (introduced in September 2024), Ministry of Finance debt, and loans from state-owned banks (introduced in October 2023).
- The external debt will increase due to a higher allocation in national currency (Dinar), depending on the devaluation amount of the national currency. For example, if the annual payment for these debts is USD (5) billion, the current allocation is calculated by multiplying USD (5) billion by the current exchange rate of 1300 dinars, totaling IQD (6.5) trillion. If the national currency devaluates by, for instance, (20%), the annual allocation for repayment will rise from IQD (5.9) trillion annually to IQD (7.3) trillion annually.
- The domestic debt remains unchanged as it is paid in Iraqi Dinars.
- Because of currency devaluation, government revenues from converting dollar-denominated oil earnings into dinars increase. This, along with other factors, leads to a rise in Gross Domestic Product (GDP). Consequently, the public debt-to-GDP ratio at current prices is affected. In Iraq's case, this ratio reached (43.5%)[1] in 2023, indicating a decrease in the public debt-to-GDP ratio, based on the domestic debt figures.
- Since public debt primarily consists of liabilities held by state-owned banks (in the form of bills and loans) and the Central Bank of Iraq (treasury bills), a devaluation of the national currency will diminish the dollar value of these banks' and the Central Bank's debt holdings by the same percentage as the currency's devaluation. This means the dollar-denominated value of the assets held by these banks will be affected, as will the Central Bank's foreign reserves. Currently, the Ministry of Finance repays its dollar-denominated debts to the Central Bank in dollars, with the Central Bank converting these at the official exchange rate, thereby maintaining its reserves. However, with a currency devaluation, the Ministry of Finance will pay a smaller quantity of dollars based on the new, lower exchange rate, which will consequently impact on the reserves in line with the new, devalued rate.

6) Impact of Devaluation on Confidence in the National Currency:

Devaluing the national currency can undermine confidence in it, especially in the absence of structural reforms and amidst general instability. As inflationary pressures mount due to national currency devaluation, so does the demand for the US dollar. This leads to

(1) External Debt = USD 56.207 billion × 1300 = IQD 73.0691 trillion
Public Debt = IQD 73.0691 trillion + IQD 70.6 trillion = IQD 143.6691 trillion
The Ratio of Public Debt to GDP at Current Prices = IQD 143.6691 / 330 trillion = 43.5%

a weakening interest in national currency deposits and a shift towards foreign currency. Consequently, increased demand for currency substitution and a desire to dispose of national currency holdings intensify pressure on the exchange rate, alongside a rise in speculative activities in the foreign exchange market.

The Iraqi Dinar's exchange rate, which is pegged to the US dollar, has been stable for several years. To bolster and maintain confidence, officials need to make extra efforts to explain the reasons and justifications for any change in the exchange rate. They also need to signal adherence to a robust policy for exchange rate control. Negative expectations and weakened confidence in the national currency can arise if it becomes clear that devaluation occurs whenever authorities face financial difficulties.

7) Ability of Monetary and Fiscal Policies to Counter Inflationary Pressures:

Devaluation of the national currency against foreign currencies inevitably creates inflationary pressures. Countering these pressures depends on the effectiveness of monetary policy instruments (such as interest rates, discount rates, open market operations, etc.) and fiscal policy (controlling expenditures and increasing revenues). These measures aim to manage the money supply, thereby mitigating the effects of inflation.

In Iraq's case, these instruments operate with limited effectiveness for various reasons that are beyond the scope of this discussion. Furthermore, a tight monetary policy aimed at controlling inflation could have an adverse effect on growth.

8) Impact of Devaluation on Public Finance and the State Budget:

The impact of national currency devaluation on the state's public budget hinges on the directions and choices of fiscal policy, particularly concerning both expenditures and revenues. This impact on both the revenue and expenditure sides of the public budget is evident in the attached disclosure.

9) Revenues:

The primary source of revenue is derived from crude oil and petroleum product exports. If the Dinar were to be devalued by 10%, resulting in an exchange rate of (1,430) Dinars per US dollar, revenues would have increased by IQD (11.7) trillion during 2023. This is because oil revenues have an inverse relationship with the value of the national currency, assuming constant quantities of oil sold.

10) Expenditures:

Expenditures could experience a substantial rise, assuming that the government is able to manage inflationary effects. The primary drivers determining the extent of this increase are the following categories:

- Government imports of goods and services.
- Payments of interest on external debt.
- Payments for foreign investments and subscriptions.
- Payments for oil-related investments.
- Ration card supplies (most of which are imported).
- Social protection network (to protect vulnerable groups).

These items constitute approximately (40%) of total expenditures. This means that a (10%) devaluation of the currency would lead to an increase in expenditures of IQD (40) billion for every trillion Dinars in spending. If the currency were to depreciate by (30%), expenditures would rise by IQD (120) billion per trillion. In addition, the following measures should be undertaken:

- The dollar-denominated expenditures need to be recalculated in their Dinar equivalent based on the devalued Dinar exchange rate for both the (10%) and (30%) devaluation scenarios.
- Expenditures paid in Dinars have not been adjusted, even though the expected inflation resulting from the Dinar's devaluation will lead to an increase in these expenses. This is particularly relevant for salaries, wages, and pensions, which constitute the largest expenditure item and are mandated by law to be adjusted annually based on the inflation rate. Such an increase will diminish the positive impact of the Dinar's devaluation. The same applies to social protection network payments, which also require increases when inflation rises.

It is possible to apply a methodology for measuring the impact of national currency devaluation for any given year of the state's public budget. This can be done when considering the potential effects of a currency devaluation, and in light of the estimated figures for the public budget of those target years.

Secondly: The Central Bank's Ability to Defend the Current Exchange Rate Amidst Public Finance Realities:

Since 2003, monetary policy in Iraq has typically focused on two main objectives. The first is defending the exchange rate by following the consistently expansionary fiscal policy. The second is to ensure the funding of public finances whenever a deficit occurs. Foreign reserves have often been a crucial tool used by the Central Bank to support both these operations.

The question that arises here is: To what extent can foreign reserves meet the demands of monetary policy in maintaining the current exchange rate, especially with projections of lower oil prices for 2025?

To address this, we will construct scenarios for Iraq's revenues, expenditures, and deficit for 2025. These scenarios will be linked to varying oil price rates, drawing from the outlooks of major international institutions such as Bloomberg, Reuters, and the World Bank. We'll assume Iraqi oil prices will be USD (3) lower than Brent crude price. Subsequently, we will estimate the capacity of projected foreign reserves (given the aforementioned data) to secure the current exchange rate and determine how long this can be sustained.

Our scenario construction will rely on the following assumptions:

1. Regarding our projections, we'll assume that estimated expenditures for the 2025 budget will be similar to 2024, but with an increase. This means the total projected expenditures for 2025 will be IQD (147) trillion.
2. Projected revenues for 2025, we'll estimate oil revenues based on assumed oil prices and Iraq's adherence to its OPEC+ quota of (3.3) million barrels/day. We'll also estimate non-oil revenues, making them constitute (11%) of total revenues. This assumption is based on the relationship between economic activity level (GDP) and non-oil revenues, particularly tax revenues.
3. We will assume that the Central Bank will finance (30%) of the projected deficit for 2025. This percentage is based on the 2024 budget.
4. We will compare the ability of foreign reserves to cover (30%) of the hypothetical deficit, using their amount from the last month of 2024, which was approximately IQD (132) trillion.

The table below shows forecasts about revenues, expenditures, deficit, and the Central Bank's contribution to finance it.

Table (2) Forecasts About the Deficit, the Central Bank's Contribution to Finance it, and the Impact on Foreign Reserves

Average Oil Price – Lowest (in USD)	Total Revenue	Total Expenditure	Current Expenditure	Deficit	Deficits with Current Expenditure	Decline in Foreign Reserves When the Central Bank of Iraq Contributes (30%) to Finance the Public Expenditure Deficit	Decline in Foreign Reserves When the Central Bank of Iraq Contributes (30%) to Finance the Current Expenditure Deficit
58.5	92,610	147,000	120,000	-54,390	-27,390	-16,317	-8,217
60	94,985	147,000	120,000	-52,015	-25,015	-15,605	-7,505
61	96,568	147,000	120,000	-50,432	-23,432	-15,130	-7,030
62	98,151	147,000	120,000	-48,849	-21,849	-14,655	-6,555
63	99,734	147,000	120,000	-47,266	-20,266	-14,180	-6,080
64	101,317	147,000	120,000	-45,683	-18,683	-13,705	-5,605
65	102,900	147,000	120,000	-44,100	-17,100	-13,230	-5,130
66	104,483	147,000	120,000	-42,517	-15,517	-12,755	-4,655
67	106,066	147,000	120,000	-40,934	-13,934	-12,280	-4,180
68	107,649	147,000	120,000	-39,351	-12,351	-11,805	-3,705
69	109,232	147,000	120,000	-37,768	-10,768	-11,330	-3,230
70	110,815	147,000	120,000	-36,185	-9,185	-10,855	-2,755
71	112,398	147,000	120,000	-34,602	-7,602	-10,380	-2,280
72	113,982	147,000	120,000	-33,018	-6,018	-9,906	-1,806
73	115,565	147,000	120,000	-31,435	-4,435	-9,431	-1,331
74	117,148	147,000	120,000	-29,852	-2,852	-8,956	-856
75	118,731	147,000	120,000	-28,269	-1,269	-8,481	-381

It is noted from the above table that the highest amount of the deficit is expected to reach IQD (54.4) trillion if oil prices decline to USD (58.5). However, if we take the revenues against current expenditures deficit only, the highest deficit will be recorded at IQD (27.4) trillion when the oil price level is the same. On the other hand, by financing 30% of the deficit, the Central Bank will sacrifice IQD (16.3) trillion from its reserves in the event of a general deficit, or IQD (8.2) trillion against the current budget deficit.

Table (2) shows projections of the change in oil prices between (USD 58.5-USD 75) on foreign reserves, through which it is possible to identify the sacrifice of reserves that the Central Bank will need as to carry out its role in financing the deficit, with the need to confirm that it will also need reserves to sterilize expenses resulting from other internal loans to the Ministry of Finance.

To offer a comprehensive view, it was resorted to a comparison between the remaining foreign reserves after financing the deficits at different oil prices and the issued currency, so that the extent of the risk on the reserves could be determined. Table (3) shows the remaining difference between the foreign reserves and the issued currency at different levels of the deficit related to oil price changes.

It must be noted here that the amount of expected foreign reserves will be built depending on their last value in 2024, which amounted to about IQD (132) trillion. Likewise for the issued currency, it was assumed based on its recorded rate in 2024, which amounted to about IQD (104 trillion. In fact, the assumption of stability for the issued currency stems from the fact that the central bank will resort to sacrificing part of its foreign reserves to maintain an acceptable growth rate of the issued currency within its sterilization cycle to maintain monetary stability, as shown in the table below:

Table (3) The Difference Between Foreign Reserves and The Issued Currency at Expected Levels of Oil Prices (IQD billion)

Average Oil Price – Lowest (in USD)	Decline in Foreign Reserves When the Central Bank of Iraq Contributes (30%) to Finance the Public Expenditure Deficit	Foreign Reserves	Decline in Reserves Due to Financing Deficit	Issued Currency	The Difference
58.5	-16,317	132,000	115,683	104,000	**11,683**
60	-15,605	132,000	116,395	104,000	**12,395**
61	-15,130	132,000	116,870	104,000	**12,870**
62	-14,655	132,000	117,345	104,000	**13,345**
63	-14,180	132,000	117,820	104,000	**13,820**
64	-13,705	132,000	118,295	104,000	**14,295**
65	-13,230	132,000	118,770	104,000	**14,770**
66	-12,755	132,000	119,245	104,000	**15,245**
67	-12,280	132,000	119,720	104,000	**15,720**
68	-11,805	132,000	120,195	104,000	**16,195**
69	-11,330	132,000	120,670	104,000	**16,670**
70	-10,855	132,000	121,145	104,000	**17,145**
71	-10,380	132,000	121,620	104,000	**17,620**
72	-9,906	132,000	122,094	104,000	**18,094**
73	-9,431	132,000	122,569	104,000	**18,569**
74	-8,956	132,000	123,044	104,000	**19,044**
75	-8,481	132,000	123,519	104,000	**19,519**

It is noted from the above table that if oil prices decline to USD (58.5), foreign reserves decrease by IQD (16.3) trillion. Here, as the difference between the remaining foreign reserves and the issued currency becomes about IQD (11.7) trillion in favour of the reserves exceeding the issued currency, which means that there is a coverage of the currency by 110%, and the coverage percentage increases whenever oil prices rise above the minimum limit shown in the above table.

Everything that was discussed in the above two tables establishes an important issue related to the ability of the Central Bank to defend the current exchange rate of the Iraqi dinar if its relationship with public finance continues within the limits that were implemented in 2024, but this does not negate the importance of

fiscal policy and its pivotal role in this field, specifically its ability to make spending keep pace with the economic cycle and not exceeding its limits.

Third: Conclusions and Possible Options:

Conclusions:

1) Iraq's exports are almost limited to crude oil exports, and therefore the devaluation of the national currency does not affect its exports, and no significant additional value is achieved. Iraq's national industries are weak and unable to compensate for imports. Therefore, we find that the real industrial and agricultural sector is at its lowest levels, and its contribution to gross domestic production does not exceed (10%), and that Iraq's exports and the advancement of the industrial and agricultural sectors will take many years with effective plans and policies, the value of the national currency is usually devalued in countries that have high export capabilities.
2) The reduction leads to a negative impact on the purchasing power of broad groups that depend on specific incomes. The number of employees, retirees, and those covered by the social protection network system reached more than (7) million citizens, and taking into account their assistance to their families (an average of 5 family members), the income of the largest percentage of people in Iraq becomes dependent on what they receive in salaries and support from the government.
3) The external debt will increase by allocating a higher amount in the national currency (Dinar) and according to the amount of devaluation in the national currency, as the external debt (in foreign currency) until the first half of 2024 amounts to about USD (14.8) billion (excluding the outstanding debt, including the Gulf Cooperation Council countries, amounting to USD 40,401 million).
4) Devaluation of the national currency can undermine confidence in the national currency in the absence of structural reforms and general instability. The greater the inflationary pressures due to the devaluation of the national currency, the greater the pressures on demand for the exchange rate due to the increasing demand for currency substitution operations and the elimination of holding the national currency.
5) The foreign currency reserve position is highly adequate according to international standards, at a rate of more than (33.9%) of the gross domestic product at current prices in 2023. The net foreign reserve also covers a percentage (79.7%) of the broad money supply (M2), noting that the standard percentage is (20%).
6) Exchange rate stability plays an important role in foreign investment flows and gives the option of resorting to adjusting the exchange rate whenever conditions require meeting government expenditures, which gives a negative signal to investors.

Possible Alternatives:

Other solutions (other than devaluation) achieve corrective, structural goals and provide financial sustainability, and have positive economic, financial and social impacts, including:

1) Addressing the imbalance in financial procedures by pointing out some aspects of waste in state resources, which, if placed within the right framework and within the framework of efficiency and economics, would achieve a major boom in public financial conditions. Including:

- Refineries that produce petroleum derivatives and the Ministry of Electricity use electricity production of up to one million barrels of oil, the value of which on the global market exceeds USD (20) billion (equivalent to IQD 26 trillion). In return, the government treasury receives revenues of less than 10% of the aforementioned amount.
- The value of imports in 2023 amounted to about USD (56) billion. The revenue from customs duties on these imports is estimated at IQD (6 to 8) trillion annually, while the percentage of receipts does not reach 10% of the assumed duty amounts, as the revenues achieved according to the General Customs Authority during 2023 IQD (1,034) trillion, an increase of (28%) over 2022.
- Annual allocations to support loss-making public sector companies, and grants allocated to self-financing environments in accordance with their laws, amount to more than IQD (4) trillion annually.
- Tax revenues amounted to IQD (6.6) trillion in October 2024, while they amounted to IQD (5.9) trillion in 2023, or a ratio of (1.8%) to the total gross domestic product at current prices, while the ratio of direct tax

revenues to the gross domestic product in Arab countries is more than (5%), It is worth noting that these low revenues are not due to low tax rates in Iraq, but rather as a result of the backwardness of the tax system with all its components and the rampant corruption in it. It is difficult to determine the lost amounts, but it is certain that it amounts to trillions of dinars.

- The Ministry of Finance owns a huge balance of real estate, buildings, lands, and agricultural lands, and what can be rented or sold (during 2020) has been limited to up to IQD (7) trillion.

2) Addressing imbalances and weak financial discipline and rebuilding the state's public budget within the framework of macroeconomic parameters and considering the requirements of fiscal policy and monetary policy and considering the broad opportunities available to maximize international revenues other than oil and considering the necessity of reconsidering the structure of state institutions that suffer from serious overstaff and corruption.
3) The customs policy is ineffective at the present time, despite the rise in customs revenues to record amounts during 2024 by about IQD (3) trillion, which is the first line of defense and the basis for protecting the national product. However, it still constitutes a low percentage of approximately (2%) of total revenues. Note that the value of imports will exceed IQD (80) trillion.
4) The chaos of imports, the loss of control and oversight at border crossings, and the extent of counterfeiting, corruption, and smuggling cause the Iraqi market to become overwhelmed and flooded with cheap goods that curb attempts to improve national production. Before resorting to the option of devaluing the value of the Dinar, these conditions must be corrected in a way that ensures the application of customs laws, the protection of the national product, and the fight against dumping and consumer protection.

“ Public Budget Outlook and Oil Price Forecasts for 2025 ”

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Introduction:

The process of accurately estimating oil revenues is of great importance to decision-makers in fiscal and monetary policies, as it is the main determinant of the public budget items. Since it represents the largest weight of public revenues (due to the rentier nature of the economy), in addition to the potential subsequent monetary effects that must be hedged against through monetary policy tools, in order to achieve the overall goal, which is represented by mobilizing resources efficiently while maintaining price stability.

In this context, this paper was prepared with the aim of estimating Iraq's oil revenues in the coming year, which was based on a set of data, namely:

- **Expected Oil Export Quantity:** Exports of (3.3 million barrels/day) were adopted, assuming that Iraq's share in (OPEC+) will remain the same for the coming year without change.
- **Expected Oil Price Rate:** (USD 61.5-74 /barrel/Brent) was adopted based on estimates by two institutions (Bloomberg L.P, Reuters).
- The difference between the price of Brent and the selling price of Iraqi oil is (USD 3) less than Brent oil. This rate is consistent with the level of the announced price difference between the two types of oil, and it was calculated depending on the actual prices for 2024.
- **Oil Revenues Based on the Pessimistic scenario:** it will be about (USD 63.5 billion/year) assuming (USD 58.5 /barrel) for Iraqi oil.
- **Oil Revenues Based on the Optimistic Scenario:** it will be about (USD 77 billion/year) assuming (USD 71 /barrel) for Iraqi oil.
- The three-year planned and actual budget for 2023-2025 was adopted, as shown in the table mentioned below:

Budget's Year	Expenses (IQD Trillion)	Revenues (IQD Trillion)	Deficit (IQD Trillion)
2023 (Planned)	198,9	134,6	64.4
2023 (Actual)	142,4	135,7	6,8
2024 (Planned)	211,9	147,8	64
2024 (Actual Expected)	128	125	3
2025 (Actual Expected)	130	Depending on the expected oil price, it ranges between (IQD 92.6-112.4 trillion).	Depending on the expected price of oil, it ranges between (IQD 37.4-17.6 trillion).

First: Global Expectations on Oil Prices for 2025:

Many energy experts and those interested in oil affairs believe that oil prices will take a downward trend in 2025 after a period of unstable recovery witnessed by oil markets in the last two years. It is clear that with the start of Q4 of 2024, moderate inventory accumulations began to develop, especially after the end of the voluntary supply restriction period practiced by (OPEC+), in addition to the growth in production of countries outside OPEC, which will contribute to compensating for the growth in global demand. In addition, the trends of monetary policy at the global level are still in line with rising level of interest rates due to inflation, as there was only one significant reduction from the US Fed in 2024, which affects the level of economic activity and demand for oil. Therefore, it is possible to see that oil prices in 2025 will be in a state of stagflation that makes the prices fluctuate in the range of USD (60-80) per barrel of crude oil. Based on the expectations of two of the most important specialized international institutions (Bloomberg L.P., Reuters), which build their information about the oil market on the totality of data and expectations issued by relevant institutions, bodies, and organizations, these expectations show that oil prices in 2025 will be as presented in table (1).

Table (1) International Institutions (Bloomberg L.P., Reuters) Expectations of Oil Prices for 2025						
Expectations of Oil Price	Bloomberg-Median	Reuters-Median	Bloomberg-Lowest	Reuters-Lowest	Average-Median	Average-Lowest
Q1-25	73.1	76.5	64	63	74.8	63.5
Q2-25	72.61	76.5	63	60	74.55	61.5
Q3-25	72.18	76	62	60	74.09	61
Q4-25	72	76	60	60	74	60
Average					74.36	61.5

It can be noted from the table that Reuters' expectations for average oil prices in 2025 were greater than Bloomberg's expectations. While Bloomberg's expectations for the minimum that oil could reach in 2025 were greater than Reuters' expectations. In general, the two institutions share the expectation of a decline of oil prices in 2025, based on a set of indicators about the level of global economic activity for the coming year and its effects on the oil market, in addition to the change in some data related to the oil market itself. The most important indicators on which the two institutions relied in this prediction can be identified as follows:

1) The International Monetary Fund has reduced its expectations regarding the growth for the coming year, explaining this by the impact of political problems and protectionism practiced by countries.
2) Indicators of the US economy indicate the possibility of a decline in the duration of the inflation-backed recovery that this economy witnessed after Corona, meaning that the path of the economic cycle indicates a high probability of the economy slipping into recession for the coming year, while the US Fed attempts to delay this trend by reducing interest rates.
3) Expansion in production from producers outside OPEC+, including shale oil producers who have benefited from the price response in the past three years.
4) The expected increase in oil demand often depends on the growth in Chinese demand and the decline in US inventory. As for Chinese demand, the potential increase (if it happens) will be compensated by the growth in production from countries outside OPEC. As for US inventory, recent data indicates that it increased by (2%).
5) Problems in OPEC+ regarding the recent production restriction and the possibility that Saudi Arabia and the UAE will not adhere to this restriction; this is what has been circulating within OPEC in recent weeks.
6) All the increases in oil prices over the past two years were supported by unstable political conditions, starting with the Russian Ukrainian war and ending with the Gaza and Lebanon war with Iran's entry into the line. But these pressures have begun to lose their importance, especially with the development of production capacities inside and outside OPEC, therefore next year's prices may lose this motivation.

Second: Iraq's Expected Oil Revenues for 2025:

1) The Difference Between the Iraqi oil and Brent Price:

The analysis that was presented and based on expectations about oil prices for 2025 can be applied to the Iraqi economy, which depends largely on oil revenues to finance the public budget. At the beginning, it must be mentioned that the prices cited above are Brent oil prices, accordingly Iraqi oil prices are often lower than this price. Under a simple comparison between the selling prices of Iraqi oil for the first ten months of 2024 based on data of Central Bank of Iraq (CBI) and Brent oil prices for the same period, it could be extracted that the general average of the difference between the two prices, as shown in table (2), which indicates that in most months the price of Brent was higher than that of Iraqi oil selling price. The difference in one of the months (March) reached about USD 10, but there were months in which Iraqi oil was higher, in particular for three months (May, August, September), that was due to the nature of future contracts. Therefore, it can be stated that the total difference for the ten months amounted to about (USD 27). Whereas if this amount divided by the number of months, it could be found that the general average of the difference between the price of Brent and Iraqi oil selling is (USD 2.7), and this rate is consistent with the level of the announced price difference between the two types of oil.

Table (2) The Difference Between Brent and the Iraqi Oil Selling Price for 2024					
Month	**Barrel-Month**	**Barrel-Day**	**Iraqi Oil Barrel Price**	**Brent Price**	**Difference**
Jan-24	91,241,891	3,041,396.36	78.5	81.71	3.2
Feb-24	79,994,179	2,666,472.63	76.52	83.62	7.09
Mar-24	89,221,182	2,974,039.4	77.16	87.48	10.31
Apr-24	95,326,147	3,177,538.23	79.45	87.86	8.40
May-24	94,197,545	3,139,918.16	82.58	81.62	-0.96
Jun-24	83,256,685	2,775,222.83	81.98	86.41	4.42
Jul-24	97,881,701	3,262,723.36	80.64	80.84	0.19
Aug-24	91,736,925	3,057,897.5	81.3	78.8	-2.5
Sep-24	89,992,625	2,999,754.16	77.28	71.7	-5.58
Oct-24			72.28	75.96	3.67

2) Expected Revenues for 2025 Based on Amended Prices:

Based on what was presented in the first paragraph above, an expectation will be built for Iraqi oil prices at a level of (USD 3) lower than Brent oil prices, assuming that Iraq's share in (OPEC+) will remain the same for the next year (3.3 million barrels/day), taking into account the export quantities according to the actual export rate for the first ten months of 2024, which amounted to about (90.3 million barrels/month). The table indicates that the lowest expected level of revenues will be about (USD 63.4 billion/year), when Brent prices are (USD 61.5/barrel), which will be equivalent to (USD 58.5) for Iraqi oil. Whereas the highest level of revenues will be at Brent prices of (USD 74/barrel), while the price of Iraqi oil will be equivalent to (USD71/barrel). Then, as shown in table (3), the highest expected revenues will be about (USD 76.9 billion/year) for 2025.

Table (3) Expectations of Revenues for 2025 Based on Brent Prices Minus (USD 3) Worst to- Better Scenario (USD)			
Barrel-Month	**Price-From Lowest to Highest**	**Total Revenue-Monthly**	**Total Revenue-Annually**
90,316,542.22	58.5	5,283,517,720	63,402,212,640
90,316,542.22	60	5,418,992,533	65,027,910,400
90,316,542.22	61	5,509,309,076	66,111,708,907
90,316,542.22	62	5,599,625,618	67,195,507,413
90,316,542.22	63	5,689,942,160	68,279,305,920
90,316,542.22	64	5,780,258,702	69,363,104,427
90,316,542.22	65	5,870,575,244	70,446,902,933
90,316,542.22	66	5,960,891,787	71,530,701,440
90,316,542.22	67	6,051,208,329	72,614,499,947
90,316,542.22	68	6,141,524,871	73,698,298,453
90,316,542.22	69	6,231,841,413	74,782,096,960
90,316,542.22	70	6,322,157,956	75,865,895,467
90,316,542.22	71	6,412,474,498	76,949,693,973
90,316,542.22	72	6,502,791,040	78,033,492,480
90,316,542.22	73	6,593,107,582	79,117,290,987
90,316,542.22	74	6,683,424,124	80,201,089,493
90,316,542.22	75	6,773,740,667	81,284,888,000

What can also be noted from the table above is that Iraq's share set according to OPEC+ was not fully exported, since exporting at a monthly rate of (90.32 million barrels/month), means that the daily export rate is (3,010,551) three million and ten thousand, five hundreds and fifty-one barrels/day. Assuming a scenario similar to that in table (3) with a change in oil exports equivalent to the set share of (3.3 million barrels/day equal to 99 million barrels/month). Then expectations of revenues for 2025 will be as shown in table (4) below.

Table (4) Expectations of Revenues for 2024 Based on Brent Prices Minus USD 3, with Entire Export Quota Scheduled by OPEC+ (USD)			
Barrel-Month	**Price-from Lowest to Highest**	**Total Revenue-Monthly**	**Total Revenue-Annually**
99,000,000	58.5	5,791,500,000	69,498,000,000
99,000,000	60	5,940,000,000	71,280,000,000
99,000,000	61	6,039,000,000	72,468,000,000
99,000,000	62	6,138,000,000	73,656,000,000
99,000,000	63	6,237,000,000	74,844,000,000
99,000,000	64	6,336,000,000	76,032,000,000
99,000,000	65	6,435,000,000	77,220,000,000
99,000,000	66	6,534,000,000	78,408,000,000
99,000,000	67	6,633,000,000	79,596,000,000
99,000,000	68	6,732,000,000	80,784,000,000
99,000,000	69	6,831,000,000	81,972,000,000
99,000,000	70	6,930,000,000	83,160,000,000
99,000,000	71	7,029,000,000	84,348,000,000
99,000,000	72	7,128,000,000	85,536,000,000
99,000,000	73	7,227,000,000	86,724,000,000
99,000,000	74	7,326,000,000	87,912,000,000
99,000,000	75	7,425,000,000	89,100,000,000

It is noted from table (4) that the total revenues according to the lowest expectations for oil prices (USD 58.5/barrel) amounted to about (USD 69.5 billion), observing that when the price of a barrel of oil reaches (USD 71/barrel), which is the best expectation, the expected annual revenues will be about (USD 84.3 billion).

Third: Actual Expected Expenses of the Budget for 2025:

Within this paragraph, the estimation of the expected expenses for 2025 will be treated according to the actual spending data (expenses) for 2024. Table (5) shows the actual expenses for the first ten months of 2024, through which it is noted that there is a fluctuation in the level of expenses within months. The total of these expenses amounted to about (IQD106) trillion, while the general average of actual spending amounted to about (IQD 10.6) trillion per month.

Table (5) Actual Expenses for 2024	
Months of 2024	**Actual Expenses**
Jan-24	8,938,636,760,034
Feb-24	8,591,167,767,741
Mar-24	9,042,017,408,747
Apr-24	12,556,682,482,797
May-24	12,529,946,806,513
Jun-24	10,649,147,832,373
Jul-24	13,428,990,995,000
Aug-24	9,709,938,923,379
Sep-24	9,684,410,217,361
Oct-24	10,864,882,998,580
Sum	105,995,822,192,525
Average	10,599,582,219,253

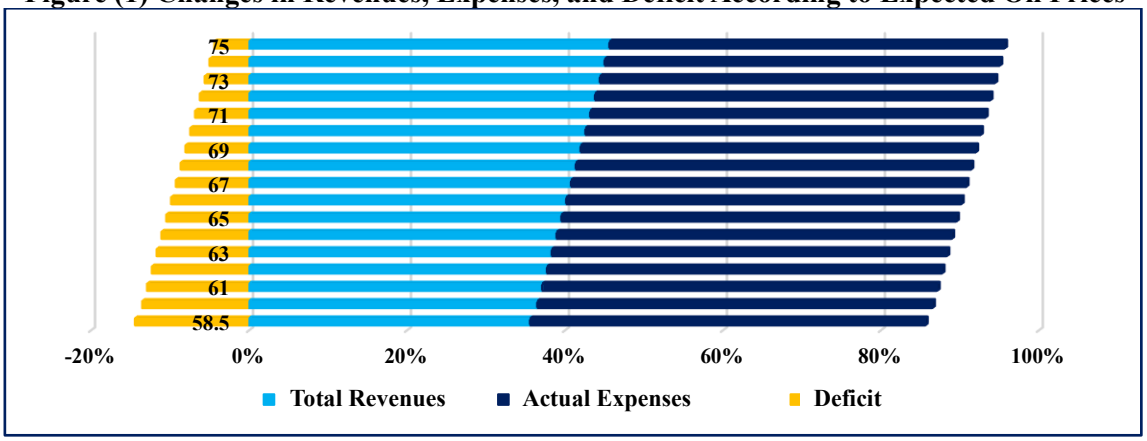
Assuming that expenses for the last two months of the year (November, December) will be within the ceiling of the general spending rate for the previous months (with a small increase, which will be assumed to be around IQD 11 trillion for each month). Accordingly, the estimation of the actual spending value for 2024 will reach the amount to (IQD 106 + 22 = 128 trillion).

Fourth: Expected Expenses, Revenues and Deficit for 2025:

Regarding the actual expenses of the budget for 2025, which will be assumed to be close to that for 2024 with a slight increase (IQD 2 trillion). It means that the actual expected expenses for 2025 will be (IQD 130 trillion) through the expected revenues for 2025 according to the previous scenarios (tables 3, and 4). As well as according to the estimate of non-oil revenues through making them to constitute (11%) of total revenues (this assumption is based on the existence of a relationship between the level of economic activity revealed through GDP, and non-oil revenues, especially tax revenues). Then the expected deficit will be at each expected level of oil revenues as shown in table (6) and the attached figure.

Table (6) Expected Actual Deficit for 2025 (IQD million)					
Oil Price	Oil Revenues	Non-Oil Revenues	Total Revenues	Actual Expenses	Deficit
58.5	82,422,876.43	10,187,097.09	92,609,973.52	130,000,000.00	37,390,026.48
60	84,536,283.52	10,448,304.70	94,984,588.22	130,000,000.00	35,015,411.78
61	85,945,221.58	10,622,443.12	96,567,664.70	130,000,000.00	33,432,335.30
62	87,354,159.64	10,796,581.53	98,150,741.17	130,000,000.00	31,849,258.83
63	88,763,097.70	10,970,719.94	99,733,817.64	130,000,000.00	30,266,182.36
64	90,172,035.75	11,144,858.35	101,316,894.11	130,000,000.00	28,683,105.89
65	91,580,973.81	11,318,996.76	102,899,970.58	130,000,000.00	27,100,029.42
66	92,989,911.87	11,493,135.18	104,483,047.05	130,000,000.00	25,516,952.95
67	94,398,849.93	11,667,273.59	106,066,123.52	130,000,000.00	23,933,876.48
68	95,807,787.99	11,841,412.00	107,649,199.99	130,000,000.00	22,350,800.01
69	97,216,726.05	12,015,550.41	109,232,276.46	130,000,000.00	20,767,723.54
70	98,625,664.11	12,189,688.82	110,815,352.93	130,000,000.00	19,184,647.07
71	100,034,602.17	12,363,827.23	112,398,429.40	130,000,000.00	17,601,570.60
72	101,443,540.22	12,537,965.65	113,981,505.87	130,000,000.00	16,018,494.13
73	102,852,478.28	12,712,104.06	115,564,582.34	130,000,000.00	14,435,417.66
74	104,261,416.34	12,886,242.47	117,147,658.81	130,000,000.00	12,852,341.19
75	105,670,354.40	13,060,380.88	118,730,735.28	130,000,000.00	11,269,264.72

Figure (1) Changes in Revenues, Expenses, and Deficit According to Expected Oil Prices



It is noted from table (6) and the attached figure that the maximum deficit of IQD (37.39) trillion is reached when the price of a barrel of oil is (USD 58.5). While the average price of (USD 71/barrel) for Iraqi oil will keep the actual expected deficit at the level of IQD (17.6) trillion.

Fifth: Expected Burdens of Monetary Policy in Light of the Expected Deficits of the Budget for 2025:

It is noted through the expectations in table (6) that the most difficult option for monetary and fiscal policies is that when oil prices decrease below (USD 60/barrel), then the actual deficit will be large about IQD (37.4) trillion. What is meant here is the actual deficit that must be paid, meaning that what is available to public finance in Iraq is only debt in its various forms. The most dangerous part of this debt is what relates to CBI's commitment of issuances that directly affect the money supply, which means that there is a necessary sterilization process, and this sterilization is often directly linked to the balance of foreign reserves. Therefore, if it is assumed that 30% of the deficit will be financed directly by the CBI (this percentage was taken from the budget for 2024), meaning that the Ministry of Finance will finance 70% of the deficit from borrowing based on other parties, and will keep (30%) on the CBI. According to this scenario, what will be required to be financed by CBI will be shown in table (7). It is noted in the worst-case scenario, the foreign reserves could decline by USD (8.6) billion, while in the best-case scenario as (USD 71/barrel) the decline of foreign reserves would be USD (4.06) billion.

Table (7) CBI's Financing Share to the Expected Deficit for 2024 and the Decline of Foreign Reserves			
Oil Price (USD)	**Deficit (IQD)**	**CBI's Share (30%) (IQD)**	**Decline of Foreign Reserves (USD)**
58.5	37,390,026.48	11,217,007.94	8,628.5
60	35,015,411.78	10,504,623.53	8,080.5
61	33,432,335.30	10,029,700.59	7,715.2
62	31,849,258.83	9,554,777.65	7,349.8
63	30,266,182.36	9,079,854.71	6,984.5
64	28,683,105.89	8,604,931.77	6,619.2
65	27,100,029.42	8,130,008.83	6,253.9rr
66	25,516,952.95	7,655,085.89	5,888.5
67	23,933,876.48	7,180,162.94	5,523.2
68	22,350,800.01	6,705,240.00	5,157.9
69	20,767,723.54	6,230,317.06	4,792.6
70	19,184,647.07	5,755,394.12	4,427.2
71	17,601,570.60	5,280,471.18	4,061.9
72	16,018,494.13	4,805,548.24	3,696.6
73	14,435,417.66	4,330,625.30	3,331.3
74	12,852,341.19	3,855,702.36	2,965.9
75	11,269,264.72	3,380,779.42	2,600.6

Whereas If it is assumed that CBI indirectly finances the public debt at higher rates (50%, 75%, 100%), then the foreign reserves may decline as shown in table (8), through which it is noted that the highest expected level of decline in reserves may be at an average oil price of (USD 58.5/barrel). While when CBI finances the entire deficit (100%), reserves will decline by USD (28.8) billion. whereas at the same level of financing (100%), but with an expected oil price of (USD 71), then the reserves will decline by USD (13.5) billion and so on for the rest of the possibilities as shown in table (8).

Table (8) Decrease in Foreign Reserves Considering the Difference of Oil Prices and the Difference of Financing Levels by CBI						
Oil Price/USD	**CBI Share-50% (IQD)**	**Decline in Foreign Reserves**	**CBI Share-75% (IQD)**	**Decline in Foreign Reserves**	**CBI Share-100% (IQD)**	**Decline in Foreign Reserves**
58.5	18,695,013.2	14,380.8	28,042,519.9	21,571.2	37,390,026.5	28,761.6
60	17,507,705.9	13,467.5	26,261,558.8	20,201.2	35,015,411.8	26,934.9
61	16,716,167.7	12,858.6	25,074,251.5	19,287.9	33,432,335.3	25,717.2
62	15,924,629.4	12,249.7	23,886,944.1	18,374.6	31,849,258.8	24,499.4
63	15,133,091.2	11,640.8	22,699,636.8	17,461.3	30,266,182.4	23,281.7
64	14,341,552.9	11,032.0	21,512,329.4	16,547.9	28,683,105.9	22,063.9
65	13,550,014.7	10,423.1	20,325,022.1	15,634.6	27,100,029.4	20,846.2
66	12,758,476.5	9,814.2	19,137,714.7	14,721.3	25,516,953.0	19,628.4
67	11,966,938.2	9,205.3	17,950,407.4	13,808.0	23,933,876.5	18,410.7
68	11,175,400.0	8,596.5	16,763,100.0	12,894.7	22,350,800.0	17,192.9
69	10,383,861.8	7,987.6	15,575,792.7	11,981.4	20,767,723.5	15,975.2
70	9,592,323.5	7,378.7	14,388,485.3	11,068.1	19,184,647.1	14,757.4
71	8,800,785.3	6,769.8	13,201,178.0	10,154.8	17,601,570.6	13,539.7
72	8,009,247.1	6,161.0	12,013,870.6	9,241.4	16,018,494.1	12,321.9
73	7,217,708.8	5,552.1	10,826,563.2	8,328.1	14,435,417.7	11,104.2
74	6,426,170.6	4,943.2	9,639,255.9	7,414.8	12,852,341.2	9,886.4
75	5,634,632.4	4,334.3	8,451,948.5	6,501.5	11,269,264.7	8,668.7

Conclusions:

1) According to global indicators, oil prices in 2025 will take a conservative regressive trend and the decline may peak next summer.
2) Iraqi oil revenues may decline in 2025 from the levels achieved in 2024, as the budget for 2024 was built on oil revenues of (USD 88.2 billion/year), as this figure has not been achieved yet (since what has been reached so far does not exceed USD 71 billion). According to the best scenario for the oil price of (USD 74 globally, USD 71 at the level of Iraq), oil revenues for Iraq will only reach an amount of USD (77-84) billion.
3) Monetary sterilization falls within the responsibility of CBI, which shares the burden of managing the public debt with MoF, especially according to its role in managing or discounting the drafts issued by MoF to commercial banks, then as a result, it is the largest creditor for MoF.
4) Even with the (USD 71/barrel) scenario, foreign reserves will be subject to decline in case that Iraq's public spending policy does not change.

Proposals:

1) Review the implicit price deflator (the oil barrel price that approved in the public budget) when preparing the 2025 budget, in a manner that is consistent with the expected upper and lower limits of (USD 58.5-71).
2) Review the expenses of the budget for 2025 in a manner consistent with what this study has presented, according to the increased spending reduction without compromising the economic performance.
3) Taking precautions regarding the planned deficit and work to make it as narrow as possible, especially with the large increase in public debt witnessed this year.
4) Study the conditions of monetary variables and aggregates in light of the data provided by this study in order to show the directions of monetary policy for the coming period.
5) CBI may resort to issuing national saving certificates or bonds to withdraw the liquidity surplus as one of the sterilization procedures that do not put pressure on the issued currency and put pressure on foreign reserves to a lesser extent.
6) Abandoning the budget of items became an important requirement, which can be replaced by the zero budget or programs and performance budget.
7) Activating the procedures of the public debt sustainability by delegating the matter to a specialized and neutral body that takes into account the specificity of the Iraqi economy, which requires looking at the debt from the wealth index and not from the debt-to-GDP ratio index.

" Weighted Interest Rates Structure on Deposits and Credit of Iraqi Banks for H1 of 2024 "

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The interest rate tool is one of the important tools in the banking system, due to its impact on economic growth, whether in terms of mobilizing savings or in terms of providing the necessary funding for investment and consumption. The report presents a new mechanism for calculating the weighted interest rate on deposits and credit, which is an indicator that was not calculated or adopted in monetary statistics in Iraq. It's worth mentioning that there is feedback ranging between the weighted interest rate and the policy rate, since the policy rate directly affects the interbank interest rates, which in turn affects the average interest rates on loans and deposits. The report also includes the calculation of risk premiums on deposits in dinars, in addition to stating the interest rate margin on deposits and credit (spread factor). It also addressed the differences of interest rates averages ranging between deposits and credit in Iraqi dinar and US dollar.

First: Possible Guidance of The Weighted Interest Rate by Monetary Policy Rate:

The weighted interest rate refers to the relationship between average market interest rates (weighted by deposits and credit per bank), while the policy rate is the rate that the central bank determines as part of its monetary policy (the reference rate). The relationship ranging between the two rates is considered an indicator of the effectiveness of monetary policies and their impact on the financial and banking market.

But how can the policy rate be guided by the weighted interest rate?

In fact, it can be done through the central bank's expectation that weighted interest rates (of the market) will move in line with the monetary policy rate. If the central bank raises the monetary policy rate, market interest rates (including the average weighted interest rate) are expected to rise, and vice versa. The importance of this guidance can be demonstrated by:

- **Measuring Monetary Policy Efficiency**: If the weighted interest rate does not respond adequately to changes of the monetary policy rate, it may indicate the weakness of **Monetary Policy Transmission Mechanism.**
- **Liquidity and Credit Effect**: the guidance of the weighted interest rate helps adjust credit expansion and control money demand.
- **Determining Market Responsiveness**: shows the extent to which central bank policies affect real interest rates paid by consumers and borrowers.
- It is used to assess the average cost of money in banks.
- Helping to understand the dynamics of the financial market.
- It is used as an analytical tool of central banks to assess the impact of their monetary policies.

It is worth mentioning that several factors affect the guidance of the weighted interest rate by monetary policy rate:

1. **Degree of the Banking Sector Liquidity:** If banks have a large surplus of liquidity, interest rates may not rise as quickly as the monetary policy rate.
2. **Competition Level Among Banks**: in markets with strong competition, interest rates may not rise easily.
3. **Inflationary Expectations:** if inflationary expectations are high, weighted interest rates may move faster than the monetary policy rate.

Practical examples:

- **Raising Weighted Interest Rate:**
  If the central bank raises the policy interest rate to combat inflation, banks may raise interest on loans and deposits, leading to increased average weighted rate.
- **Reducing Weighted Interest Rate:**
  In case of easing monetary policy to encourage investment and spending, banks may reduce interest on loans and deposits, reflected in the low average weighted rate.

If there is a change in the weighted interest rate without a change in the monetary policy rate, it may be the result of other factors such as changes in supply and demand of money market or changes in the composition of loans and deposits.

Second: Development of Global Interest Rates:

The year 2024 witnessed stability of interest rates, as the Federal Reserve Bank fixed interest rates at (5.50%) in eight meetings from

26/7/2023 till 12/6/2024, as it reduced interest rates by (25) basis points in its meeting on 18/9/2024, reaching a range of (4.50% - 4.25%) – the third reduction respectively during 2024. Similarly to the Federal Reserve's announcement, many central banks reduced interest rates, as the European Central Bank reduced the standard interest rate on deposits for the first time by (25) basis points since 2019, indicating the end of its strict policy to control inflation. While the Gulf central banks moved interest rates, as the Central Bank of the Emirates decided to reduce the basic rate on overnight deposit facilities by (50) basis points to record (4.9%) compared to (5.4%). whereas the Saudi Central Bank reduced the repurchase agreement (repo) rate by (50) basis points as well as the reverse repo agreement by (50) basis points. Also, the Board of Directors of the Central Bank of Kuwait decided to reduce the discount rate by (25) basis points and the Central Bank of Bahrain reduced the overnight deposit interest rate by (50) basis points. The statement of the Central Bank of Qatar included a reduction of the main interest rates by (55) basis points.

Third: Development of Domestic Interest Rates on Credit and Deposits

Interest Rates of the Central Bank of Iraq:

The Central Bank of Iraq relies in formulating its monetary policy within its current philosophy on what is called the rules resulting from information or signals to generate stability in the financial market. The signal means in conducting monetary policy are based on the central bank interest rate indicator (policy rate), which represents an indicative rate that helps to launch signals that affect the trends and development of interest rates structure and time terms of its components according to the existing facilities with which the Central Bank of Iraq receives banks' deposits, and grants the required credit, though it is limited. Central banks use interest rates to control inflation rates at the targeted ratio and withdraw liquidity surplus.

Table (1) shows the development of interest rates and the Central Bank's policy rate (7.5%) for the months from January to June 2024. It is noted that the real interest rate ranges between (3.9% - 7.4%) with a downward trend. On the other hand, interest rate on lending facilities in Iraqi dinar recorded (9.5%) for primary credit, (10.5%) for secondary credit, and (11%) for the last resort loan.

Box (1)

Central banks determine short-term interest rates in countries that follow a central banking model, since monetary policy relies on interest rates as a direct monetary tool that restricts the outlets of monetary and financial imbalance in the economy. Here, opinions and ideas began to multiply about the necessity of liberalizing interest rates according to appropriate requirements of the economy direction, which makes the role of the central bank essential in this area. Raising the interest rate may be the most prominent monetary tool for all central banks to curb inflation through withdrawing excess liquidity.

Table (1) Development of CBI Interest Rates till June 2024

Month				Interest Rates on Lending Facilities in Iraqi Dinar %		
	Policy Rate	Inflation Rate	Real Interest Rate	Primary Credit	Secondary Credit	Last resort Loan
Jan	7.5	0.1	7.4	9.5	10.5	11
Feb	7.5	0.6	6.9	9.5	10.5	11
Mar	7.5	1.6	5.9	9.5	10.5	11
Apr	7.5	3	4.5	9.5	10.5	11
May	7.5	3.4	4.1	9.5	10.5	11
Jun	7.5	3.6	3.9	9.5	10.5	11

Source: Central Bank of Iraq, Statistical Website www.cbi.iq.

Fourth: Calculating the Weighted Interest Rates till June 2024

1. Weighted Interest Rate on Deposits till June 2024:

It is noticed through table (2) that the general weighted interest rate on deposits for all time durations in national currency was stable at (4.4%, 4.5%). Appendix (1) and tables (1-6) show that the movement of the weighted interest rate on deposits in national currency for (less than a month) had changed ranging between (1.7% - 2.2%). The weighted interest rate for (1-3) months recorded changes ranging between (4.4% - 5.1%) and for (3-6) months recorded changes ranging between (4.2% and 4.9%), which are minor changes. The weighted interest rate for (6-12) months witnessed price stabilization ranging between (4.0% - 4.3%), while it recorded changes ranging between (6.2% - 6.5%) for (1-5) years.

Table (2) shows that the general weighted interest rate on foreign currency deposits for all time durations fluctuated ranging between (2.0%-3.0%). Appendix (1) and tables (1-6) show that the average weighted interest rate on foreign currency deposits for the period of (less than a month) recorded instability ranging between (0.4%-2.4%). While for (1-3) months, it recorded fluctuations ranging between (3.3%-3.9%). The interest rate for (3-6) months recorded instability and fluctuations ranging between (3.5%-4.8%) and the weighted interest rate for (6-12) months recorded fluctuations ranging between (1.8%-3%). Whereas for (1-5) years, it recorded fluctuations ranging between (2.7%-5.6%).

From the forementioned, it is concluded that the changes of the average weighted interest rate on credit and deposits are constantly fluctuating for both dinar and dollar currencies, which reflects the lack of stable credit schemes implied in banks' policies regarding adopted mechanisms for granting credit, accepting deposits and attracting them to the banking sector.

Table (2) General Average of Weighted Interest Rate for All Time Durations on Deposits and Credit at Banks till June 2024

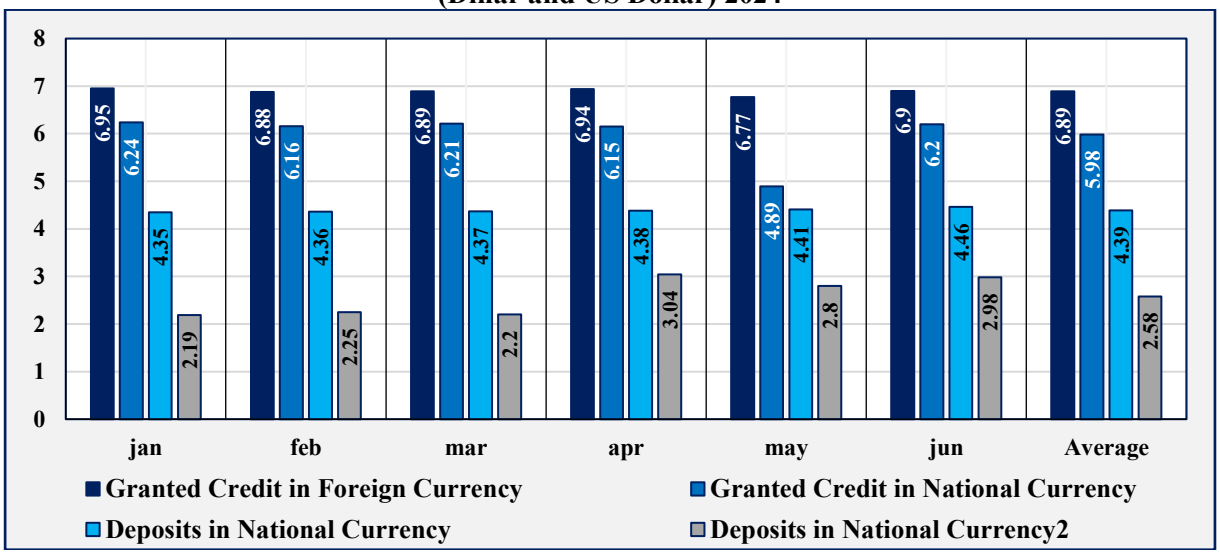
Month	Granted Credit		Deposits	
	In National Currency	In Foreign Currency	In National Currency	In Foreign Currency
Jan	6.2	7.0	4.4	2.2
Feb	6.2	6.9	4.4	2.2
Mar	6.2	6.9	4.4	2.2
Apr	6.2	6.9	4.4	3.0
May	4.9	6.8	4.4	2.8
Jun	6.2	6.9	4.5	2.9

2. Weighted Interest Rate on Credit till June 2024:

It is noted through table (2) that the general weighted interest rate on granted credit for all time durations in national currency changed ranging between (4.9%-6.2%). Appendix (1) and tables (1-6) show the movement of the average weighted interest rate on the granted credit in national currency for the period of (less than a month) changed ranging between (13.5%-14.7%). While for (1-3) months, it changed ranging between (8.9%-10.2%). The interest rate for (3-6) months recorded slight fluctuations ranging between (9.7% - 9.9%) and the weighted interest rate for (6-12) months witnessed slight fluctuations ranging between (7.4%-8.1%). Whereas the weighted interest rate for (1-5) years recorded changes ranging between (8.7%-9.1%), while the weighted interest rate for (5 years and more) changed ranging between (3.8% - 5.8%).

The general weighted interest rate for all time durations on granted credit in foreign currency recorded changes ranging between (6.8%-7.0%) as shown in table (2). Appendix (1) and tables (1-6) show that the duration of (less than a month) witnessed minor changes ranging between (11.1%-11.6%), while the weighted interest rate for (1-3) months recorded changes ranging between (10.3%-12.1%). The interest rate for (3-6) months recorded minor changes ranging between (8.6%-8.9%). The weighted interest rate for (6-12) months recorded minor changes ranging between (6.9%-7.1%), while the weighted interest rate for (1-5) years recorded stability ranging between (6.2-6.3%) and the weighted interest rate for (5 years and more) recorded changes ranging between (7.3%-7.9%).

Figure (1) General Weighted Interest Rate for All Time Durations on Credit and Deposits in (Dinar and US Dollar) 2024



3. Weighted Interest Rate of State Owned and Private Banks

Figure (2) Weighted Interest Rate on Credit of State Owned and Private Banks till June 2024

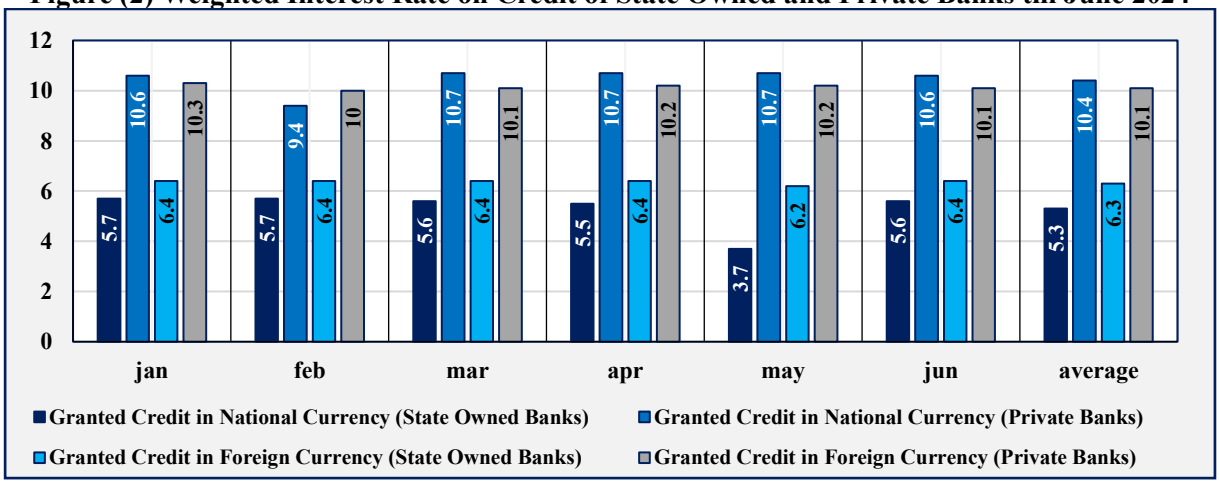


Figure (2) shows the calculation of weighted interest rate on granted credit to state owned and private banks, as the average of granted credit to state owned banks in national currency recorded (5.3%) and reached (6.3%) in foreign currency on average, while the average granted credit to private banks in national currency recorded (10.4%) and reached (10.1%) in foreign currency on average.

Figure (3) Weighted Interest Rate on Deposits of State Owned and Private Banks till June 2024

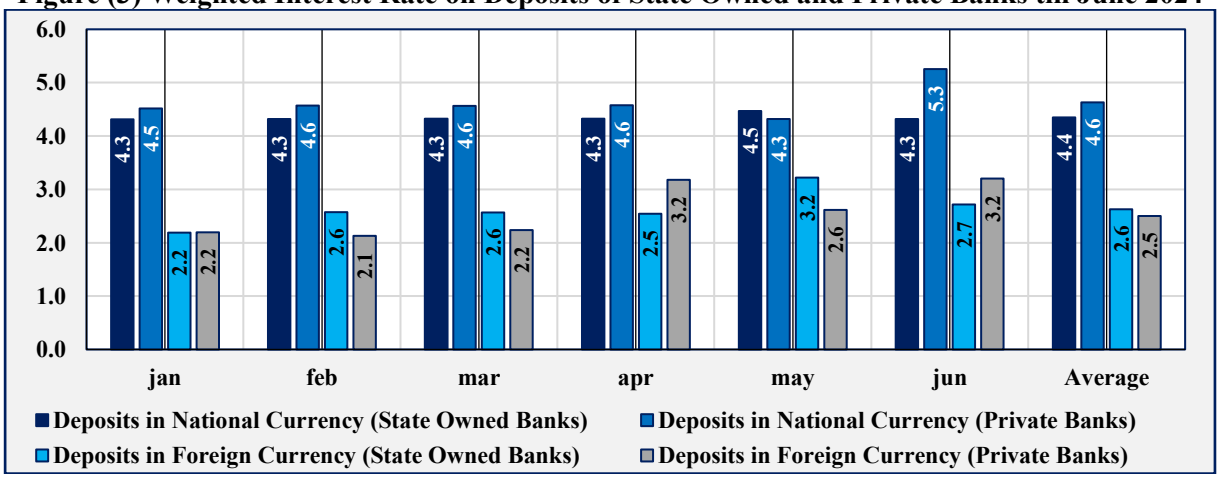


Figure (3) shows the calculation of weighted interest rate on deposits of state owned and private banks, as the average of state owned deposits in national currency recorded (4.4%) and in foreign currency (2.6%). The deposit average of private banks in national currency recorded (4.6%) and (2.6%) in foreign currency on average.

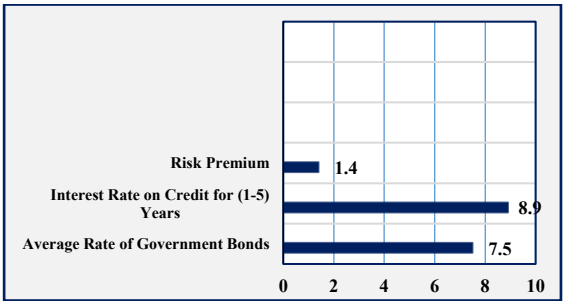
It is noted through appendix (2) that the spread factor for state owned banks in dinar recorded (0.95%) and in US dollar (3.71%), while it reached (5.80%) in dinar and (7.55%) in US dollar for private banks.

Fifth: Calculating Risk Premium Under the Weighted Interest Rate:

1. Risk Premium on Credit

It was measured through banks' interest rates on the granted credit and policy interest rate on the existing facilities. It is noted that banks compare between interest rates they receive from government bonds that are risk-free, and interest rates they receive while granting credit to individuals that are at risk of individuals' failure to pay. It is noted here that the interest rate of government bonds[1] for the period of (1-5) years was (7.5%) against the average weighted interest rate of credit till June 2024 reached (8.9%) for the same period, meaning the existence of risk premium on credit reaching (1.4%) as shown in figure (4).

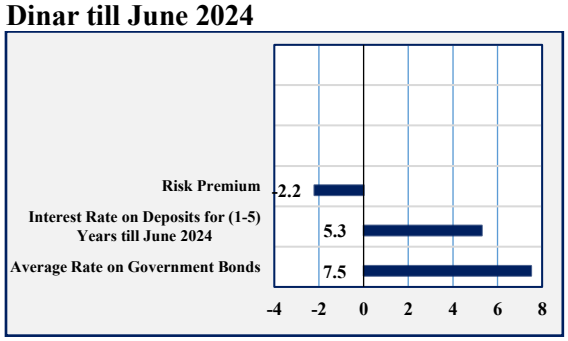
Figure (4) Risk Premium on Credit in Iraqi Dinar till June 2024



2. Risk Premium on Deposits:

It was measured according to the difference between the interest rate set by banks on deposits and the interest rate on government bonds issued by the Central Bank, which is risk-free. Here, individuals will compare the returns they will receive on the investment in government bonds or by depositing with banks that may be struggling to pay interest or return the principal of the deposit. Through comparison between the return rate of government bonds for (1-5) years reaching (7.5%) against weighted interest rate on deposits in H1 of 2024 for (1-5) years reaching (5.3%), it is noted that the risk premium was (-2.2%) as shown in figure (5). That is the opposite of economic theory. It is the result of the lack of public awareness of the trade-offs between financial products on the one hand, and banks' low reliance on deposits in their operation, on the other.

Figure (5) Risk Premium on Deposits in Iraqi Dinar till June 2024



Sixth: Interest Rate Margin on Deposits and Credit (Spread Factor or Interest Rate Gap):

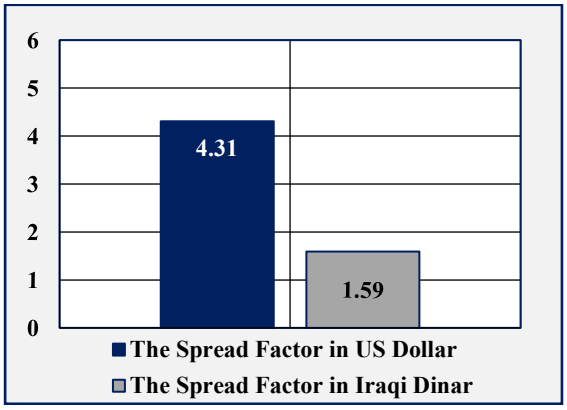
The interest rate margin (spread factor or interest rate gap) is the difference between interest rates on credit and deposits, as it reflects the bank's efficiency to control the liquidity level. It is also considered a real standard to achieve optimal market competition through attracting as many customers as possible who are seeking to maximize profits on their deposits. Also, those who are looking for the lowest cost of loans to finance their projects to achieve the collective benefit of both sides of the equation (depositor and lender). This indicator reflects the difference between the interest rate on credit (loans) received in favor of the customer from the bank and the interest rate granted by the bank on deposits in favor of the customer. In some countries of the world, the interest rate margin varies, ranging between lending and deposits at a level of (2.5%); not exceeding (3%). It is noted through table (3) that the spread factor between received and paid interest rates by commercial banks is lower than the standard ratio of (3%), as it reached (1.60%) in Iraqi dinar and (4.31%) in US dollar for H1 of 2024.

(1) The adopted rate of return on government bonds for "Enjaz Bonds" (second issue) was under our circular on 22/7/2024.

Table (3) The Spread Factor in Iraqi Dinar and US Dollar till June 2024 %			
Month	**Weighted Interest Rate on Deposits in Iraqi Dinar %**	**Weighted Interest Rate on Credit and Loans in Iraqi Dinar %**	**Spread Factor in Iraqi Dinar %**
Jan	4.35	6.24	1.89
Feb	4.36	6.16	1.80
Mar	4.37	6.21	1.84
Apr	4.38	6.15	1.77
May	4.41	4.89	0.48
Jun	4.46	6.20	1.74
Average	**4.39**	**5.98**	**1.59**
Month	**Weighted Interest Rate on Deposits in US Dollar %**	**Weighted Interest Rate on Credit and Loans in US Dollar %**	**Spread Factor in US Dollar %**
Jan	2.19	6.95	4.76
Feb	2.25	6.88	4.63
Mar	2.20	6.89	4.69
Apr	3.04	6.94	3.91
May	2.80	6.77	3.97
Jun	2.98	6.90	3.92
Average	**2.58**	**6.89**	**4.31**

Source: Official letters on monthly interest rates of operating banks in Iraq for 2024.

Figure (6) The Spread Factor in Iraqi Dinar and US Dollar till June 2024



According to the forementioned, banks did not respond in drawing up their lending and deposit policy to raising the monetary policy rate to (7.5%) at the end of June 2023 to withdraw liquidity and address the inflation rate, since the monetary policy rate is an indication of the structure and time durations of market interest rates as well as credit. As the bank's policy rate determines the direction and course of short-term interest rates that overshadow long-term interest rates and credit, as shown in table (4). It is noted that the actual interest rate on deposits is low, which is not encouraging to deposit. In contrast, there is a rise in real interest rate on credit, which made the investment cost high and discouraging to invest. Consequently, it implies lower interest rate on deposits that led to high rate of out-of-bank currency reaching (93.6%) of issued currency by end of June 2024, high ratio of hoarding, and low ratio of investment-oriented savings.

Table (4) Nominal and Real Interest Rates on Deposits in Iraqi Dinar till June 2024%					
Month	**Inflation Rate**	**Interest Rate on Deposits**	**Real Interest Rate on Deposits**	**Interest Rate on Credit**	**Real Interest Rate on Credit**
Jan	0.10	4.35	4.25	6.24	6.14
Feb	0.60	4.36	3.76	6.16	5.56
Mar	1.60	4.37	2.77	6.21	4.61
Apr	3.00	4.38	1.38	6.15	3.15
May	3.40	4.41	0.01	4.89	1.49
Jun	3.60	4.46	0.86	6.20	2.60
Semi Annual Average	**2.05**	**4.39**	**2.34**	**5.98**	**3.93**

Seventh: Margin Difference of Interest Rates on Deposits and Credit in Iraqi Dinar and US Dollar:

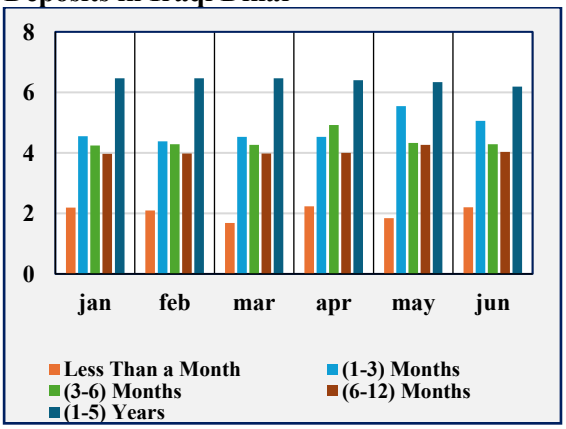
The margin difference of deposit interest rates between the foreign currency and national currency is used to indicate the national currency strength. The larger the margin in favor of the foreign currency, the demand for national currency declines and pushes its price down against other foreign currencies. Conversely, the lower the margin in favor of the national currency, it indicates stronger national currency and increases demand for it.

1. Differences of Deposit Interest Rates between Iraqi Dinar and US Dollar

Table (5) shows the differences of deposit interest rate margins in Iraqi Dinar and US Dollar according to the following details:

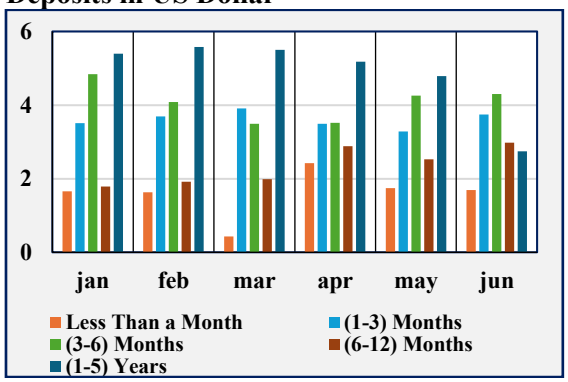
- Differences of deposit interest rate margins for (less than a month) between Iraqi dinar and US dollar recorded an increase of (0.53%, 0.47%, 1.25%, 0.19%, 0.10%, and 0.51%), respectively, through the period from January to June, except for April.
- Differences of deposit interest rate margins for (1-3) months between Iraqi dinars and US dollars recorded an increase of (1.04%, 0.69%, 0.62%, 1.04%, 1.26%, and 1.32%), respectively, through the period from January to June.

Figure (7) Weighted Interest Rate on Deposits in Iraqi Dinar



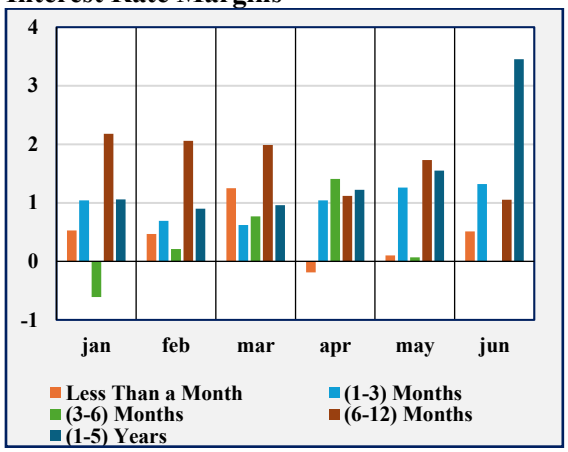
- Differences of deposit interest rate margins for (3 - 6) months between Iraqi dinar and US dollar recorded a decrease for January reaching (0.61%). While it increased by (0.21%, 0.77%, 1.41%, 0.07%), respectively, through the period from February to May, as the impact was equal in June (0.0%).
- Differences of deposit interest rate margins for (6 -12) months between Iraqi dinar and US dollar recorded an increase of (2.18%, 2.06%, 1.99%, 1.12%, 1.73% and 1.05%), respectively, through the period from January to June.

Figure (8) Weighted Interest Rate on Deposits in US Dollar



- Differences of deposit interest rate margins for (1- 5) years between Iraqi dinar and US dollar recorded an increase of (1.06%, 0.90%, 0.96%, 0.22%, 1.55%, and 3.45%), respectively, through the period from January to June, as shown in figures (7, 8, and 9).

Figure (9) Differences of Deposit Weighted Interest Rate Margins



Deposit interest rate margins for different time durations fluctuated by a small proportion that did not exceed (3%) in favor of the Iraqi dinar, which is small proportion compared to inflation rates in H1 of 2024. However, with a margin in favor of the dinar, still it is not rewarding to attract deposits to the banking sector compared to alternative opportunity cost (such as the acquisition of US dollar instead of the dinar). It's worth mentioning that the acceptance of deposits in banks, whether fixed or saving, is conducted after the deduction of the legal reserve requirement ratio imposed by the Central Bank of Iraq. Thereafter the interest rate is calculated on the net remaining amount deposited at banks, which also affects the attraction of deposits to the banking sector.

Table (5) Differences of Deposit Weighted Interest Rate Margins till June 2024						
Deposit Interest Rate in US Dollar %						
Month	**Less Than a Month**	**(1-3) Months**	**(3-6) Months**	**(6-12) Months**	**(1-5) Years**	**(5 Years and More)**
Jan	1.66	3.51	4.84	1.79	5.40	
Feb	1.63	3.69	4.08	1.92	5.58	
Mar	0.43	3.91	3.49	1.99	5.50	
Apr	2.42	3.49	3.52	2.88	5.18	
May	1.74	3.28	4.26	2.53	4.79	
Jun	1.69	3.74	4.30	2.98	2.74	
Deposit Interest Rate in Iraqi Dinar %						
Month	**Less Than a Month**	**(1-3) Months**	**(3-6) Months**	**(6-12) Months**	**(1-5) Years**	**(5 Years and More)**
Jan	2.19	4.55	4.24	3.97	6.46	
Feb	2.10	4.38	4.29	3.98	6.47	
Mar	1.68	4.53	4.26	3.98	6.46	
Apr	2.23	4.53	4.92	4.00	6.40	
May	1.84	5.54	4.33	4.26	6.34	
Jun	2.20	5.06	4.29	4.03	6.19	
Differences of Interest Rate Margins %						
Month	**Less Than a Month**	**(1-3) Months**	**(3-6) Months**	**(6-12) Months**	**(1-5) Years**	**(5 Years and More)**
Jan	0.53	1.04	− 0.61	1.04	1.06	
Feb	0.47	0.69	0.21	0.69	0.90	
Mar	1.25	0.62	0.77	0.62	0.96	
Apr	− 0.19	1.04	1.41	1.04	1.22	
May	0.10	1.26	0.07	1.26	1.55	
Jun	0.51	1.32	0.00	1.32	3.45	

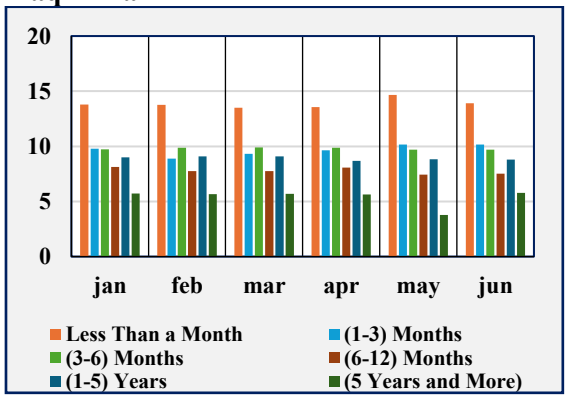
* Difference of deposit weighted Interest rates margin = deposit interest rate in Iraqi dinar - deposit interest rate in US dollar.

2. Differences of Credit Interest Rates between Iraqi Dinar and US Dollar

Table (6) shows the differences of credit interest rates margin in Iraqi Dinar and US Dollar according to the following details:

- Differences of credit interest rate margins for (less than a month) between Iraqi dinar and US dollar recorded an increase of (2.67%, 2.36%, 2.19%, 2.09%, 3.10%, and 2.32%), respectively, through the period from January to June.

Figure (10) Credit Weighted Interest Rates in Iraqi Dinar

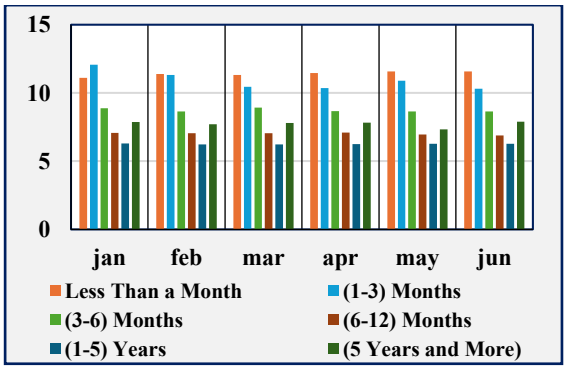


- Differences of credit interest rate margins for (1-3) months between Iraqi dinar and US

dollar recorded a decrease of (2.29%, 2.45%, 1.12%, 0.71%, 0.71%, and 0.16%), respectively, through the period from January to June.

- Differences of credit interest rate margins for (3-6) months between Iraqi dinar and US dollar increased by (0.86%, 1.24%, 0.97%, 1.21%, 1.05%, and 1.03%), respectively, for the months from January to June.
- Differences of credit interest rate margins for (6 -12) months between Iraqi dinar and US dollar recorded a rise of (1.04%, 0.70%, 0.70%, 0.97%, 0.47%, and 0.66%), respectively, through the period from January to June.

Figure (11) Credit Weighted Interest Rates in US Dollar



- Differences of credit interest rate margins for (1- 5) years ranging between Iraqi dinar and US dollar recorded a rise reaching (2.71%, 2.87%, 2.86%, 2.43%, 2.55%, and 2.53%), respectively, through the period from January to June.
- Differences of credit interest rate margins for (5 years and more) between Iraqi dinar and US dollar recorded a decrease reaching (2.17%, 2.02%, 2.12%, 2.20%, 3.58%, and 2.13%) respectively, through the period from January to June, as shown in figures (10, 11, and 12).

Figure (12) Differences of Credit Weighted Interest Rate Margins

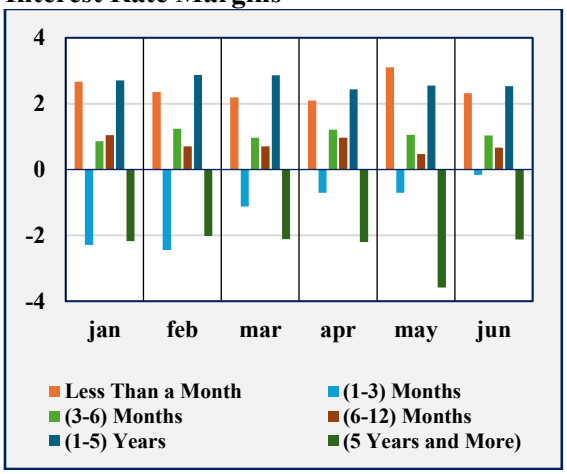


Table (6) Differences of Credit Weighted Interest Rate Margins till June 2024

Credit Interest Rate in US Dollar %						
Month	**Less Than a Month**	**(1-3) Months**	**(3-6) Months**	**(6-12) Months**	**(1-5) Years**	**(5 Years and More)**
Jan	11.11	12.08	8.87	7.08	6.29	7.88
Feb	11.40	11.32	8.64	7.04	6.23	7.70
Mar	11.32	10.46	8.93	7.06	6.24	7.81
Apr	11.47	10.36	8.67	7.09	6.26	7.82
May	11.57	10.89	8.64	6.96	6.27	7.34
Jun	11.58	10.32	8.65	6.88	6.28	7.89
Credit Interest Rate in Iraqi Dinar %						
Month	**Less Than a Month**	**(1-3) Months**	**(3-6) Months**	**(6-12) Months**	**(1-5) Years**	**(5 Years and More)**
Jan	13.78	9.79	9.73	8.12	9.00	5.72
Feb	13.76	8.87	9.88	7.74	9.10	5.67
Mar	13.51	9.33	9.90	7.76	9.10	5.68
Apr	13.57	9.64	9.88	8.06	8.69	5.62
May	14.66	10.17	9.69	7.43	8.82	3.76
Jun	13.90	10.17	9.69	7.53	8.81	5.77

Differences of Interest Rate Margins %						
Month	**Less Than a Month**	**(1-3) Months**	**(3-6) Months**	**(6-12) Months**	**(1-5) Years**	**(5 Years and More)**
Jan	2.67	−2.29	0.86	1.04	2.71	−2.17
Feb	2.36	−2.45	1.24	0.70	2.87	−2.02
Mar	2.19	−1.12	0.97	0.70	2.86	−2.12
Apr	2.09	−0.71	1.21	0.97	2.43	−2.20
May	3.10	−0.71	1.05	0.47	2.55	−3.58
Jun	2.32	−0.16	1.03	0.66	2.53	−2.13

* Difference of credit weighted Interest rate margin = credit interest rate in Iraqi dinar - credit interest rate in US dollar.

Summary:

- Changes of weighed interest rates on credit and deposits are constantly fluctuating for both the dinar and dollar currencies, which reflects the lack of stable credit schemes implied in banks' policies through pursued mechanisms for granting credit, accepting deposits and attracting them to the banking sector.
- Banks did not respond in drawing up their lending and deposit policy to central bank's raising its monetary policy rate to (7.5%) at the end of June 2023 to draw down liquidity and address the inflation rate, since the monetary policy rate is an indicator for the structure of market interest rates and their time durations, as well as credit.
- The interest rate margins on deposits for different time durations fluctuated by a small proportion that did not exceed (3%) in favor of Iraqi dinar; it is considered low compared to inflation rates in H1 of 2024. However, with the existence of a margin in favor of the dinar, still it is not rewarding to attract deposits to the banking sector as compared to the alternative opportunity cost (i.e. the acquisition of US dollar).
- The acceptance of deposits at banks, whether fixed or saving, is made after the deduction of legal reserve requirement ratio imposed by the Central Bank of Iraq, then interest rate is calculated on the net remainder of the deposit, which also affects the attraction of deposits to the banking sector and reduces depositors' interest margin.
- It is noted that the risk premium on deposits is negative, which is the opposite of economic theory, due to lack of public awareness of the trade-offs among financial products, on the one hand, and banks' low reliance on deposits in their operation with weak attraction to deposits, on the other hand.

Recommendations:

- It is necessary to adopt the weighted interest rate in monetary statistics as an indicator that is extracted periodically and annually.
- Adopt the weighted interest rate on deposits and credit as a basis to be relied upon when setting and changing the policy rate.
- The weighted interest rate can be adopted as a tool to assess the quality of banking services provided by different banks, as the radicalization of this rate is a negative situation, whether it was high or low.
- The guidance of the weighted interest rate by policy rate is a critical indicator of the central bank's success in directing the financial market, achieving its price stability and economic growth objectives.

Appendix (1) Average of Weighted Interest Rate by Time Durations on Credit and Deposits at Banks						
Table (1) January						
Type of Credit and Deposits	**Less Than a Month**	**(1-3) Months**	**(3-6) Months**	**(6 Months-1 Year)**	**(1-5) Years**	**(5 Years and More)**
Granted Credit in National Currency	13.8	9.8	9.7	8.1	9.0	5.7

Granted Credit in Foreign Currency	11.1	12.1	8.9	7.1	6.3	7.9
Deposits in National Currency	2.2	4.5	4.2	4.0	6.5	
Deposits in Foreign Currency	1.7	3.5	4.8	1.8	5.4	
Table (2) February						
Type of Credit and Deposits	**Less Than a Month**	**(1-3) Months**	**(3-6) Months**	**(6 Months-1 Year)**	**(1-5) Years**	**(5 Years and More)**
Granted Credit in National Currency	13.8	8.9	9.9	7.7	9.1	5.7
Granted Credit in Foreign Currency	11.4	11.3	8.6	7.0	6.2	7.7
Deposits in National Currency	2.1	4.4	4.3	4.0	6.5	
Deposits in Foreign Currency	1.6	3.7	4.1	1.9	5.6	
Table (3) March						
Type of Credit and Deposits	**Less Than a Month**	**(1-3) Months**	**(3-6) Months**	**(6 Months-1 Year)**	**(1-5) Years**	**(5 Years and More)**
Granted Credit in National Currency	13.5	9.3	9.9	7.8	9.1	5.7
Granted Credit in Foreign Currency	11.3	10.5	8.9	7.1	6.2	7.8
Deposits in National Currency	1.7	4.5	4.3	4.0	6.5	
Deposits in Foreign Currency	0.4	3.9	3.5	2.0	5.5	
Table (4) April						
Type of Credit and Deposits	**Less Than a Month**	**(1-3) Months**	**(3-6) Months**	**(6 Months-1 Year)**	**(1-5) Years**	**(5 Years and More)**
Granted Credit in National Currency	13.6	9.6	9.9	8.1	8.7	5.6
Granted Credit in Foreign Currency	11.5	10.4	8.7	7.1	6.3	7.8
Deposits in National Currency	2.2	4.5	4.9	4.0	6.4	
Deposits in Foreign Currency	2.4	3.5	3.5	2.9	5.2	
Table (5) May						
Type of Credit and Deposits	**Less Than a Month**	**(1-3) Months**	**(3-6) Months**	**(6 Months-1 Year)**	**(1-5) Years**	**(5 Years and More)**
Granted Credit in National Currency	14.7	10.2	9.7	7.4	8.8	3.8
Granted Credit in Foreign Currency	11.6	10.9	8.6	7.0	6.3	7.3
Deposits in National Currency	1.8	4.5	4.3	4.3	6.3	

Deposits in Foreign Currency	1.7	3.3	4.3	2.5	4.8	

Table (6) June						
Type of Credit and Deposits	**Less Than a Month**	**(1-3) Months**	**(3-6) Months**	**(6 Months-1 Year)**	**(1-5) Years**	**(5 Years and More)**
Granted Credit in National Currency	13.9	10.2	9.7	7.5	8.8	5.8
Granted Credit in Foreign Currency	11.6	10.3	8.7	6.9	6.3	7.9
Deposits in National Currency	2.2	5.1	4.3	4.0	6.2	
Deposits in Foreign Currency	1.7	3.7	4.3	3.0	2.7	

Appendix (2) Weighted Interest Rate on Credit and Deposits of State Owned and Private Banks for H1 of 2024

Month	Granted Credit in National Currency		Granted Credit in Foreign Currency		Deposits in National Currency		Deposits in Foreign Currency		Spread Factor of National Currency		Spread Factor of Foreign Currency	
	SOBs	Private	SOBs	Private	SOBs	Private	SOBs	Private	SOBs	Private	SOBs	Private
Jan	5.7	10.6	6.4	10.3	4.3	4.5	2.2	2.2	1.4	6.1	4.19	8.08
Feb	5.7	9.4	6.4	10.0	4.3	4.6	2.6	2.1	1.4	4.8	3.80	7.87
Mar	5.6	10.7	6.4	10.1	4.3	4.6	2.6	2.2	1.3	6.1	3.82	7.86
Apr	5.5	10.7	6.4	10.2	4.3	4.6	2.5	3.2	1.2	6.1	3.84	7.04
May	3.7	10.7	6.2	10.2	4.5	4.3	3.2	2.6	-0.8	6.3	2.93	7.56
Jun	5.6	10.6	6.4	10.1	4.3	5.3	2.7	3.2	1.3	5.3	3.65	6.92
Average	**5.30**	**10.43**	**6.34**	**10.15**	**4.35**	**4.63**	**2.63**	**2.59**	**0.95**	**5.8**	**3.71**	**7.55**

" A Pilot Survey Examining the Non-Banking Financial Institutions in Iraq & Their Impacts on Monetary Variables up to December 31, 2022 "

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Introduction:

Non-banking financial institutions are genuine partners to banking institutions in promoting economic growth and financial stability. They also play a strategic role in enhancing financial inclusion by expanding access to finance and financial services, providing credit to categories that face obstacles in accessing credit granted by banks.

Following the 2008 global financial crisis, regulatory authorities worked to study the reality of this sector, define and specify its activities, and identify the associated challenges accurately. This was accompanied by a focus on providing accurate data that would enable monitoring and evaluation to assess its volume, risks, and to enhance its financial soundness and protect consumers of the financial services it provides.

For example, the insurance sector contributes to achieving economic growth and development goals in general by providing protection for the property of individuals and institutions and preserving national wealth. Other non-banking financial institutions also play a significant role in financial inclusion, such as (microfinance institutions, financial leasing companies, and small & medium-sized enterprise financing companies). In addition, there are civil society institutions and humanitarian organizations that play a major role in providing small loans to individuals in simple and uncomplicated ways, as well as responding quickly to the requests of these individuals.

Hence, the importance of studying the volume of non-banking financial institutions relative to the financial system in Iraq stems from the need to understand their impact on financial stability and to prevent the risks that non-banking financial institutions may pose. It is also essential to enhance regulatory awareness of the importance of these institutions activities, their relationship with the banking sector, and how they affect the financial system in Iraq.

First: The Volume of Non-Banking Financial Institutions in the Iraqi Financial System:

The impact of non-banking financial institutions on monetary and financial stability can be illustrated through several key indicators, as follows:

1. **Total Cash in Non-Banking Financial Institutions to Total Cash in the Financial System:**

The total cash in non-banking financial institutions, amounting to IQD (2,346,217) Million, represents (29.8%) of the total cash in the financial system, which amounts to IQD (7,876,043) Million. This percentage is likely to significantly impact monetary and financial stability by affecting the exchange rate of the Iraqi dinar against the US dollar on the black market, especially since the cash available to exchange companies in their various categories represents (33.7%) of the total cash held by non-banking financial institutions.

2. **Total Loans of Non-Banking Financial Institutions to Total Cash Credit:**

The total loans granted by non-banking financial institutions, including housing fund loans, amounting to IQD (3,959,150) million. This represents (6.5%) of the total credit granted by banking financial institutions, which amounted to IQD (60,576,014) million. This percentage is a good addition to the credit granted through the banking system, which would help provide liquidity to various economic units and thus stimulate economic activity.

3. **Total Cash in Non-Banking Financial Institutions to Issued Currency:**

The total cash available in non-banking financial institutions, amounting to IQD (2,346,217) million, represents (2.7%) of the issued currency, which totals IQD (87,561,568) million. This is a low percentage relative to the

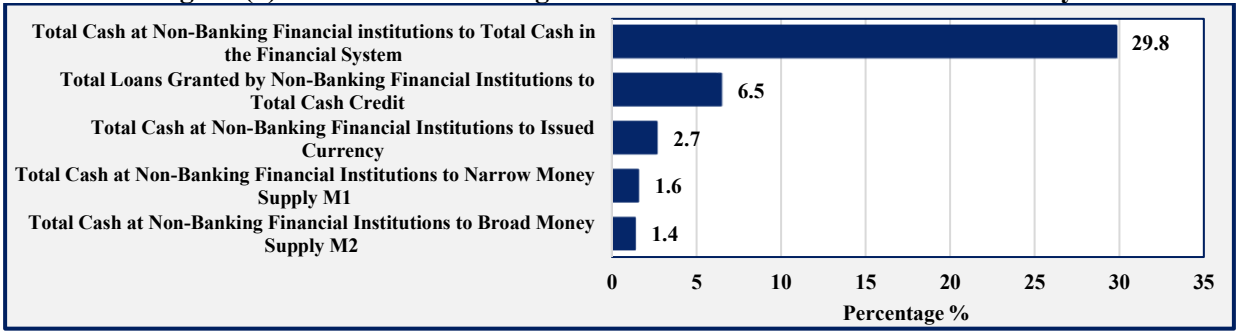
total issued currency in the financial system and therefore has a limited impact.

4. Total Cash in Non-Banking Financial Institutions to Money Supply:

The total cash available in non-banking financial institutions, amounting to IQD (2,346,217) million, represents (1.6%) of the narrow money supply (M1) and (1.5%) of the broad money supply (M2), which amount to IQD (146,487,9250) and IQD (168,291,3720) Million, respectively. These percentages have a negligible impact on the overall financial system.

Figure No. (1) shows the above-mentioned ratios, which reflect the extent to which non-banking financial institutions can influence the Iraqi financial system.

Figure (1) Role of Non-Banking Financial Institutions in The Financial System



Source/ Central Bank of Iraq, Statistics & Research Department.

In Figure (1), we observe that the ratio of total cash in non-banking financial institutions to the total cash in the financial system is (29.8%), a percentage that is likely to significantly impact monetary and financial stability by affecting the exchange rate on the black market, especially since the cash available to exchange companies represents (33.7%) of the total cash held by non-banking financial institutions. Meanwhile, the ratio of total loans of non-banking financial institutions to total credit is (6.5%), a good addition to the credit granted through the banking system, which would help provide liquidity in the markets and thus stimulate economic activity. On the other hand, the ratio of cash in non-banking financial institutions to both issued currency and the money supply, in its narrow (M1) and broad (M2) concepts, amounted to (2.7%), (1.6%), and (1.5%), respectively.

Second: Classification of Non-Banking Financial Institutions in Iraq:

There are several government institutions, private sector entities, and civil society organizations operating in Iraq that can be classified as non-banking financial institutions. Some of these are subject to the supervision of the Central Bank of Iraq, while others are not. These include:

1. Non-Banking Financial Institutions Subject to the Supervision of the Central Bank of Iraq:

A. Exchange & Intermediary Companies:

The exchange and intermediary sector are a vital sectors in various countries around the world, especially in developing countries. It plays a significant role in the economy by promoting foreign exchange levels and facilitating the transfer of funds from expatriates to their families and relatives in their home countries, thus boosting foreign currency inflows. These companies can be categorized as follows:

- **Exchange Companies Class (A):**

There are (73) class (A) companies with total assets of IQD (494,692) million. Cash, amounting to IQD (434,871) million, constitutes most of their assets, representing (87.9%) of total assets, indicating a high level of liquidity, as shown in Table No. (1).

- **Exchange Companies Class (B):**

There are (52) class (B) companies with total assets of IQD (146,049) million. Cash, amounting to IQD (134,637) million, constitutes most of their assets, representing (92.2%) of total assets, indicating a high level of liquidity, as shown in Table No. (1).

- **Intermediary Companies Class (C):**

There are (440) class (C) companies with total assets of IQD (235,340) million. Cash, amounting to IQD (222,180) million, constitutes most of their assets, representing (94.4%) of total assets, indicating a high level of liquidity, as shown in Table No. (1).

- The significance of exchange and intermediary companies lies in their contribution to achieve the Central Bank of

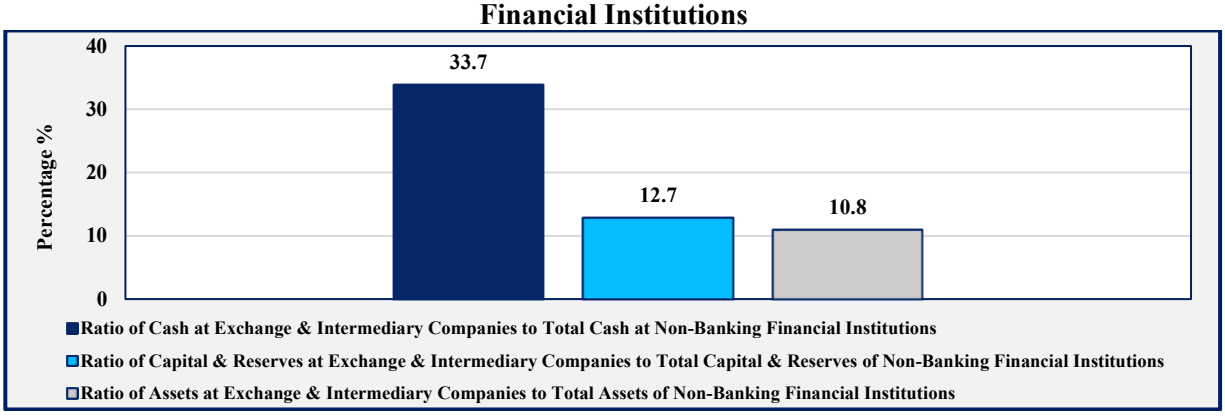
Iraq's objectives of overall price stability and exchange rate balance in local markets and meeting the demand for foreign currency through the weekly dollar allocations provided by the Central Bank of Iraq, as per the instructions issued on 5/12/2022.

The weekly allocations are as follows:

- Class (A) exchange companies: USD (1,800,000).
- Class (B) exchange companies: USD (750,000)
- Class (C) intermediary companies: USD (80,000)

The relative importance of exchange and intermediary companies compared to non-banking financial institutions can be shown in Figure No. (2).

Figure No. (2): The Relative Importance of Exchange & Intermediary Companies to Non-Banking Financial Institutions



Source/ Central Bank of Iraq, Statistics & Research Department.

Figure No. (2) above shows that cash held by exchange and intermediary companies constitutes (33.7%) of the total cash available with non-banking financial institutions, while the capital and reserves of these companies constitute (12.7%) of the total capital and reserves of all non-banking financial institutions. The relative importance of exchange and intermediary companies, in terms of their assets, is (10.8%) of the total assets of non-banking financial institutions. These ratios demonstrate the significant ability of non-banking financial institutions to influence the Iraqi Dinar's exchange rate by supplying US dollars for purposes such as travel and by providing dollars on the black market, thereby affecting the parallel exchange rate and consequently monetary and financial stability.

B. Modern Financial Technology Providers (Electronic Payment Companies):

These are defined as products and services that rely on modern technology and are used to improve the quality of traditional financial services and operations, impacting institutions in the financial sector, including electronic payment companies. The use of modern financial technologies in the banking and financial sectors has seen significant growth in recent years, especially with the rapid development of communications, technology, and related services.

There are (17) companies, with total assets of IQD (1,167,774) million. Total cash amounts to IQD (568,823) million, representing (48.7%) of total assets, while accounts receivable amount to IQD (339,982) million, inventory to IQD (105,904) million, and fixed assets to IQD (153,065) million, representing (29.1%), (9.1%), and (13.1%) of total assets respectively, as shown in Table No. (1).

C. Investment Companies:

Investment companies provide services to clients and investors in capital markets, including buying and selling securities, providing advice, and investment management services. They specialize in investing in securities.

There are (7) companies (excluding Al-Khair and Khaimat Al-Ayyam companies, which did not submit their annual data for 2022), the total assets of the other five companies amounted to IQD (7,453) million. The investment companies' assets constituted only (0.09%) of the total assets of non-banking financial institutions, indicating a very minimal impact on the financial markets and the economy. Since total investments amounted to IQD (4,020) million, constituting (53.9%) of total assets, this implies a pressing need to

expand the scope of investments to effectively form and manage investment portfolios.

This can be achieved by mobilizing frozen capital into investment channels, which would contribute to revitalizing and developing the Iraqi economy, as to developed countries, and ultimately provide greater benefits to investors.

D. Non-Banking Finance Companies:

These companies aim to enhance the ability of small and medium-sized enterprises to access the necessary financing. There are two companies, (the Iraqi Company for Financing Small and Medium Enterprises & the First Company for Financing Small and Medium Enterprises), Which aims to provide a growing capacity to support and develop the private sector by increasing the guaranteed loans provided to these projects, with total assets reaching IQD (45,718) million and total investments reaching IQD (19,029) million with a contribution ratio of (41.6%) of total assets.

The ratio of its assets to the total assets of non-banking financial institutions, which is (0.56%), is very small, which makes its impact limited in contributing to the financing of small and medium-sized enterprises that cannot obtain financing from banking institutions and create additional job opportunities and thus stimulating economic growth.

E. Bank Guarantee Companies:

These companies aim to support the private sector by providing guaranteed loans. The Iraqi Guarantee Company is the only company operating in this sector.

The total assets of the bank guarantees company reached IQD (19,833) million, with deposits held at banks and other financial institutions amounting to IQD (16,412) million, representing (82.8%) of total assets. Meanwhile, investments accounted for IQD (750) million, loans granted amounted to IQD (89) million, and fixed assets totaled IQD (2,582) million, representing (3.8%), (0.4%), and (13%) of total assets respectively, as shown in Table No. (1). This indicates a weak role played by the bank guarantees company within the financial system and the economy, given the low volume of investments and loans it provides.

F. The Iraqi Deposit Insurance Company (Joint Stock Company):

This company supports the banking sector and was established under the provisions of the Deposit Insurance System Law No. (3) of 2016. It has an initial capital of IQD (100) billion and commenced its operations on 17/10/2020. The company aims to strengthen confidence in the banking sector, protect the deposits and rights of depositors, raise public awareness about the deposit insurance system, and compensate depositors promptly and accurately within the specified period if a bank faces the risk of bankruptcy or liquidation.

2. Financial Institutions Not Subject to the Supervision of the Central Bank of Iraq:

A. Insurance Sector/ Insurance Bureau:

The insurance sector plays a crucial role in enhancing financial stability by protecting individuals and property from potential risks. Additionally, it mobilizes and accumulates national savings for economic development and supports the national economy, thereby boosting investor confidence and economic activities. In 2022, there were (43) insurance companies in Iraq, licensed to operate insurance and reinsurance businesses, including (3) public companies and (40) private companies.

The insurance sector has witnessed significant growth and expansion in the Iraqi financial market. Total assets of insurance companies increased by (9.8%) in 2022 compared to 2021, reaching IQD (1,036,528) million in 2022. This indicates the development of this sector and its positive impact on the stability of the Iraqi financial system.

B. Ministry of Construction, Housing and Public Municipalities /Housing Fund:

Housing funds are specialized funds dedicated to construction and reconstruction. They are financed through special decisions issued for this purpose. In recent years, the Central Bank of Iraq has authorized the financing of these funds through its initiatives to support this vital and important sector.

It should be noted that of the total loans granted by the housing fund amounting to IQD (3,947,732) million, (97.8%) of these loans were financed through initiatives provided by the Central Bank of Iraq, amounting to IQD (3,862,212) million. The remaining percentage was financed from the housing fund's capital and reserves. This indicates the Central Bank of Iraq's effort to compensate for the lack of financial allocations in the general budget for this fund, compared to the housing crisis that Iraq is facing.

Total assets amounted to IQD (4,991,275) million, and the total long-term loans granted amounted to IQD (3,947,732) million,

representing (79.1%) of total assets. Meanwhile, cash accounted for IQD (979,487) million, investments for IQD (51,028) million, and fixed assets for IQD (12,653) million, representing (19.6%), (1%), and (0.2%) of total assets respectively, as shown in Table No. (2).

C. Pension Fund:

It is one of the most important funds that guarantee pension for government employees in general through programs in which government institutions are obligated to pay predetermined deductions in exchange for paying retirement pensions in accordance with the applicable rules and laws. The fund receives its revenues from several sources, including the collection of contributions from government employees, financial investments, and grants or donations. The fund then directs part of its funds to invest in investment portfolios in accordance with the specified laws, with the aim of reducing reliance on the general state budget for its financing.

The retirement fund's revenue from pension deductions in 2022 was IQD (4,226,137) million. However, the expenditures on retirees' salaries and benefits reached IQD (19,017,850) million, resulting in a deficit of IQD (14,791,713) million. This represents a deficit ratio of (77.8%) of total expenditure. This deficit is financed by the Ministry of Finance, putting a strain on the state's general budget and consequently affecting the stability of the overall financial system.

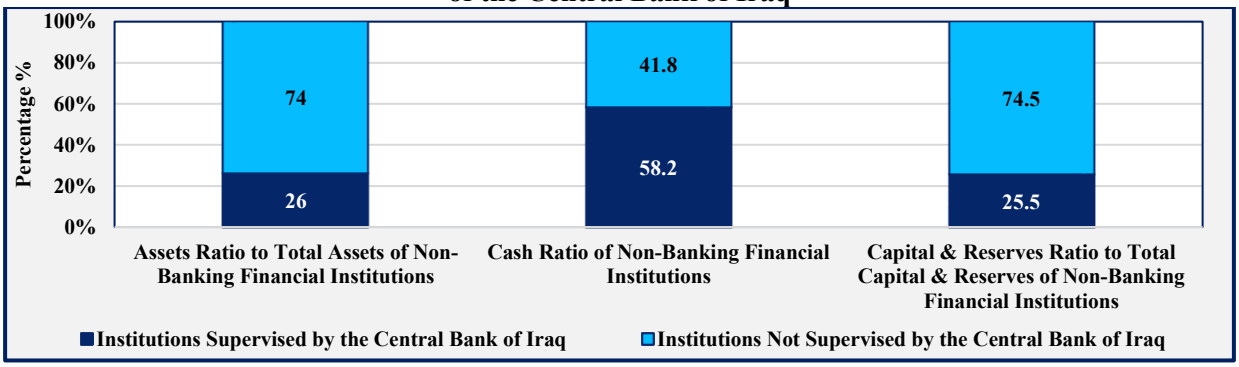
D. Ministry of Labor and Social Affairs/ Social Security Fund:

The social security fund has a board of directors, but we have not yet received approval to provide us with financial data. We do not have a legal obligation when requesting data, knowing that we follow the administrative correspondence between the relevant departments, in addition to the international and local requirements for requesting data.

Part 3: Importance of Non-Banking Financial Institutions

Figure No. (3) shows that non-banking financial institutions not under the supervision of the Central Bank of Iraq hold (74%), (41.8%), and (74.5%) of the total assets, cash, and capital and reserves of non-banking financial institutions, respectively. This means that they hold most of the assets and capital of non-banking financial institutions, making them have a greater impact than non-banking financial institutions under the supervision of the Central Bank of Iraq on the stability of the financial system in Iraq. While the impact of non-banking financial institutions under the supervision of the Central Bank of Iraq is reflected in their holding the largest percentage of cash, amounting to (58.2%) of the total cash held by non-banking financial institutions, through which they can influence the exchange rate in the black market.

Figure No. (3): Relative Importance of Non-Banking Financial Institutions under the Supervision of the Central Bank of Iraq



Source/ Central Bank of Iraq, Statistics & Research Department.

Conclusions:

1. The ratio of cash held by non-banking financial institutions to the cash held in the vaults of banking institutions is (42.4%). Meanwhile, the ratio of cash held by non-banking financial institutions to the total cash available in the financial system is (29.8%). This indicates their significant role in providing liquidity and, consequently, their ability to influence monetary and financial stability by affecting the exchange rate on the black market.
2. The total assets of non-banking financial institutions operating in Iraq amounted to IQD (8,144,662) million. Loans granted amounted to IQD (3,959,150) million,

representing (48.6%) of their total assets. Loans granted by non-banking financial institutions constitute (6.5%) of the total credit, which is in addition to the credit granted through the banking system. This is likely to increase liquidity in the markets and stimulate economic activity.

3. The total assets of non-banking financial institutions represent (4.1%) when compared to the total assets or liabilities of banking institutions, as the latter are entities that receive public deposits. On the other hand, the assets of non-banking financial institutions constitute (3.9%) of the total assets of the financial system. This indicates a relatively weak impact on financial stability in terms of their total assets.
4. The capital of non-banking financial institutions represents (11.05%) of the capital of banking institutions, indicating their developmental role in promoting deposit growth. However, it is worth noting that capital and reserves constitute most of the funding sources for non-banking financial institutions.
5. The total cash available in the vaults of non-banking financial institutions amounted to (IQD 2,346,216 million), contributing (28.8%) to the total assets of (IQD 8,144,662 million). This, in addition to the cash held by the banking system, leads to a decrease in currency in circulation.
6. The retirement fund's revenue from pension deductions in 2022 was IQD (4,226,137) million. However, the expenditures on retirees' salaries and benefits reached IQD (19,017,850) million, resulting in a deficit of IQD (14,791,713) million. This deficit, financed by the Ministry of Finance, represents a deficit ratio of (77.8%) of total expenditure on retirees' salaries and benefits.
7. The total capital and reserves of non-banking financial institutions, excluding government insurance companies, amounted to IQD (6,633,381) million. This is a significant addition to the total deposits in the banking sector, which amounted to IQD (129,083,322) million. This enables the issuance of a broader money supply (M3).

Recommendations:

1. **Inclusion of Housing Loans in Total Credit:** The housing loans amounting to IQD (3,947,732) million should be added to the total cash credit extended by the banking sector. This is especially important given that (97.8%) of these loans, equaling IQD (3,862,212) millions, are funded through initiatives provided by the Central Bank of Iraq.
2. **Activating Investment Companies:** There is a need to activate the role of investment companies in forming and managing investment portfolios. This can be achieved by mobilizing frozen capital towards investment channels, thereby contributing to the revitalization and development of the Iraqi capital market. Ultimately, this will support investment in the Iraqi financial sector, bringing it closer to the standards of advanced countries.
3. **Increasing the Assets of Non-Banking Financial Institutions:** It is essential to increase the volume of the assets of non-banking financial institutions, enabling them to expand their investments. These institutions play a crucial role in financing SMEs, which may not be able to obtain financing from traditional banking institutions. This would create additional job opportunities and stimulate economic growth.
4. **Calculating Capital and Reserves:** It is necessary to adopt a new method for calculating the capital and reserves of non-banking financial institutions. This method would exclude the capital of government insurance companies as deposits added to the deposits of non-banking financial institutions. This would allow for the issuance of a broader money supply (M3).

Table No. (1): Financial Institutions Under the Supervision of the Central Bank of Iraq of 2022. (IQD Million)								
Variables	**Exchange A**	**Exchange B**	**Mediation C**	**Electronic payment**	**Financial investment**	**SMEs**	**Bank guarantees**	**Total**
Number of Companies	73	52	440	17	5	2	1	590
Cash	434,871	134,637	222,180	568,823	2,166	4,053		1,366,730
Debtors	47,798	9,764	12,042	339,982	304	10,844		420,734
Inventory				105,904				105,904
Investments					4,020	19,029	750	23,799
Loans Granted						11,329	89	11,418
Balances with Banks and other Financial Institutions							16,412	16,412
Total Current Assets	482,669	144,401	234,222	1,014,709	6490	45,255	17,251	1,944,997
Fixed Assets (Book Value)	7,453	965	724	100,889	963	231	2,582	113,807
Deferred Revenue Expenditures	4,570	683	394	38,294	0	232		44,173
Projects under Construction				13,882				13,882
Total Fixed Assets	12,023	1,648	1,118	153,065	963	463	2,582	171,862
Total Assets	494,692	146,049	235,340	1,167,774	7453	45,718	19,833	2,116,859
Allocations	6,161	1,052	569	10,867	1,043	11,105	6,612	37,409
Debtors	22,077	627	407	348,726	711	99	2,022	374,669
Partners' Current				8,361				8,361
Loans Received						2,617		2,617
Total short-term Financing Sources	28,238	1,679	976	367,954	1,754	13,821	8,634	423,056
Nominal and paid-up Capital	407,337	130,093	223,340	252,966	6,650	26,464	9,626	1,056,476
Reserves	59,117	14,277	11,024	-15,452	-951	5,433	1,573	75,021
Retained Earnings (deficit)				562,306				562,306
Total Capital and Reserves	466,454	144,370	234,364	799,820	5,699	31,897	11,199	1,693,803
Total Financing Sources	494,692	146,049	235,340	1,167,774	7453	45,718	19,833	2,116,859

Table No. (2): Volume of Non-Banking Financial Institutions in the Financial System in Iraq (IQD Million)				
Indicators	**Subject to Supervision by Central Bank of Iraq**	**Not Subject to Supervision by Central Bank of Iraq**	**Non-Banking Financial Institutions**	**Banking Financial Institutions**
Total Cash	1,366,730	979,487	2,346,217	5,529,826
Total Assets	2,116,859	6,027,803	8,144,662	198,661,832
Total Capital	1,056,476	919,507	1,975,983	17,879,543
Total Capital and Reserves	1,693,803	4,939,578	6,633,381	129,083,322
Total Loans	11,418	3,947,732	3,959,150	452,861,51

" Dual Shock in Global Commodity Markets "

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On 30 Oct. 2023, the World Bank published in its "Commodity Market Outlook" a report on energy market disruption and its impact on food security, as reports discussing the future of commodity prices are of the utmost importance as they illustrate shocks on the overall level of prices. It is necessary to analyze them and come up with precautionary recommendations that reduce, if not avoid, the future crisis. From this point of view, this study includes the most important issues mentioned in the above report with recommendations based on its content.

Although the global economy is in a better position than that in the 1970s to face a shock of oil prices, the recent escalation of conflict in the Middle East and turmoil caused by the Russian Ukrainian war could drive global primary commodity markets into uncertainty, the report stated.

Oil prices are expected to rise for Q4 of 2023 and onwards, which could decline as the pace of global economic growth slows. Prices of agricultural commodities are expected to fall by (4.1%) in the coming year in general with increased supplies, and prices of basic minerals may fall by (5%) in 2024.

The effects of the current conflict on global primary commodity markets are limited so far with oil prices rising by (6%) since the beginning of the conflict, as agricultural commodity prices and most primary commodity minerals have not been exposed to a significant impact.

Yet primary commodity prices outlook may become rapidly negative, if the conflict escalated. Accordingly, the report presented three risk scenarios based on the world's historical experiences since the 1970s. The effects in each scenario were based on the degree to which oil supplies were disrupted, as the following:

a. First Scenario (Limited Disruption):

In which oil supply will decrease by (500 thousand – 2 million) barrels per day, which is almost the same as the decrease caused by Libya's Civil War in 2011. According to this scenario, oil prices will initially increase between (3%-13%) compared to Q4 of this year by an average of US$ (93-102) per barrel.

b. Second Scenario (Middle Disruption):

Like what went during the war on Iraq in 2003, global oil supply may decline by a range of (3-5) million barrels per day, pushing oil prices up by (21%-35%) with a value of US$ 109-121 per barrel.

c. Third Scenario (Major Disruption):

It expected the effects of the oil embargo imposed by the Arab States in 1973, as global oil supplies could contract by (6-8) million barrels per day, pushing prices up by (56%-5%) with a value of US$ (140-157) per barrel.

Commenting on current and future situations, the following are mentioned:

1. Mr. Indermate Gill, Chief Economist and World Bank Vice-President for Development Economics: this conflict in the Middle East follows the biggest commodity market shock since the 1970s, which is the Russian Ukrainian war. This shock has devastating effects on the world economy that persists to this day. Thus, policymakers will have to be alert and cautious. If this conflict escalated, the world economy will face (a double shock) in energy for the first time in decades because of the war in Ukraine and the conflict in the Middle East.
2. Mr. Ayhan Kosi, Vice-President of Economic Experts and Manager of the Development Outlook Group at the World Bank: the continued rise of oil prices means inevitably higher food prices. If a severe shock of oil prices occurred, there will be a rise of inflation rates of food prices, which is already high in many developing countries, with more than 700 million people, or approximately (10%) of the world's population undernourished at the end of 2022. The escalation of this conflict will increase food insecurity not only in the region, but also throughout the world.

The report stated that the minor effects of this conflict on primary commodity prices so far may reflect an improvement of the global economy's ability to absorb oil price shocks and that countries around the world have strengthened their preparedness to cope with such shocks since the energy crisis of the 1970s. As these countries have reduced their

dependence on oil, since the amount of oil needed to generate US$1 of their GDP has fallen by more than half since 1970. It also has a more diversified base than oil exporters, as well as increased energy resources, particularly renewable sources of energy. Some countries have also resorted to the establishment of strategic oil reserves and arrangements for the coordination of supplies, as well as developing forward contract markets to mitigate the impact of oil shortages on prices. These improvements indicate that the impact of conflict escalation may be less severe than before.

The report stated that policymakers should remain alert and cautious, as some commodities, particularly gold, indicate caution about expectations. Its prices have risen by (8%) since the beginning of the conflict. Gold prices are uniquely linked to geopolitical concerns, rising in periods of conflict and uncertainty, often indicating a decline in investor confidence.

The escalation of the conflict would lead developing countries' policymakers to take the necessary precautions or steps to deal with the potential increase in general inflation. Given the risks of worsening food insecurity, governments should avoid trade restrictions such as the ban imposed on the export of food and fertilizers, which often exacerbate price volatility and increase food insecurity. When addressing high oil and food prices, they must also refrain from imposing or subsidizing price controls. A better option for governments is to upgrade social security networks, diversify food sources and increase the efficiency of food production and trade. All countries can enhance long-term energy security by accelerating the shift to renewable energy sources to mitigate the effects of oil price shocks.

Summary:

1. The report assumed the continuation of oil prices and food commodity prices for the next year to be close to that of Q4 of this year, but an escalation in the war between Palestine and the Zionist entity may cause an escalation in the Middle East that will affect oil prices. Therefore, three scenarios have been developed for future oil prices:

a. A rise of (3%-13%) as the price range will be US$ (93-102) per barrel.

b. A rise of (21%-35%) as the price range will be US$ (109-121) per barrel.

c. A rise of (56%-75%); the highest expectation, as the price range will be US$ (140-157) per barrel.

2. A severe shock of oil prices will bring higher inflation rates of food prices, that are already high in developing countries. If an escalation occurred in the Middle East, it would increase food insecurity worldwide.
3. The price of gold rose by (8%) since the beginning of the conflict, due to fears of conflict escalation between Palestine and Israel, as investors' confidence have declined.
4. It is necessary to take the required precautions by policymakers in the developing countries to deal with the potential increase of general inflation, such as avoiding trade restrictions on the export of food and fertilizers that often exacerbate price volatility and increase food insecurity. In addition to diversifying food sources and increasing efficiency of food production and trade. It is necessary to enhance energy security in the long term by accelerating the shift to renewable energy sources to mitigate the effects of oil price shocks.

   The report indicated that the relationship between wars, political crises and commodity prices depends on the degree to which oil prices are affected and correspond to them with a direct correlation. The more oil prices are affected by wars and conflicts, the more commodity prices rise depending on the following:

a. The current conflict between Palestine and the Zionist entity has remained in Gaza City and has not expand strongly to the rest of Palestine, such as the West Bank, although a month has passed since the conflict began.

b. Arab oil-exporting governments' position is closer to neutral and didn't exceed some statements, it is not expected to evolve to the level of boycott or direct support for the Palestinian resistance.

c. The United States Government's policy since the outset of the conflict to the present time could be considered unwilling to increase the scope of the ongoing conflict and seek to avert a new global economic crisis, especially as the Russian Ukrainian war persists.

Recommendations:

1. The first scenario (limited disruption) can be adopted as the closest to reality by the above points with the probability that the price of

oil barrel will rise to a limit of US$ (102), due to the possibility of escalation from Hezbollah to the war that keeps the likelihood of expanding the war.

2. It is preferable that concerned parties conclude long-term food purchase deals for a period of six months to one year as a precautionary policy to counter rising commodity prices, if any, as future food commodity prices cannot be accurately estimated.
3. Follow-up on the basic variables related to commodity markets and their reflection on the most important variables associated with monetary policy, including the value of the dollar currency and the reflection of that value on oil prices and Central Bank's reserves. The report indicates that oil prices changed between US$ (80-90) as an average for 2024 with a slower pace of growth.
4. According to the follow-up of the report's scenarios, there is a direct correlation between oil prices and the conflict scale due to the decline of global oil supply.

"A Diagnostic Study of the Iraqi Economy (2019-Q2 2024)"

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Introduction:

Most countries in the world have experienced crises that have affected their economies. As a result, they have focused on identifying economic vulnerabilities and monitoring them to avoid economic shocks and attempt to correct the course of the economy. The exposure of any economy to shocks stems from inherent economic characteristics, including high degrees of economic openness, export concentration, and heavy reliance on imports.

The process of diagnosing the macroeconomic is carried out by measuring and monitoring the vital indicators of the economy and their fluctuations, then assessing the state of the economy and measuring economic performance, to map out the risks and vulnerabilities facing the economy.

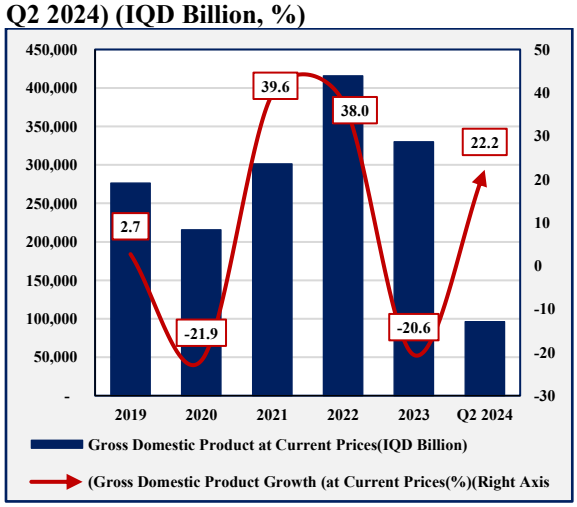
Countries with small domestic markets often resort to exports, while countries with natural resources rely on imports. Trade openness can be a source of strength, as it indicates the country's successful participation in international markets. However, this does not prevent exposure to shocks beyond its control. For example, the Russian-Ukrainian crisis led to increased inflation rates for a number of countries worldwide, which led monetary authorities to adopt a tightening policy that affected the vital economic variables.

Regarding the Iraqi economy, the studies have shown that it suffers from the economic exposure and the heavy reliance on a specific resource for the public revenues. While dependence on the resource can constitute strengths for the economy if the surpluses are invested in improving the overall economic trajectory. The studies have also shown Iraq's impact on global economic and political events, which created shocks to the Iraqi economy, such as the oil price shock during the period (2014-2017), the COVID-19 pandemic, and the Russian-Ukrainian crisis.

Risks and vulnerabilities in the economy can be identified based on several years, with improvements or declines in the state of the economy being monitored for subsequent years. This report will address the variables of the four sectors to monitor the state of the economy.

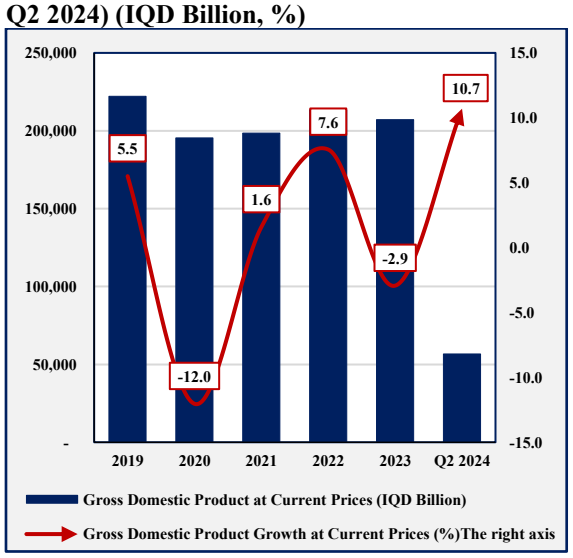
Real Sector:

Figure (1) Gross Domestic Product at Current Prices and its Growth Rate for the Period (2019 - Q2 2024) (IQD Billion, %)



The Gross Domestic Product (GDP) at current prices grew in the period 2019-2022, except for 2020, which declined by (21.9%) due to the COVID-19 pandemic. The output declined in 2023 due to a decrease in crude oil production and prices, while it increased by (22.2%) in the second quarter of 2024 compared to the same quarter of 2023. See Figure (1).

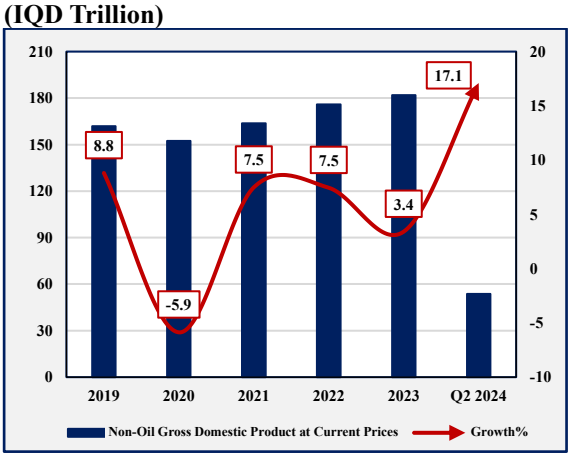
Figure (2) Gross Domestic Product at Constant Prices and its Growth Rate for the Period (2019 - Q2 2024) (IQD Billion, %)



The GDP at the constant prices grew in the period 2019-2022, except for 2020, which decreased by (12%) due to the COVID-19 pandemic and 2023 due to a decline in crude oil production. The output growth also decreased in the second quarter of 2024 by (10.7%)

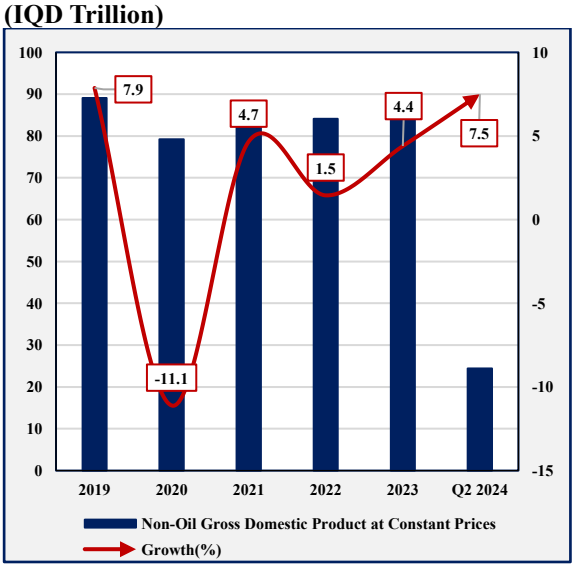
compared to the same quarter of 2023. See Figure (2).

Figure (3) Non-Oil Gross Domestic Product at Current Prices for the Period (2019 - Q2 2024) (IQD Trillion)



The non-oil GDP at current prices grew at fluctuating rates in the period (2019-2023), not exceeding (9%), except for 2020, which recorded a decrease of (5.9%) due to the COVID-19 pandemic. It also recorded a growth rate of (17.1%) in the second quarter of 2024 compared to the same quarter of 2023. See Figure (3). The non-oil output contributed to the output growth by (44.7%) for the second quarter of 2024.

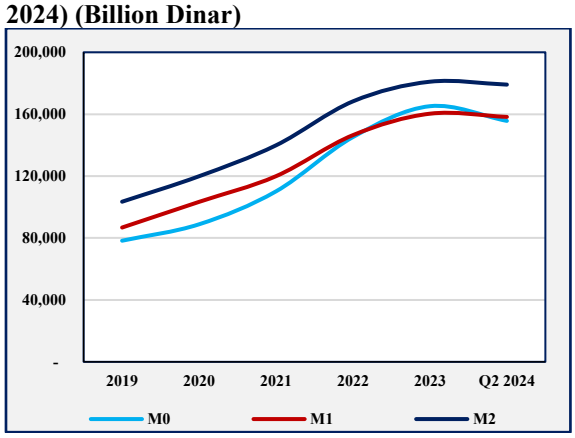
Figure (4) Non-Oil Gross Domestic Product at Constant Prices for the Period (2019 - Q2 2024) (IQD Trillion)



The non-oil GDP at constant prices grew at fluctuating rates in the period (2019-2023), not reaching (8%), except for 2020, which recorded a decrease of (11.1%) due to the COVID-19 pandemic. It also recorded a growth rate of (7.5%) in the second quarter of 2024 compared to the same quarter of 2023. See Figure (4). The non-oil output contributed to the output growth by (30.9%) for the second quarter of 2024.

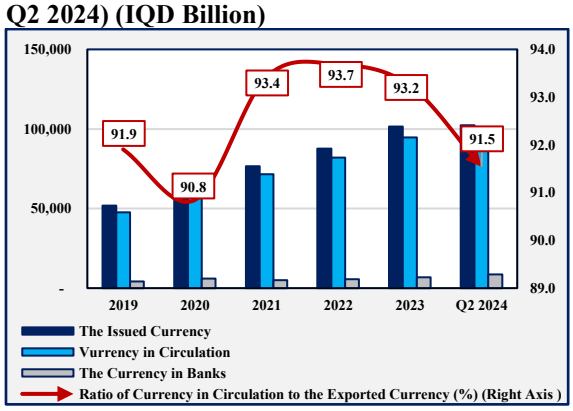
Monetary Sector:

Figure (5) M0, M1, M2 for the Period (2019 - Q2 2024) (Billion Dinar)



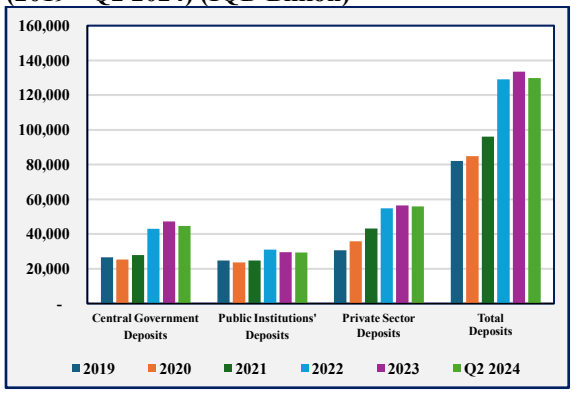
The above variables recorded significant growth in the period (2019-Q2 2024), but it is noted that in 2023, the M0 curve became higher than the M1 curve, due to the rise in excess reserves of banks, before returning to its nature in the second quarter of 2024. See Figure (5).

Figure (6) Currency Issued for the Period (2019 - Q2 2024) (IQD Billion)



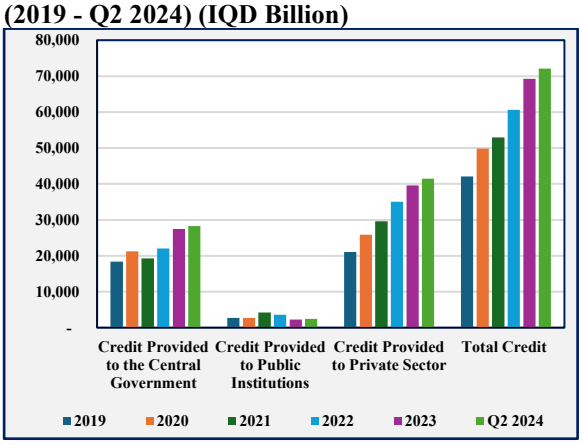
The currency issued grew at high rates in the period (2019-Q2 2024), particularly in 2020, because of the Central Bank's trend towards an expansionary policy due to the COVID-19 pandemic. The currency issued grew by (97.4%) in the period (2019 – Q2 2024).

Figure (7) Total Deposits by Entity for the Period (2019 - Q2 2024) (IQD Billion)



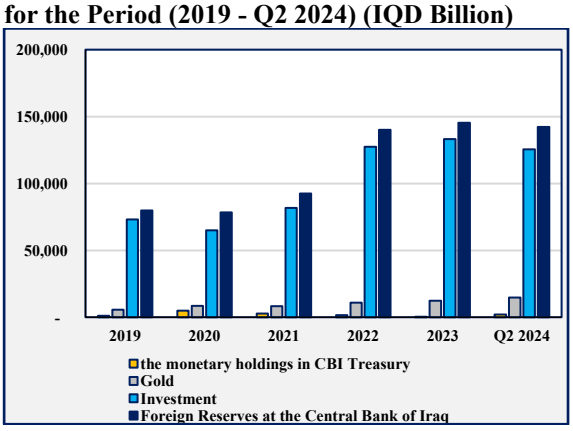
Total deposits showed an upward trend in the period 2019-2023 after central government deposits and private sector deposits recorded greater growth than public institutions deposits, thus reducing their contribution in favor of central government deposits and private sector deposits. In contrast, total deposits decreased in the second quarter of 2024 compared to 2023, due to a decrease in deposits from all three entities (central government, public institutions, private sector). See Figure (7).

Figure (8) Total Credit by Entity for the Period (2019 - Q2 2024) (IQD Billion)



Total credit showed an upward trend in the period (2019-Q2 2024) after credit provided to the central government and credit provided to the private sector recorded growth exceeding the growth of credit provided to public institutions, thus reducing their contribution percentage. See Figure (8). With the rise in total credit and the decrease in total deposits, this indicates an increase in the credit-to-deposit ratio.

Figure (9) Foreign Reserves and its Components for the Period (2019 - Q2 2024) (IQD Billion)



Foreign reserves accumulated at high and unprecedented levels in the period (2022–2024 Q2) due to the rise in oil revenues, but they decreased in the second quarter of 2024 due to the monetary sterilization process. See Figure (9).

Figure (10) Exchange Rate and Inflation Rate for the Period (2019 - Q2 2024)

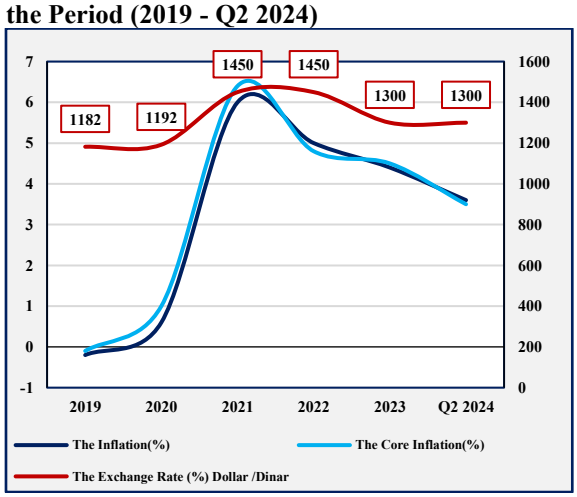


Figure (10) shows the relationship between the exchange rate and the inflation rate, where the rise and fall of the exchange rate affected inflation rates in the period (2019-Q2 2024), as Iraq covers its domestic needs through imported goods. It is also clear that the annual inflation rate decreased from (6%) in 2021 to (3.6%) in June 2024.

Figure (11) Policy Rate and Interest Rates on Deposits and Loans in Dinars for the Period (2019 - 2023)

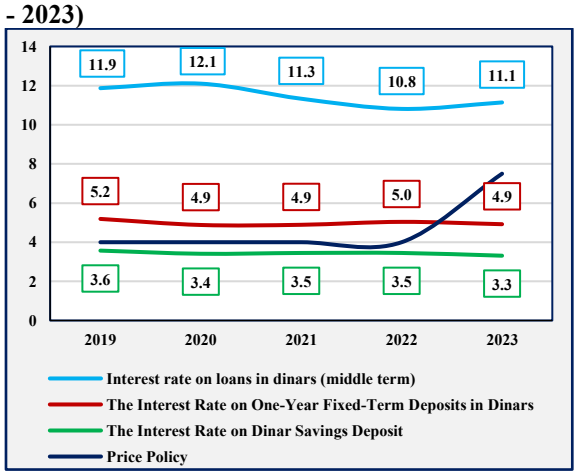
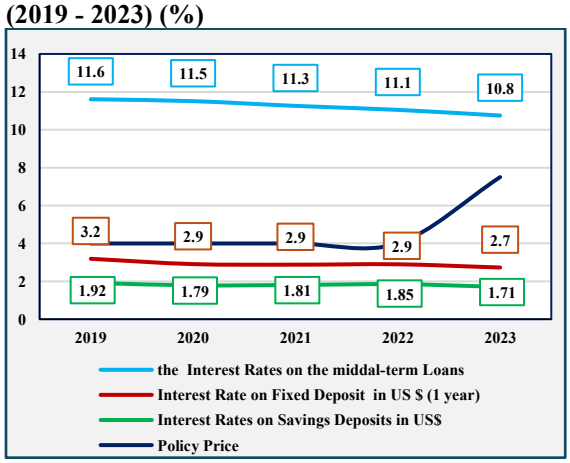
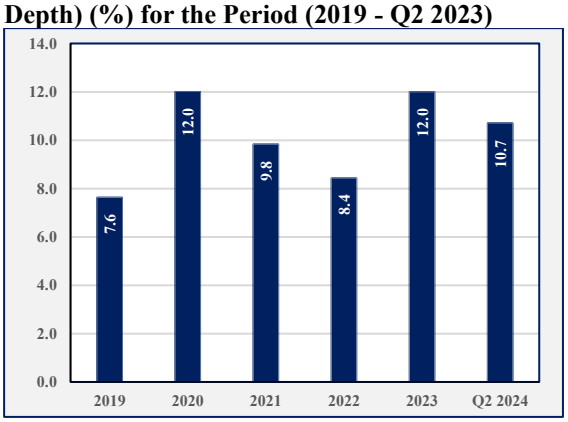


Figure (12) Policy Rate and Interest Rates on Deposits and Loans in Dollars for the Period (2019 - 2023) (%)



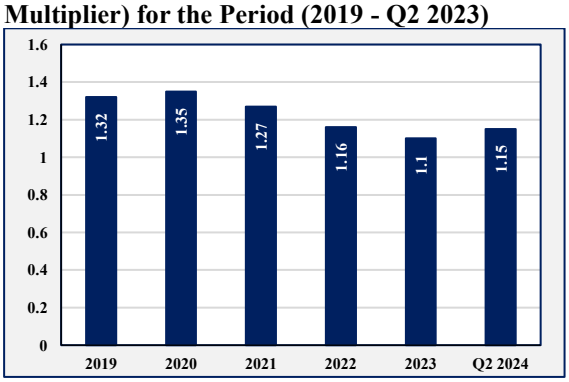
Interest rates on deposits and loans in dinars and dollars recorded stability in the period (2019-2023) despite the Central Bank raising the policy rate from (4%) to (7.5%) in June 2023.

Figure (13) Private Credit to GDP (Banking Depth) (%) for the Period (2019 - Q2 2023)



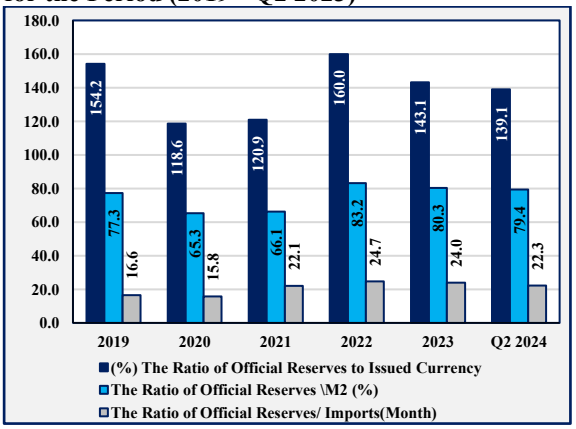
Banking depth recorded a decline in 2021 and 2022, before improving in 2023 and the second quarter of 2024, reflecting an improvement in the contribution of private credit to output. See Figure (13).

Figure (14) Money Supply M2 to M0 (Money Multiplier) for the Period (2019 - Q2 2023)



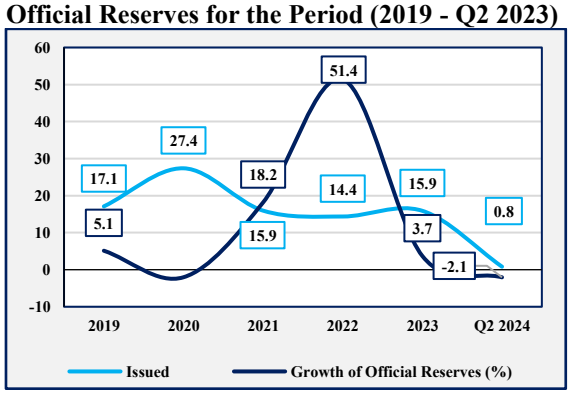
It is noted from Figure (14) that the money multiplier did not reach (1.5), which indicates a low ability of banks to create money, as a number of variables affect the money multiplier, including interest rates and required reserves.

Figure (15) Official Reserve Adequacy Indicators for the Period (2019 - Q2 2023)



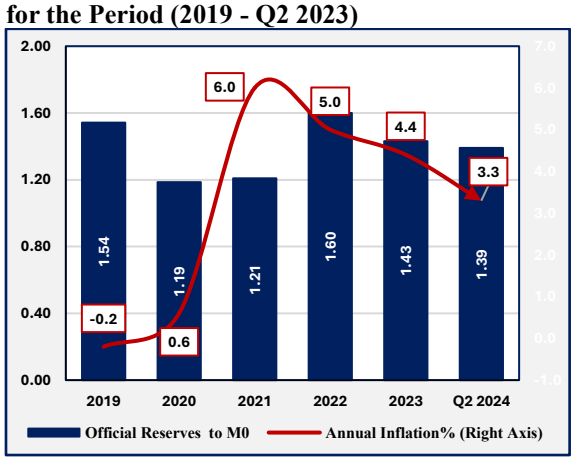
Official reserve adequacy indicators exceeded the specified criteria in the period (2019-2024 Q2), where they exceeded (100%) for reserves to currency issued and (20%) for official reserves to broad money supply (M2). As for import months, they exceeded the specified criterion of (6) months, but the lowest these indicators reached was in 2020, which amounted to (15.8) months, due to the decrease in foreign reserves. See Figure (15).

Figure (16) Growth of Issued Currency and Official Reserves for the Period (2019 - Q2 2023)



The issued currency recorded a growth of (0.8%) in the second quarter of 2024 compared to 2023, while official reserves declined by (2.1%) for the second quarter of 2024 compared to 2023. Figure (16) shows the inverse relationship between the growth of issued currency and the growth of official reserves, which is due to the rise in domestic debt (rise in issued currency) as a result of the general budget deficit, and since reserves are affected by oil revenues, the decrease in reserves is offset by an increase in issued currency.

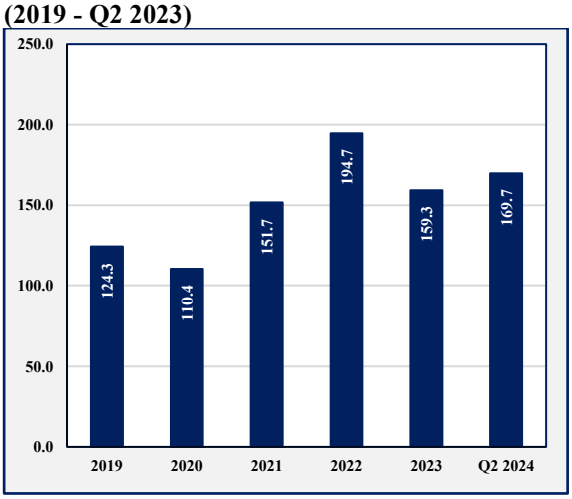
Figure (17) Official Reserves to M0 (Degree of Monetary Sterilization) and Annual Inflation (%) for the Period (2019 - Q2 2023)



The degree of sterilization in Iraq increased in 2019, indicating the activity of the sterilization process, but it decreased in 2020-2021 due to the decrease in reserves resulting from the double crisis (COVID-19 pandemic,

decline in global oil prices), before recovering in 2022-2023. With the recovery of the degree of sterilization in the period (2021-2024 Q2), we notice a decrease in the inflation rate. See Figure (17).

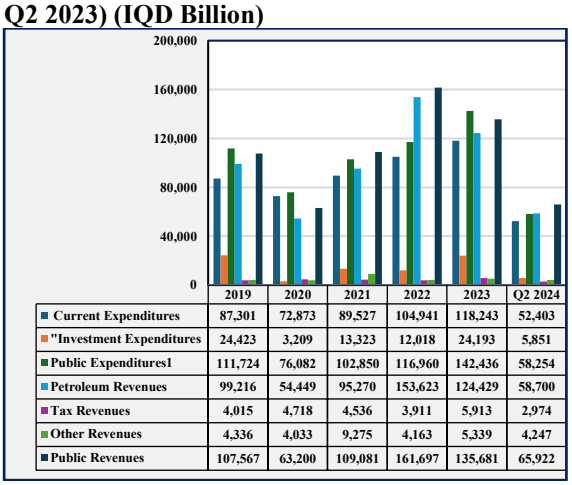
Figure (18) GDP Deflator (%) for the Period (2019 - Q2 2023)



The implicit deflator declined in 2020 due to the decline in the inflation rate, while it rose in 2021-2022 after the rise in inflation rates in Iraq, before declining again in 2023.

Public Finance Sector:

Figure (19) General Budget for the Period (2019 - Q2 2023) (IQD Billion)



	2019	2020	2021	2022	2023	Q2 2024
Current Expenditures	87,301	72,873	89,527	104,941	118,243	52,403
"Investment Expenditures	24,423	3,209	13,323	12,018	24,193	5,851
Public Expenditures1	111,724	76,082	102,850	116,960	142,436	58,254
Petroleum Revenues	99,216	54,449	95,270	153,623	124,429	58,700
Tax Revenues	4,015	4,718	4,536	3,911	5,913	2,974
Other Revenues	4,336	4,033	9,275	4,163	5,339	4,247
Public Revenues	107,567	63,200	109,081	161,697	135,681	65,922

Figure (19-a) Public Expenditures for the Period (2019 - Q2 2023) (IQD Billion)

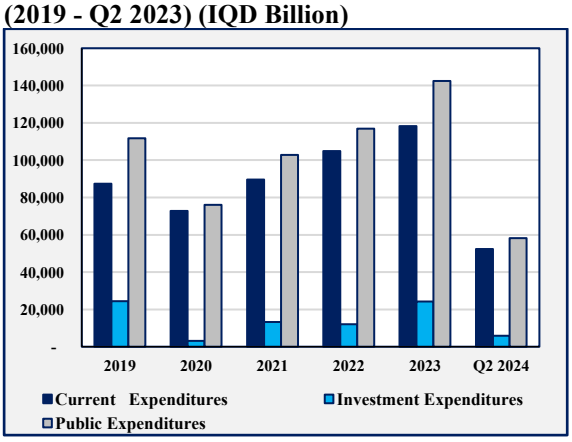


Figure (19-b) Public Revenues for the Period (2019 - Q2 2023) (IQD Billion)

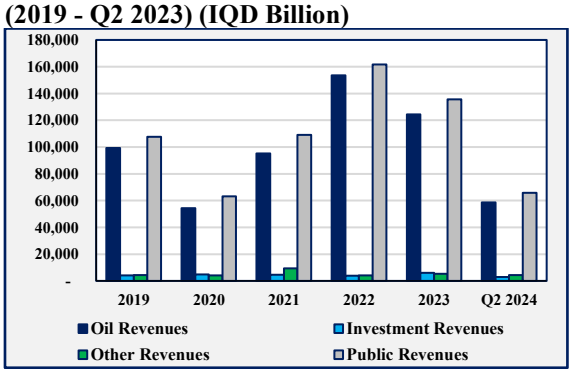
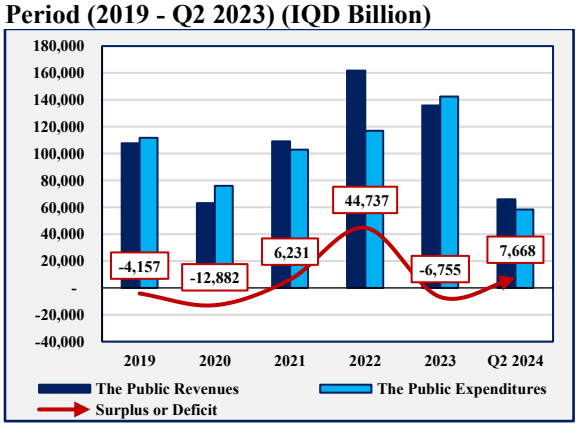
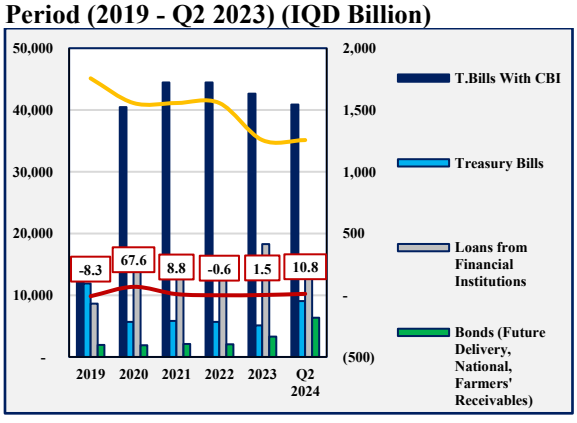


Figure (19-c) Budget Surplus or Deficit for the Period (2019 - Q2 2023) (IQD Billion)



Public finances fluctuated in the period 2019-2023 on both sides of public revenues and public expenditures due to the heavy reliance on oil revenues, which are closely linked to global events. Oil revenues constitute more than (95%) of total revenues, and therefore any shock to oil prices is directly reflected in public expenditures, especially investment expenditures. The general budget recorded the highest public revenues amounting to IQD (161,697) billion for 2022, due to the rise in oil prices resulting from the Russian-Ukrainian war. The general budget for 2021 recorded the largest surplus estimated at IQD (6,231) billion, while 2020 witnessed the largest deficit, estimated at IQD (12,883) billion.

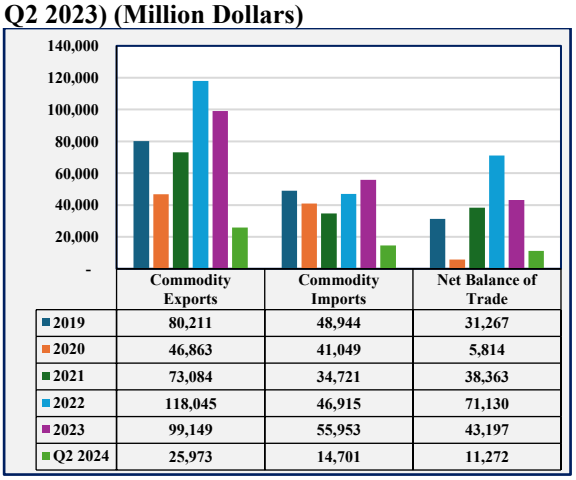
Figure (20) Development of Domestic Debt for the Period (2019 - Q2 2023) (IQD Billion)



Domestic debt fluctuated in the period (2019-2024 Q2), where it decreased in 2019 by (8.3%) after recovery from the double crisis in the period (2014-2017), while it rose again by (67.6%) in 2020 due to the COVID-19 pandemic. The year 2023 witnessed an increase of (1.5%), due to the appearance of government bank loans in the structure of domestic debt amounting to IQD (6) trillion, while domestic debt increased in the second quarter of 2024 compared to 2023, due to the rise in government expenditures.

External Sector:

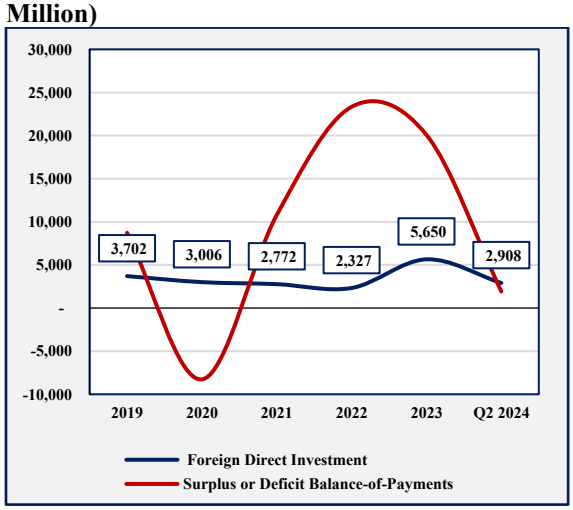
Figure (21) Trade Balance for the Period (2019 - Q2 2023) (Million Dollars)



	Commodity Exports	Commodity Imports	Net Balance of Trade
2019	80,211	48,944	31,267
2020	46,863	41,049	5,814
2021	73,084	34,721	38,363
2022	118,045	46,915	71,130
2023	99,149	55,953	43,197
Q2 2024	25,973	14,701	11,272

The net trade balance recorded its largest surplus in 2022, amounting to USD (71.1) billion, due to the significant growth in exports at the expense of imports. The net trade balance also achieved a surplus of IQD (11.3) billion. See Figure (21).

Figure (22) Balance of Payments and Direct Investment for the Period (2019 - Q2 2023) (USD Million)



The balance of payments recorded a surplus in the period (2019- 2024 Q2) except for 2020, which recorded a deficit of IQD (8.3) billion.

“ Changes in Oil Revenues and Their Impact on Monetary Policy Variables ”

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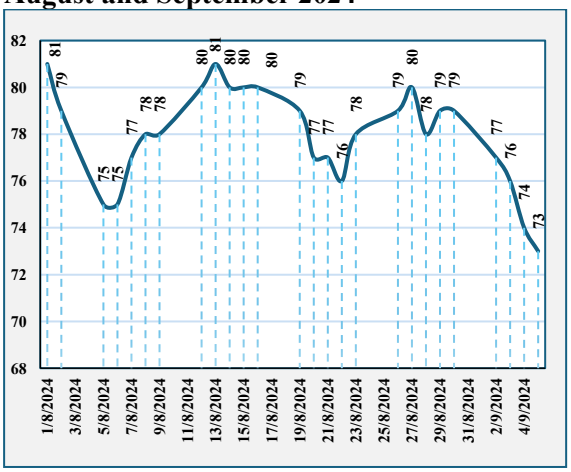
First: Recent Developments in Global Oil Prices:

The nature of the global oil market is very complex, as it is subject to several factors of the supply and demand forces interaction, in addition to OPEC decisions, US inventory growth, geopolitical developments, and global economic growth. Global oil prices witnessed the lowest decline in 2024 according to the OPEC basket oil price, which decreased by (8.4%), recording USD (73.6) per barrel on September 5, compared to USD (80) per barrel during January 2024. In addition to a decline in other crude oil to the lowest level in 2024, as US crude oil recorded USD (69.2) per barrel.

Figure (1) OPEC Basket Oil Price During August and September 2024



https://www.opec.org/opec_web/en/data_graphs/40.htm

This Decline is Attributed to Several Reasons Besides the Supply and Demand, The Most Important of Which are the Following:

1. Oversupply concerns of a due to the potential increase in OPEC+ production by (180) thousand barrels in October 2024, in addition to the rapid restoration of Libyan production, which was reduced by (700) thousand barrels.
2. Weakness of global economic activity, so the problem lies on the demand side, especially the economies in Europe. As for China, the data showed a stumbling block in the engines of economic growth with shrinking in factories activity for the fourth month, and a decline in the value of new home sales. While the manufacturing activity of United States showed a contraction for the fifth consecutive month.
3. Global growth rates are expected to be stable between (3.2%,3.3%) in 2024. The expectations indicate a slowdown in growth in United States to (1.9%) in 2025, with a growth expected for the Eurozone by (1.5%) during 2025. Whereas expectations in 2025 indicate a slowdown in growth of China to (4.5%).

Second: Expected Scenarios for Oil Revenues in Iraq for the Remainder of 2024: Public Expenses and Revenues According to the Planning Budget:

It is noted from Table (1) that the public budget was prepared with a financial deficit estimated at IQD (64.2) trillion, noting that the amount of oil approved for export is (3.5) million barrels per day. It is also worth noting that according to the planning budget, the deficit will be covered as follows[1]:

1. Deducting treasury drafts through the Central Bank of Iraq (CBI) by IQD (20) trillion.
2. An increase in the selling prices of exported crude oil by IQD (17) trillion.
3. National bonds amounting to IQD (5) trillion.
4. discounted drafts from the legal reserve of government banks amounting to IQD (5) trillion.
5. Loan of government banks (al-Rasheed, al-Rafidain, Trade Bank of Iraq) amounting to IQD (3) trillion.
6. Foreign loans including the Chinese agreement amounting to IQD (12.4) trillion.
7. Cash balance carried forward amounting to IQD (1.6) trillion.

(1) Report of the Federal Public Budget Law for 2024.

This process will increase the issued currency, which puts pressure on the foreign reserves within CBI.

Table (1) Planning Budget for 2024 [2]	
Planned Oil Barrel Price (USD)	70
Quantity of oil Exported (Million Barrels)	3,500,0000
Oil Revenues (IQD Million)	120,500,000
Non-oil Revenues (IQD Million)	27.300.000
Public Revenues (IQD Million)	147.800.000
Current Expenses (IQD Million)	157,000,000
Investment Expenses (IQD Million)	55,000,000
Public Expenses (IQD Million)	212.000.000
Budget Balance (IQD Million)	-64.200.000

Based on the Above-Mentioned Details, the Following Scenarios can be Assumed:

1) First Scenario (Oil Price at USD 70) for Iraqi Oil:

Assuming an oil price scenario of USD (70) per barrel with a constant quantity of exported oil for (3.3) million barrels per day, assuming that non-oil revenues are fully achieved, and (75%) of total public expenses are implemented.

According to scenario (1), the production of exported oil was reduced by (200) thousand barrels per day in accordance with OPEC's decrease of Iraqi oil production. Therefore, it is expected that budget expenses will not be fully implemented with the decrease in oil revenues. Accordingly, the assumption was that expenses would be implemented at a rate of (75%) of the planned public budget, and this will lead to a financial deficit estimated at IQD (27.9) trillion, which will be covered through internal debt.

Table (2) Scenario (1) Public Revenues, Public Expenses, and Surplus - Deficit (IQD Million)			
Date	**Public Revenues**	**Public Expenses**	**Surplus-Deficit**
January 2024	11,542,084	8,791,176	2,750,908
February 2024	20,465,480	16,562,552	3,902,928
March 2024	31,222,753	25,077,042	6,145,711
April 2024	42,725,409	37,143,371	5,582,038
May 2024	54,703,849	47,827,406	6,876,443
June 2024	65,921,602	58,253,981	7,667,621
July 2024	77,475,502	73,848,906	3,626,596
August 2024	86,671,141	84,067,037	2,604,104
September 2024	96,621,993	97,691,212	-1,069,219
October 2024	107,328,058	114,721,431	-7,393,373
November 2024	118,789,337	135,157,694	-16,368,357
December 2024	131,005,828	159,000,000	-27,994,172

☐ Expected Values.

2) Second Scenario (5% Decrease in Oil Price) for Iraqi Oil:

Assuming an oil price scenario of USD (66.5) per barrel (5% decrease) with a stable quantity of exported oil (3.3) million barrels per day, with assuming that non-oil revenues are fully achieved, and (75%) of total public expenses are implemented.

The same factors presented in the first scenario were assumed with a (5%) decrease in oil price, which resulted in a decrease in public revenues obtained from oil revenues. This will create a financial deficit estimated at IQD (29.7) trillion, which will affect the foreign reserves of CBI and the issued currency.

Table (3) Scenario (2) Public Revenues, Public Expenses and Surplus - Deficit (IQD Million)			
Date	**Public Revenues**	**Public Expenses**	**Surplus - Deficit**
January 2024	11,542,084	8,791,176	2,750,908
February 2024	20,465,480	16,562,552	3,902,928
March 2024	31,222,753	25,077,042	6,145,711
April 2024	42,725,409	37,143,371	5,582,038
May 2024	54,703,849	47,827,406	6,876,443
June 2024	65,921,602	58,253,981	7,667,621
July 2024	77,475,502	73,848,906	3,626,596

(2) Report of the Federal Public Budget Law for 2024.

August 2024	86,324,641	84,067,037	2,257,604
September 2024	95,928,993	97,691,212	-1,762,219
October 2024	106,288,558	114,721,431	-8,432,873
November 2024	117,403,337	135,157,694	-17,754,357
December 2024	129,273,328	159,000,000	-29,726,672

☐ Expected Values.

3) Third Scenario (10% Decrease in Oil Price) for Iraqi Oil:

Assuming an oil price scenario of USD (63) per barrel (10% decrease) with the quantity of oil exported remaining constant at (3.3) million barrels per day, assuming that non-oil revenues are fully achieved, and (75%) of total public expenses are implemented.

The same assumptions followed in the previous scenarios remain constant and there is a (10%) decrease in oil prices, which will result in a decrease in public revenues. This situation will lead to a financial deficit estimated at IQD (31.4) trillion.

Table (4) Scenario (3) Public Revenues, Public Expenses and Surplus - Deficit (IQD Million)

Date	Public Revenues	Public Expenses	Surplus - Deficit
January 2024	11,542,084	8,791,176	2,750,908
February 2024	20,465,480	16,562,552	3,902,928
March 2024	31,222,753	25,077,042	6,145,711
April 2024	42,725,409	37,143,371	5,582,038
May 2024	54,703,849	47,827,406	6,876,443
June 2024	65,921,602	58,253,981	7,667,621
July 2024	77,475,502	73,848,906	3,626,596
August 2024	85,978,141	84,067,037	1,911,104
September 2024	95,235,993	97,691,212	-2,455,219
October 2024	105,249,058	114,721,431	-9,472,373
November 2024	116,017,337	135,157,694	-19,140,357
December 2024	127,540,828	159,000,000	-31,459,172

☐ Expected Values.

4) Fourth Scenario (15% Decrease in Oil Price) for Iraqi Oil:

Assuming an oil price scenario of USD (59.5) per barrel (15% decrease) with a constant quantity of oil exported at (3.3) million barrels per day, assuming that non-oil revenues are fully achieved, and (75%) of total public expenses are implemented.

It was assumed that there will be a decrease in the oil price by (15%), which will result in a significant decrease in public revenues leading to a financial deficit estimated at IQD (33.1) trillion. This decrease is greater than the decrease in the previous scenarios, which will affect CBI's policies and objectives represented by maintaining monetary and financial stability.

Table (5) Scenario (4) Public Revenues, Public Expenses and Surplus - Deficit (IQD Million)

Date	Public Revenues	Public Expenses	Surplus - Deficit
January 2024	11,542,084	8,791,176	2,750,908
February 2024	20,465,480	16,562,552	3,902,928
March 2024	31,222,753	25,077,042	6,145,711
April 2024	42,725,409	37,143,371	5,582,038
May 2024	54,703,849	47,827,406	6,876,443
June 2024	65,921,602	58,253,981	7,667,621
July 2024	77,475,502	73,848,906	3,626,596
August 2024	85,631,641	84,067,037	1,564,604
September 2024	94,542,993	97,691,212	-3,148,219
October 2024	104,209,558	114,721,431	-10,511,873
November 2024	114,631,337	135,157,694	-20,526,357
December 2024	125,808,328	159,000,000	-33,191,672

☐ Expected Values.

5) Stable Scenario (Oil Price at USD 74) for Iraqi Oil:

This scenario assumes a stable oil price estimated at USD (74) per barrel with a constant quantity of oil exported (3.3) million barrels per day, with assuming the full attainment of non-oil revenues, which include (KRG's share, revenues of the Ministry of Electricity's fees collection, revenues of oil derivatives), with the implementation of (75%) of total public expenses (assuming that the fiscal policy will keep pace with the economic cycle).

It was also assumed that there would be an increase in the oil price over the price set in the budget. The increase amounted to about USD (4), which would result in a slight increase in public revenues with a financial deficit estimated at IQD (26) trillion.

Table (6) Scenario (5) Public Revenues, Public Expenses and Surplus - Deficit (IQD Million)

Date	Public Revenues	Public Expenses	Surplus - Deficit
January 2024	11,542,084	8,791,176	2,750,908
February 2024	20,465,480	16,562,552	3,902,928
March 2024	31,222,753	25,077,042	6,145,711
April 2024	42,725,409	37,143,371	5,582,038
May 2024	54,703,849	47,827,406	6,876,443
June 2024	65,921,602	58,253,981	7,667,621
July 2024	77,475,502	73,848,906	3,626,596
August 2024	87,067,141	84,067,037	3,000,104
September 2024	97,413,993	97,691,212	-277,219
October 2024	108,516,058	114,721,431	-6,205,373
November 2024	120,373,337	135,157,694	-14,784,357
December 2024	132,985,828	159,000,000	-26,014,172

☐ Expected Values.

6) High Scenario (Oil Price at USD 78) for Iraqi Oil:

This scenario assumes an increase in the oil price estimated at USD (78) per barrel with a constant quantity of oil exported of (3.3) million barrels per day, assuming the full achievement of non-oil revenues, which include (KRG's share, revenues from the Ministry of Electricity's fees collection, revenues of oil derivatives), with implementing (75%) of total public expenses (assuming that the fiscal policy will keep pace with the economic cycle).

It was assumed that there is an increase in the oil price over that one set in the budget, as the increase amounted to about USD (8), which will result in an increase in public revenues with a financial deficit estimated at IQD (24) trillion.

Table (7) Scenario (6) Public Revenues, Public Expenses and Surplus - Deficit (IQD Million)

Date	Public Revenues	Public Expenses	Surplus - Deficit
January 2024	11,542,084	8,791,176	2,750,908
February 2024	20,465,480	16,562,552	3,902,928
March 2024	31,222,753	25,077,042	6,145,711
April 2024	42,725,409	37,143,371	5,582,038
May 2024	54,703,849	47,827,406	6,876,443
June 2024	65,921,602	58,253,981	7,667,621
July 2024	77,475,502	73,848,906	3,626,596
August 2024	87,463,141	84,067,037	3,396,104
September 2024	98,205,993	97,691,212	514,781
October 2024	109,704,058	114,721,431	-5,017,373
November 2024	121,957,337	135,157,694	-13,200,357
December 2024	134,965,828	159,000,000	-24,034,172

☐ Expected Values.

Third: Changes in Domestic Debt within Expected Scenarios:

Assuming different scenarios for a decline in oil prices will lead to an increase in the financial deficit, which will lead to an increase in the domestic debt. Therefore, according to the first scenario, the total domestic debt is expected to reach IQD (105.8) trillion. This rise in domestic debt will increase with a surge in the severity of the scenario. Subsequently the total domestic debt reaches IQD (111.1) trillion in the fourth scenario, which is the most severe scenario. As for the stable scenario, the total domestic debt is expected to reach IQD (103.8) trillion. While the high scenario reveals that the total domestic debt is expected to reach IQD

(101.9) trillion. It was found that the total domestic debt decreased in the stable scenario and the high scenario compared to what was mentioned in the previous scenarios. This increase in the total domestic debt will affect the increase in the issued currency, decrease in official reserves, and increase in the market exchange rate, as will be mentioned later.

Table (8) Estimation of Internal Debt in (IQD) Million						
Date	Domestic Debt without a Decrease in Oil Price	Domestic Debt with a Decrease in Oil Price (5%)	Domestic Debt with a Decrease in Oil Price (10%)	Domestic Debt with a Decrease in Oil Price (%15)	Domestic Debt with an Increase in Oil Price (USD 74)	Domestic Debt with an Increase in Oil Price (USD 78)
January 2024	73,247,247	73,247,247	73,247,247	73,247,247	73,247,247	73,247,247
February 2024	73,747,247	73,747,247	73,747,247	73,747,247	73,747,247	73,747,247
March 2024	73,247,247	73,247,247	73,247,247	73,247,247	73,247,247	73,247,247
April 2024	76,967,083	76,967,083	76,967,083	76,967,083	76,967,083	76,967,083
May 2024	78,184,083	78,184,083	78,184,083	78,184,083	78,184,083	78,184,083
June 2024	78,163,964	78,163,964	78,163,964	78,163,964	78,163,964	78,163,964
July 2024	76,033,815	76,033,815	76,033,815	76,033,815	76,033,815	76,033,815
August 2024	77,883,872	77,883,872	77,883,872	77,883,872	77,883,872	77,883,872
September 2024	78,953,091	79,646,091	80,339,091	81,032,091	78,161,091	77,369,091
October 2024	85,277,245	86,316,745	87,356,245	88,395,745	84,089,245	82,901,245
November 2024	94,252,229	95,638,229	97,024,229	98,410,229	92,668,229	91,084,229
December 2024	105,878,044	107,610,544	109,343,044	111,075,544	103,898,044	101,918,044

☐ Expected Values.

Fourth: Changes in Issued Currency within Expected Scenarios:

After assuming different scenarios for a decline in oil prices, this will lead to a deficit in the public budget according to the severity of the scenario's impact. Therefore, it can be found that within the first scenario, this issue will lead to an increase in the issued currency due to covering the deficit from the domestic debt to reach IQD (107.6) trillion by the end of 2024. As for the second scenario, it will lead to an increase in the issued currency to reach IQD (108.1) trillion during the same period. Through the third scenario, which is more severe than the previous scenarios, it will lead to an increase in the issued currency to reach IQD (109.3) trillion. As for the last scenario that assumes a decrease in oil prices by (15%), which will create an increase in the issued currency to reach IQD (110.2) trillion at the end of 2024. While for the stable scenario, it is expected that the issued currency will reach IQD (107) trillion. Whereas the high scenario expects that the issued currency will reach IQD (106.4) trillion. As shown in the above-mentioned details, the issued currency was decreased in the stable and high scenarios compared to the previous scenarios. An increase in the issued currency will raise the demand for foreign currency, which will lead to a decrease in the value of the national currency and an increase in the market exchange rate.

Table (9) Impact of the Financial Deficit on the Issued Currency (IQD Million)						
Date	Issued Currency without a Decrease in Oil Price	Issued Currency with a Decrease in Oil Price (5%)	Issued Currency with a Decrease in Oil Price (10%)	Issued Currency with a Decrease in Oil Price (%15)	Issued Currency with an Increase in Oil Price (USD 74)	Issued Currency with an Increase in Oil Price (USD 78)
January 2024	101,323,527	101,323,527	101,323,527	101,323,527	101,323,527	101,323,527
February 2024	99,237,507	99,237,507	99,237,507	99,237,507	99,237,507	99,237,507
March 2024	98,333,508	98,333,508	98,333,508	98,333,508	98,333,508	98,333,508
April 2024	99,328,175	99,328,175	99,328,175	99,328,175	99,328,175	99,328,175
May 2024	100,791,930	100,791,930	100,791,930	100,791,930	100,791,930	100,791,930
June 2024	102,311,667	102,311,667	102,311,667	102,311,667	102,311,667	102,311,667

July 2024	104,385,660	104,385,660	104,385,660	104,385,660	104,385,660	104,385,660
August 2024	104,096,436	104,096,436	104,096,436	104,096,436	104,096,436	104,096,436
September 2024	105,118,928	105,465,428	105,811,928	106,158,428	104,722,928	104,326,928
October 2024	106,343,369	106,805,369	106,267,703	107,729,369	105,815,369	105,287,369
November 2024	106,870,382	107,361,257	108,252,753	109,142,738	106,309,382	105,748,382
December 2024	107,618,297	108,138,047	109,357,666	110,277,524	107,024,297	106,430,297

☐ Expected Values.

Fifth: Forecasts for the Official Reserves within Expected Scenarios:

After clarifying the impact of the financial deficit on the issued currency, this deficit will also have an impact on the official reserves of CBI, especially when this deficit is covered through deducting the treasury drafts by CBI. Therefore, the first scenario shows that official reserves are expected to decline to reach IQD (115.9) trillion. This decline in official reserves will continue with the increase in the severity of the scenario. Consequently, the volume of official reserves is expected to reach IQD (110.7) trillion in the last scenario, which is the most severe scenario among the assumed scenarios.

As for the stable scenario, official reserves are expected to reach IQD (117.9) trillion, whereas for the high scenario, official reserves are expected to reach IQD (119.9) trillion.

This decrease in the volume of official reserves may certainly affect the effectiveness of monetary policy in maintaining the general price level on the one hand, as reserves have played the primary role through covering the demand for foreign currency, which is still at positive levels on the other hand.

Table (10) Impact of the Financial Deficit on Official Reserves (IQD million)

Date	Official Reserves without a Decrease in Oil Price	Official Reserves with a Decrease in Oil Price (5%)	Official Reserves with a Decrease in Oil Price (10%)	Official Reserves with a Decrease in Oil Price (%15)	Official Reserves with an Increase in Oil Price (USD 74)	Official Reserves with an Increase in Oil Price (USD 78)
January 2024	140,529,000	140,529,000	140,529,000	140,529,000	140,529,000	140,529,000
February 2024	138,572,000	138,572,000	138,572,000	138,572,000	138,572,000	138,572,000
March 2024	141,693,000	141,693,000	141,693,000	141,693,000	141,693,000	141,693,000
April 2024	142,534,000	142,534,000	142,534,000	142,534,000	142,534,000	142,534,000
May 2024	141,728,000	141,728,000	141,728,000	141,728,000	141,728,000	141,728,000
June 2024	142,274,000	142,274,000	142,274,000	142,274,000	142,274,000	142,274,000
July 2024	144,577,000	144,577,000	144,577,000	144,577,000	144,577,000	144,577,000
August 2024	143,957,000	143,957,000	143,957,000	143,957,000	143,957,000	143,957,000
September 2024	142,887,781	142,194,781	141,501,781	140,808,781	143,679,781	144,471,781
October 2024	136,563,627	135,524,127	134,484,627	133,445,127	137,751,627	138,939,627
November 2024	127,588,643	126,202,643	124,816,643	123,430,643	129,172,643	130,756,643
December 2024	115,962,828	114,230,328	112,497,828	110,765,328	117,942,828	119,922,828

☐ Expected Values.

Sixth: Potential Effects of the Decline in Oil Prices on the Market Exchange Rate:

The rise in the issued currency and the decline in official reserves because of the previously assumed scenarios will increase the market exchange rate, which will reach IQD (1540) per dollar according to the first scenario at the end of 2024. This rise will continue with the increase in the severity of the scenarios that cause an increase in the financial deficit, and the resulting negative effects. Therefore, it is expected that the exchange rate will reach IQD (1605) per dollar for the same period.

As for the stable scenario, it is expected that the exchange rate will reach IQD (1516) per dollar. While the exchange rate in the high scenario will reach IQD (1509) per dollar.

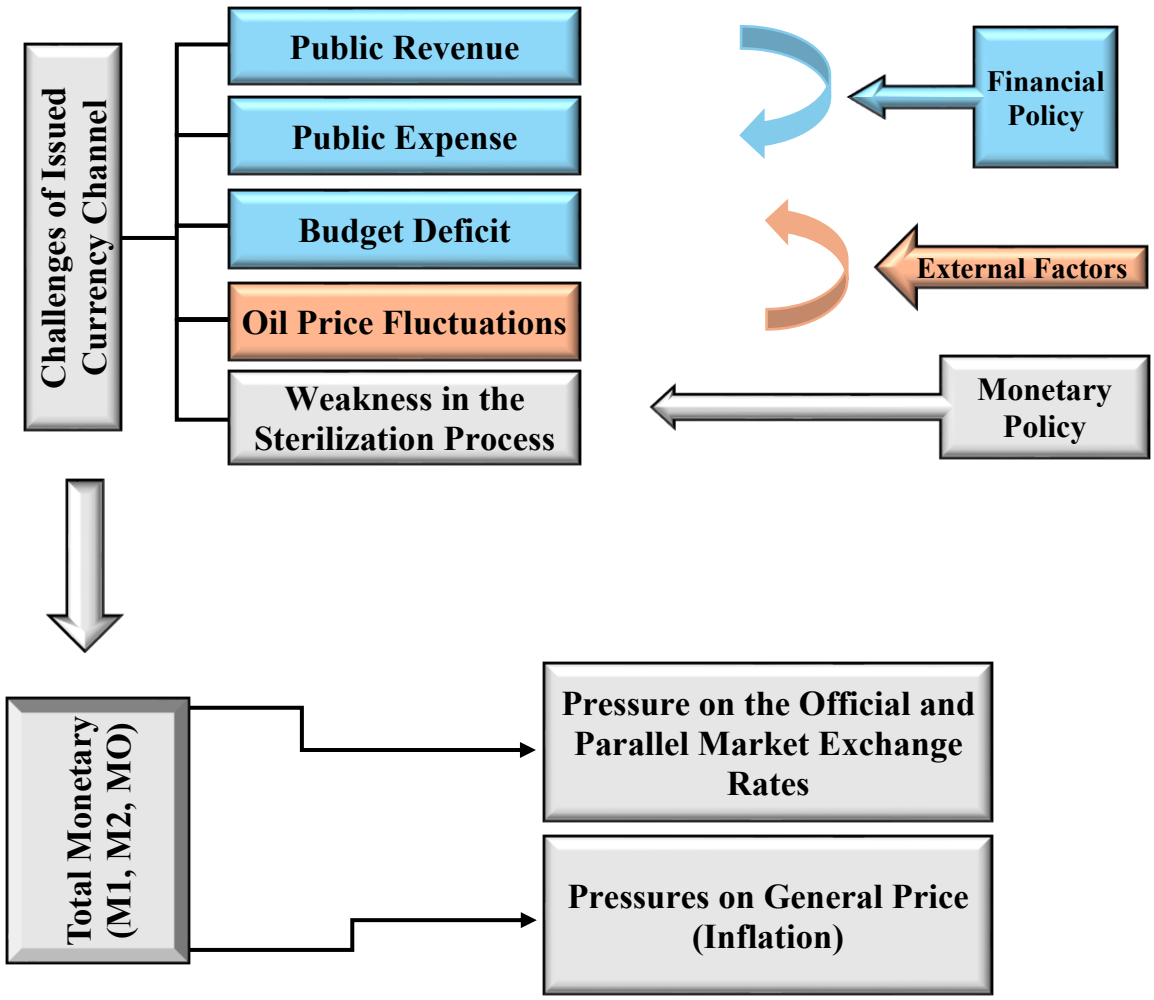
Table (11) Estimation of Market Exchange Rate (IQD)						
Date	Market Exchange Rate without a Decrease in Oil Price	Market Exchange Rate with a Decrease in Oil Price (5%)	Market Exchange Rate with a Decrease in Oil Price (10%)	Market Exchange Rate with a Decrease in Oil Price (%15)	Market Exchange Rate with an Increase in Oil Price (USD 74)	Market Exchange Rate with An Increase in Oil Price (USD 78)
January 2024	1,527	1,527	1,527	1,527	1,527	1,527
February 2024	1,522	1,522	1,522	1,522	1,522	1,522
March 2024	1,494	1,494	1,494	1,494	1,494	1,494
April 2024	1,476	1,476	1,476	1,476	1,476	1,476
May 2024	1,464	1,464	1,464	1,464	1,464	1,464
June 2024	1,469	1,469	1,469	1,469	1,469	1,469
July 2024	1,494	1,494	1,494	1,494	1,494	1,494
August 2024	1,498	1,498	1,498	1,498	1,498	1,498
September 2024	1,515	1,537	1,555	1,574	1,508	1,501
October 2024	1,527	1,551	1,570	1,590	1,512	1,504
November 2024	1,533	1,556	1,576	1,596	1,514	1,506
December 2024	1,540	1,564	1,584	1,605	1,516	1,509

☐ Expected Values.

Seventh: Proposed Treatments for the Crisis: Monetary Policy Challenges of 2024-2025:

1. The continuation of pressure factors of public finance represented by the continuous fluctuation of oil revenues, due to the instability of oil prices in the global market at rates lower than the price approved in the budget at USD (70), with an increase in the current inflexible governing[3] public spending that represents (85%) of total current spending. This situation leads to the continuation of the budget deficit.
2. The Federal public Budget Law for 2024 included deducting treasury drafts by CBI to finance the budget deficit of IQD (20) trillion, in addition to drafts discounted from the legal reserve of government banks IQD (5) trillion, which constitutes (34%) of the total deficit financing for 2024, assuming a decrease in the balance carried forward at the end of the fiscal year 2024. It is expected that the pressure on the issued currency channel will continue during Q4 of 2024 and until 2025.
3. Weaknesses in the mechanism of IQD withdrawing (sterilization) through the platform, which leads to pressure on the issued currency channel.
4. Oil revenues are expected to face double shocks in Q4 of 2024 and 2025 through the decline of oil prices in the global market and reducing the quantity of oil exports under the OPEC agreement.
5. According to the limited development of the Iraqi financial markets, the weakness of banks in attracting deposits (savings), the challenges of the banking sector and the sanctions faced by banks, therefore the mechanism for transmitting the impact of monetary policy is very limited, especially after applying the platform. Consequently, the demand for the dollar specified to finance trade through banks does not correspond to the Ministry of Finance's needs for IQD to finance public spending requirements.
6. The nature of the pressures practiced by the reasons mentioned above will increase the pressure on the issued currency channel, in addition to increasing the growth rate of the money supply faster than the growth of foreign reserves, which constitutes great pressure on the official and parallel exchange rate.
7. It is not possible to continue deducting the drafts by CBI for consecutive years in large amounts according to the above-mentioned challenges, since this will lead to unacceptable increases in the issued currency, in addition to the negative effects on the general level of prices, exchange rates, and the country's creditworthiness.

(3) Current expense represents (employees' compensation, grants, subsidies and expenditures, social welfare, debt)



Proposed Solutions:

- **Reduce the Growth Pace of Current and Investment Public Spending through Dividing Current Spending Into:**

1. Current spending that is obligatory to spend regardless of fluctuations in oil prices.
2. Current consumer spending is linked to developments in oil prices, especially in case the price declines below its level approved in the public budget.
3. Giving the priority of discounted drafts of CBI for investment spending to ensure the sustainability of economic growth engines and avoid reaching a stage of contraction.
4. Issuing cheques or bonds (stability) by CBI to withdraw liquidity according to a new mechanism represented by assigning the task to banks and non-banking financial institutions (money transfer and money exchange companies) distributed in all provinces through model offices and promoting these products very widely, which will be as follows:

- Free from the risks of parallel exchange rate fluctuations in the event that these risks occur in the future, in order to have a greater stabilizing effect on the national currency.
- The interest is paid in advance with a rewarding return and different terms. The holder has the right to discount it from all banks operating in the banking sector before the end of the term, but without interest.
- A one-time, lump-sum commission is charged.

These cheques or bonds will be a supporting tool for the sterilization process that is conducted through USD selling platform based on determining a clear goal and targeting the withdrawal of the currency outside banks at a known rate, for example (10%) as a first stage.

" Summary of Iraq's Monetary Policy 2023 "

Macroeconomic Division – Statistics and Research Department – me.stat@cbi.iq

Introduction:

The year 2023 witnessed a relative economic stability after the disruptions caused by the Russian-Ukrainian war, which significantly affected energy and food prices due to disrupted supply chains. This period also saw rising inflation, as the Federal Reserve continued to raise interest rates several times in the same year to tighten its control on inflation, which experienced a significant slowdown after interest rate changes, as a number of central banks worldwide raised their interest rates.

In addition, CBI adopted a strict monetary policy to counter the inflationary pressures in 2023 by raising the policy rate and the mandatory reserve ratio in this year, along with, the foreign reserves increased but more slowly compared to 2022, as oil prices have increased globally, compared to 2023.

Chapter 1: Global Monetary Policy Developments:

First: Global Monetary Policy Developments of the Developed and Emerging Countries:

a. **United State**: The US Federal Bank raised its interest rate three times in this year after a series of rises during the past year, as the interest rate reached (5.5%) before stabilizing at this level in December 2023.As higher interest rate led to a decline in the annual inflation rate from (6.4%) in January to (3.4%) in December 2023.

Figure (1) Inflation Rates (%) for The United States 2023

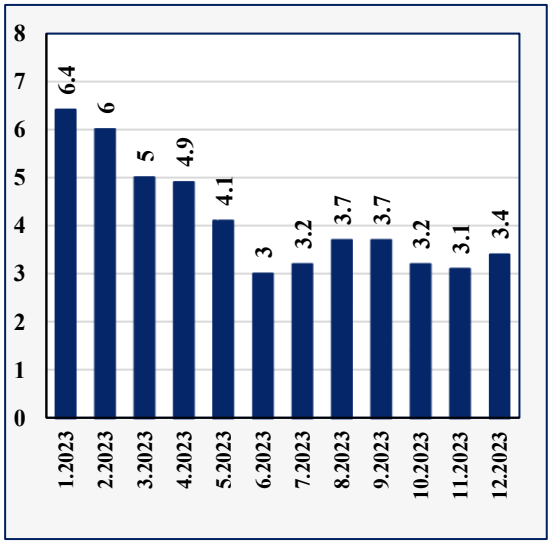
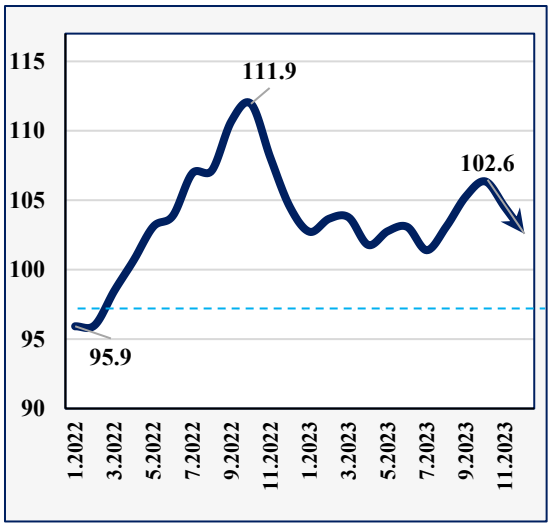


Figure (2) United States Dollar Index (DXY) 2022-2023



b. **Euro Area**: The rise in energy and commodity prices and supply bottlenecks led to strong inflation in the euro area and to high inflation differences between euro area countries, as the euro area inflation rate decreased from (8.6%) in January 2023 to (2.9%) in December of the same year, but remained above the target inflation of (2%). On the other hand, the European Central Bank's interest rate raise led to the recovery of the value of the euro that it lost in 2022 due to rise of the U.S. dollar after the interest rate raise by the U.S Federal Reserve.

Figure (3) Dollar/ Euro Exchange Rate 2023

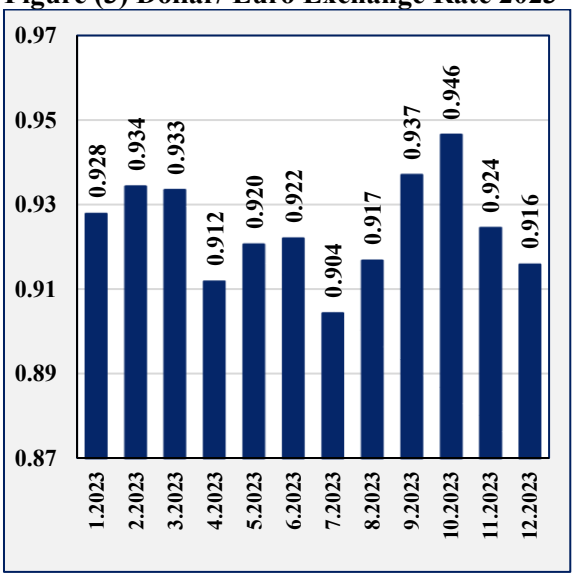
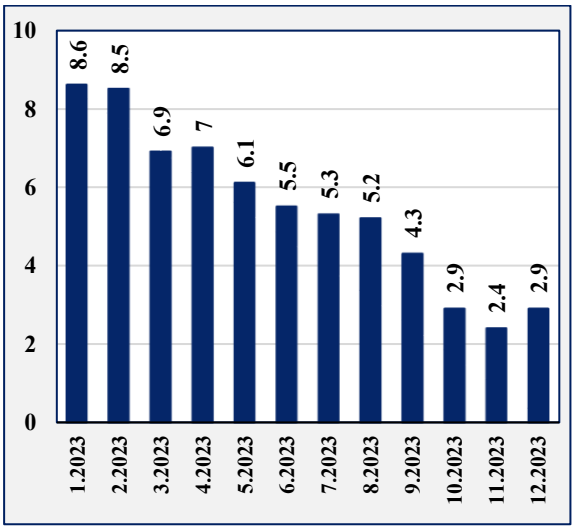


Figure (4) Inflation Rates (%) for The Euro Area in 2023



Second: Inflation and Exchange Rates in Emerging Countries:

People's Bank of China (PBOC) implemented what it called a “sound monetary policy in a targeted and effective manner" and steadily contributed to the overall economic recovery. China's financial markets operated smoothly. Liquidity maintained a sufficient and reasonable level, and Yuan exchange rates exhibited general stability at an adaptive and balanced level. In October 2023, People’s Bank of China strengthened liquidity support for the banking system with extended the medium-term policy loans, but it kept the interest rate unchanged. Because of these PBOC policies, the yuan exchange rate stabilized in 2023, as the yuan exchange rates remained generally steady at an adaptive and balanced level, as previously reported.

Figure (5) Dollar/ Chinese Yuan Exchange Rate 2023

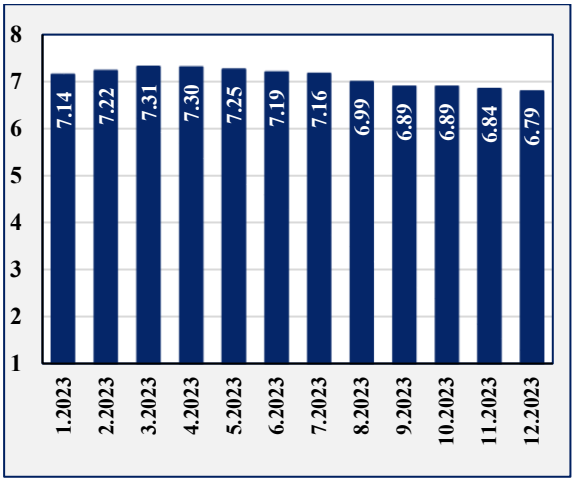
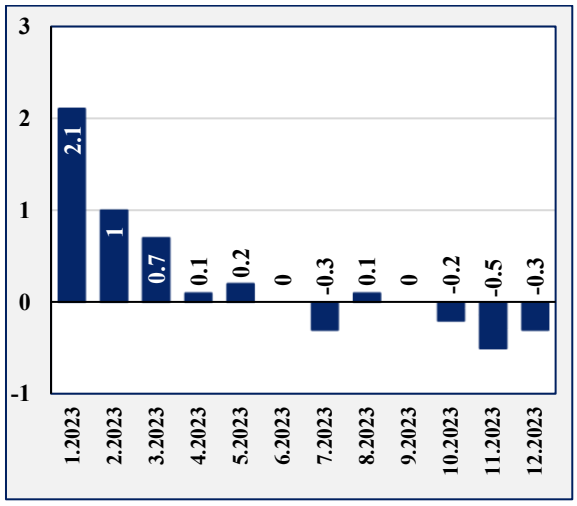


Figure (6) Inflation Rates (%) In China in 2023



Third: Arab Monetary Policy Developments:

- **Gulf Cooperation Council Countries**: Gulf banks (Saudi Arabia, UAE, Qatar, Bahrain, Kuwait, and Oman) raised interest rates in 2023 in line with the U.S. Federal, which raised interest rates several times in the same year; the change did not exceed (1%) in 2023 for Gulf banks. Although GCC countries depend on the imports to cover their domestic needs, so higher prices for the trading partners are reflected locally; the GCC countries achieved low annual inflation rates about (0.1%) to (3.6%) in 2023. Kuwait registered a rate of (3.6%) that is the highest among the GCC countries, while Bahrain's annual inflation rates reached (0.1%) in 2023, indicating an economic deflation.

Figure (7) Gulf Cooperation Council Interest Rates (%) 2022-2023

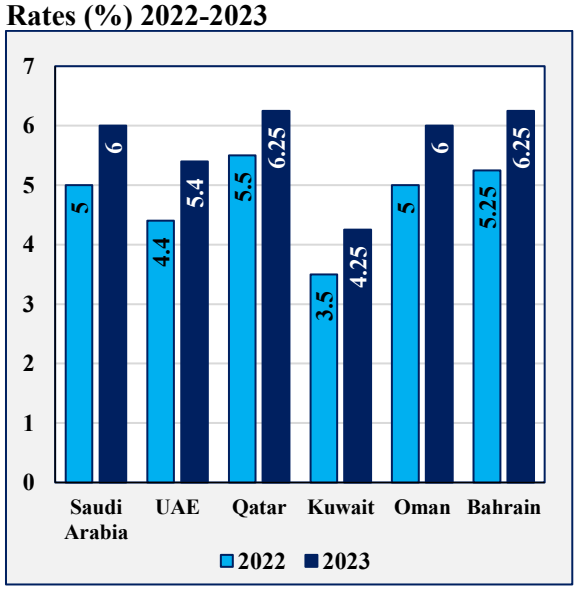
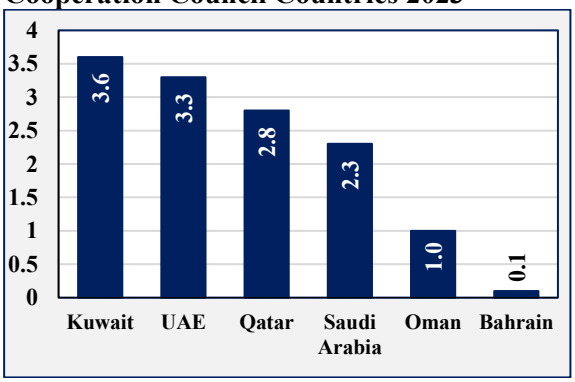


Figure (8) Inflation Rates (%) for Gulf Cooperation Council Countries 2023



- **Arab Oil Exporting Countries Outside Gulf Cooperation Council:**

In 2023, Central Bank of Algeria increased the mandatory reserve rate from (1%) to (3%) mid-2023, as this monetary policy lead to absorbed banking liquidity by (300) billion dinars due to an adjustment in the exchange rate of Algerian dinars in 2022, which increased by (4.1%) against the dollar, but the value of Algerian dinars declined by (1.3%) at the end of 2023 compared with the beginning of year, with Algeria's annual inflation rate falling from (9.9%) in January to (4.1%) in December 2023.

Figure (9) Exchange Rate of Dollar to Algerian Dinar 2023

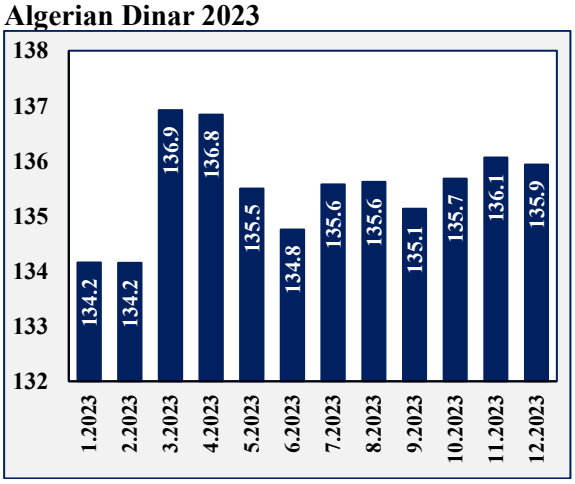
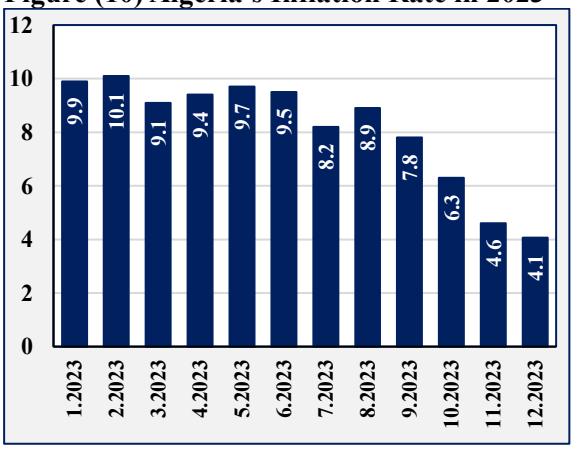


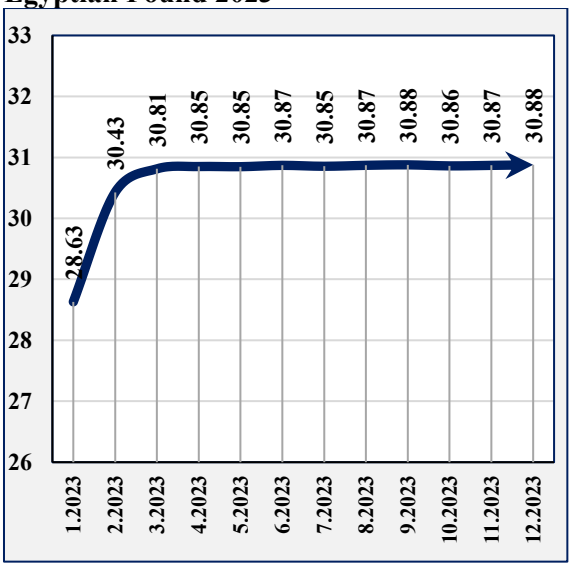
Figure (10) Algeria's Inflation Rate in 2023



- **Arab Oil Importing Countries:**

In contrast oil-exporting Arab countries, the monetary policy of oil-importing Arab countries has witnessed changes in interest rates, currency exchange rates and annual inflation rate 2023, including Egypt, which in 2023 faced a financial and economic crisis represented by lack of foreign liquidity, as it resorted to borrowing from the International Monetary Fund in order to raise the value of the pound, which fell to (33.7%) in December 2023 in the parallel market due to a lack of dollar liquidity. Inflation rates rose from (25.8%) in January 2023 to 38.0% in September 2023.

Figure (11) Exchange Rate of Dollar to Egyptian Pound 2023



Chapter 2: Developments in the Monetary Policy Indicators and Instruments:

First: Developments of Most Important Monetary Indicators:

1. **Monetary Base (M0):** The monetary base balance increased by (13.7%). This rise is attributed to increase in net foreign assets and net domestic assets at the Central Bank **(3.7% and 323.8%)** respectively (by sources), additionally, both out-of-bank currency and bank reserves increased by 15.3% and 12.3%, respectively (by uses).
2. **Narrow Money Supply (M1):** narrow money supply (M1) recorded a rise of (9.4%) at the end of 2023 compared to 2022. This is attributable to currency growth outside banks by (15.3%) and to account for (59%) for narrow money supply (M1) in 2023 against (56%) in 2022, while current deposits increased by (1.9%) to account for (41%) of the narrow money supply (M1) in 2023 compared to (44%) in 2022.

3. **M2 Broad Money Supply (Domestic Liquidity:** broad money supply M2 (Local liquidity) recorded a rise of (7.5%) at the end of 2022, to account (54.8%) of GDP in the current prices, the increase in domestic liquidity (M2) comes as a result of supply growth M1 by (9.4%), although other deposits decreased (fixed deposits, savings, post and insurances) at a rate of (5.3%), as We note that other deposits are still low, accounted to (11.4%) of total (M2) in 2023 compared to (13.0%) in 2022.

Figure (12) the monetary base balance (M0) the monetary base for 2020-2023 (1 billion dinars)

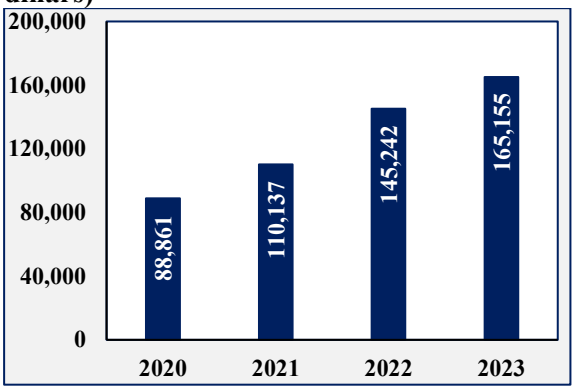


Figure (13) Narrow Money Supply (M1) 2023-2022

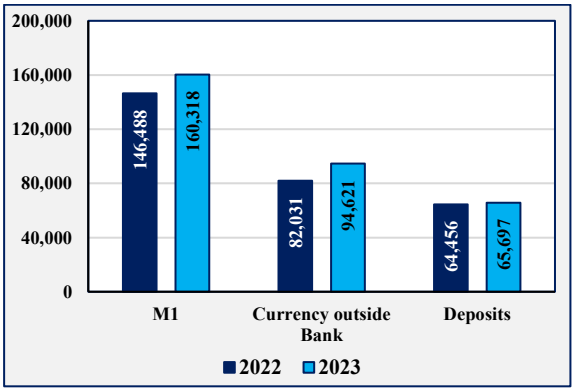
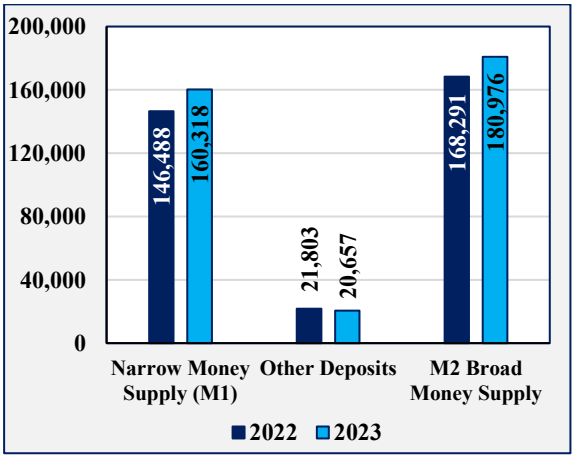


Figure (14) M2 Broad Money Supply 2022-2023



4. **The Affecting Factors of Monetary Supply**: The balance of government debts recorded a rise from (76.0) trillion dinars in 2022 to (77.7) trillion dinars in 2023. The Government deposits decreased by (9.4) trillion dinars compared to the previous year. In addition, the other deposits decreased by (1.1) trillion dinars. Conversely, the private sector debts increased by (3.2) trillion dinars and the budget item decreased by (2.7) trillion dinars. Therefore, the total expansionary factors amounted to (18.3) trillion dinars, while net assets represented all contractionary factors amounted to (4.5) trillion dinars.

Figure (15) The Affecting Factors of Monetary Supply 2022-2023 (liabilities side)

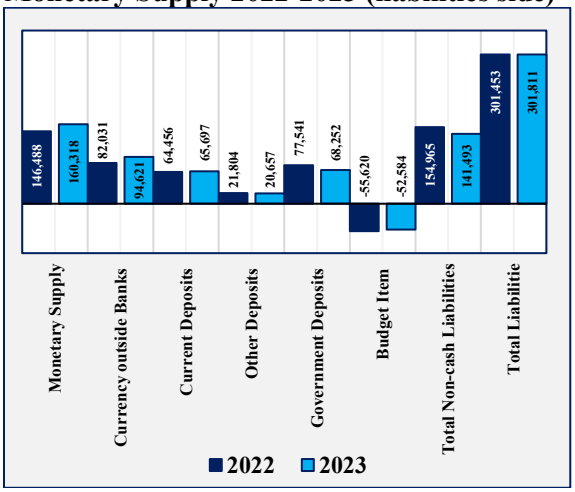
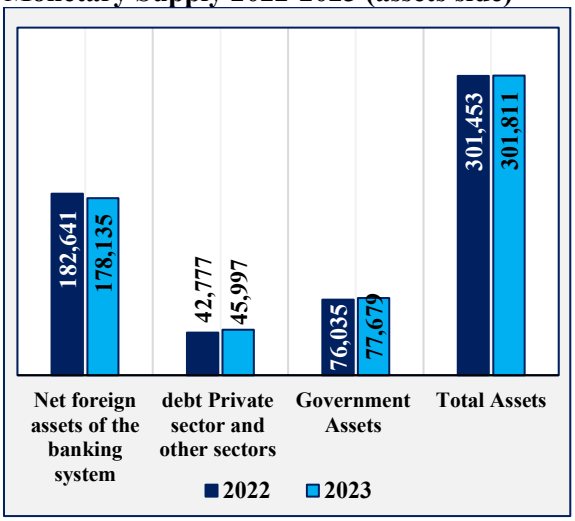


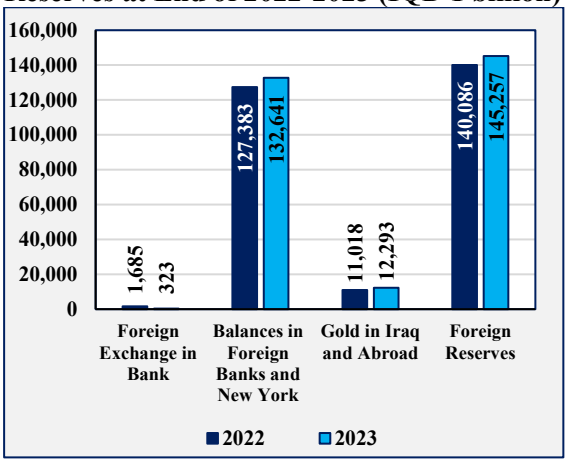
Figure (16) The Affecting Factors of Monetary Supply 2022-2023 (assets side)



5. **The Central Bank's Foreign Reserves:** The balance of foreign reserves at the end of 2023 increased by (3.7%) on the previous year, it was (145.3) trillion dinars compared to (140.08) trillion dinars at the end of 2022, this is attributable to a rise in the foreign

investment abroad (4.1%) and a rise gold balance(11.6%), as a result of the Central Bank's purchase of new quantities of gold, in order to achieve greater stability and ability to face the domestic and global changes.

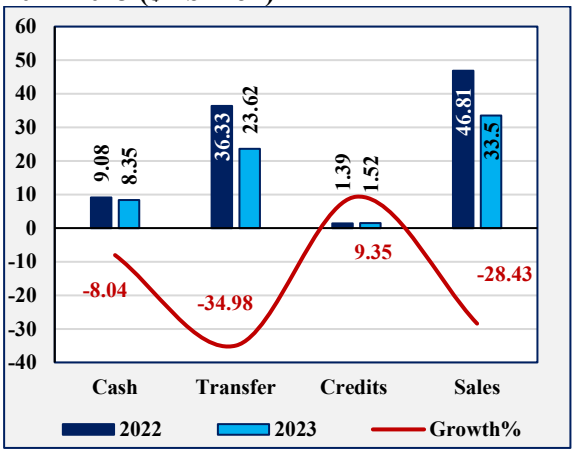
Figure (17) Main Components of Foreign Reserves at End of 2022-2023 (IQD 1 billion)



Second: The Indirect Monetary Policy Instruments Developments:

1. **Buying and Selling Currency Window**: In 2023, Amount of dollars sold recorded a decrease of (28%) from 2022, because of a decrease in both Cash and transfer sales and an enhanced balance abroad by (8%) and (33.4%) respectively in 2023. In contrast, the Central Bank's buying to the dollar recorded a rise of (20.0%), attributable to increased public spending in 2023 following the passage of the Budget Act for the fiscal years (2023, 2024, and 2025).

Figure (18) US Dollar Sales and Purchases 2022-2023 ($1 billion)



2. **Existing Facilities:** The invested amounts for 30 days recorded a rise (42.1%) in 2023, while the invested amounts for one day (90, 182, 364) (732, 49 and 336) million dinars respectively. –Islamic deposit certificates were also in Iraqi dinars for:

a. (91) day in the amount of (254,710) million dinars at a price (5.0%).
b. (182) day, as the refunds recorded a decrease of (42.9%) in 2023 and at price (6.0%).
c. (364) day in the amount of (150,000) million dinars at a price (8.0%).

For the existing deposit facilities, all products have been suspended in mid-2023 and central bank transfers (14) days and Islamic deposit certificates (14) days are maintained at an interest rate (7.5%). As for the existing lending facilities, The Central Bank has continued to implement the objectives of the Central Bank's monetary policy with a view to granting credit to banks and ensuring control of and influence over bank liquidity through interest rates (the price signals), each of which is set according to the following:

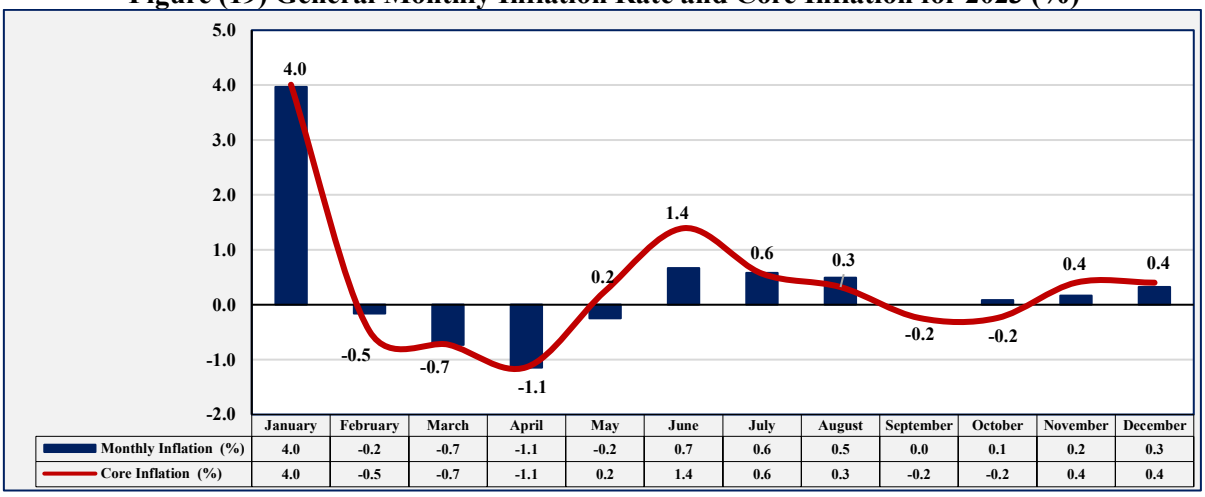
a. Initial credit (9.5%) per year.
b. Secondary credit (10.5%) per year. Last refuge loan (11.0%) per year. The government or private banks provided on none of these credits during 2023.

3. **The Required Reserve Ratio:** The required reserves increased by (45.6%), attributable to higher amounts of the required reserves on the private banks' deposits by (73.3%) and higher amounts of the required reserves on the government banks' deposits by (42.5%). On the other hand, the deposits subject to the foreign currency reserve decreased by (27.8%) and the deposits subject to the reserve in dinars increased by (40%), due to raising the mandatory reserve ratios to (18%) on the current deposits, (13%) on the savings and fixed deposits, 8% on the Islamic deposit.

Chapter 3: Prices:

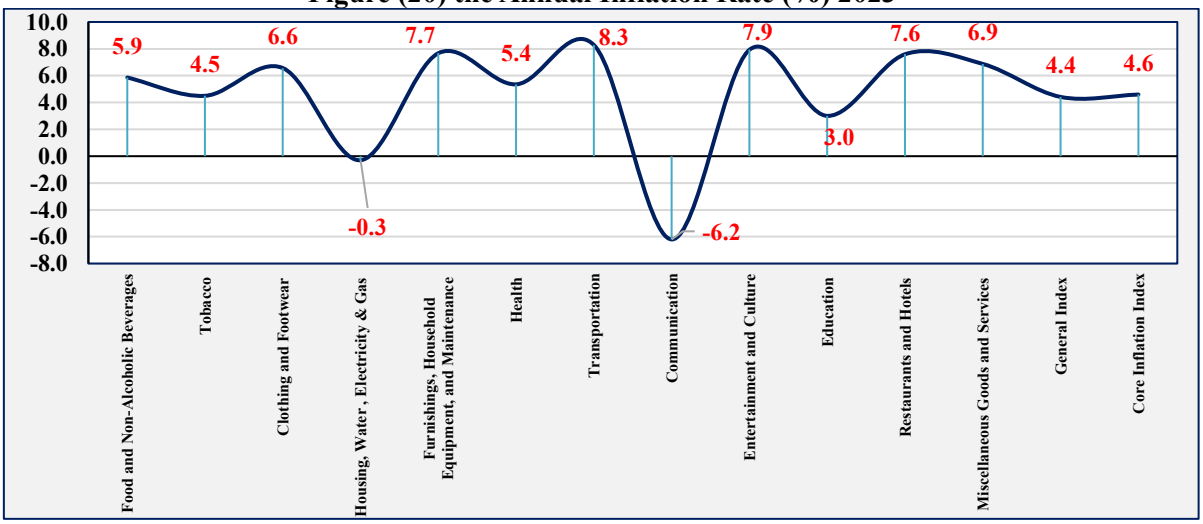
1. **Consumer Price Index Trends**: This year's Consumer Price Index in Iraq as an indicator of inflation showed a decline in its growth rate to (4.4%) in 2023, compared to (5%) in the previous year.
2. **General Inflation (on a monthly basis):** Monthly inflation rates during 2023 recorded monthly fluctuations due to fluctuations in the exchange market, with the consumer price index rising by (4%) for January 2023, Groups (food and non-alcoholic beverages), (housing, water, electricity, gas) and (transport) have affected the inflation for 2023, These totals represent a relative weight of about 70% of the total consumer basket.

Figure (19) General Monthly Inflation Rate and Core Inflation for 2023 (%)



	January	February	March	April	May	June	July	August	September	October	November	December
Monthly Inflation (%)	4.0	-0.2	-0.7	-1.1	-0.2	0.7	0.6	0.5	0.0	0.1	0.2	0.3
Core Inflation (%)	4.0	-0.5	-0.7	-1.1	0.2	1.4	0.6	0.3	-0.2	-0.2	0.4	0.4

Figure (20) the Annual Inflation Rate (%) 2023



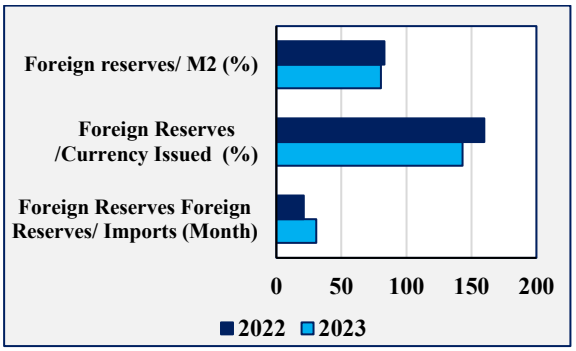
3. **Implicit reduction of GDP Prices (Implicit Index) for 2023 Compared to 2022:** This year's GDP fell to (159.3%) compared to (194.7%) in 2022, indicating that the product contracted by (15.5), that is lower than the rate of its change without excluding the price impact of (-20%), which explains the decline in the internally produced goods and services prices. While the implicit reduction of non-oil GDP decreased from (209.2%) to (207.2%), which means the product fell by (1%), and this is less than decline in GDP at current prices without excluding the prices impact of (3.4%). This indicates that the oil sector is the sector most affected by lower prices because of its link to the external sector exposed to shocks.
4. **The Imported Inflation:** Imported inflation declined from (1.7%) in 2022 to 1.2% in 2023, owing to a decline in both imports and global inflation by a greater proportion than GDP, which was reflected in Iraq's inflation rate, because it relies heavily on imports to meet domestic needs, which can negatively impact the economy.

Chapter 4: Developments in Monetary Policy Performance:

First: Analysis of the Central Bank's Foreign Reserves Adequacy Indicators:

The data indicates that the ratio of reserves to the exported currency decreased from (159.9%) in 2022 to (143.2%) in 2023, as result of the exported currency growing by a greater proportion than foreign reserves but was still higher than the benchmark ratio of (100%). For the ratio of foreign reserves to broad to the monetary supply (M2) exceeded the benchmark ratio of (20%), although it fell to (80.3%) in 2023 compared to 83.2% in 2022. The imports' index of exceeded the benchmark of (6) months, registering (30.7) months for 2023 against (21) months for 2022, as a result of increased foreign reserves and lower revenues.

Figure (21) the Adequacy of Foreign Reserves Indicators 2022-2023



Second: The Money Velocity and Monetary Stability Factor (inflationary pressure gauge):

1. **Velocity of Money Speed:** decreased from (2.8) times in 2022 to (2.1)times in 2023, indicating a decrease in the number of times spent per Iraqi dinar per year, as a result of lower GDP at the current prices in 2023.
2. **Monetary Stabilization Factor**: The monetary stabilization factor in 2023 (2.6%) against (2.7%) for 2022, where the GDP growth rate at the fixed prices for 2023 fell by (2.9%), and the stabilization factor indicates that there is a trend towards economic deflation due to GDP deflation.

Third: The Purchasing Power of Money and the Excess Liquidity Ratios:

1. **Purchasing Power of Money:** the purchasing power of money decreased slightly from (0.85%) in 2022 to (0.82%) in 2023, due to high inflation in 2023, because of the Central Bank's policy to support the value of dinars, along with the decision of the Council of Ministers to increase the materials provided to people covered by social welfare. The purchasing power of dinars, when calculated using the index after excluding (core inflation), was also slightly reduced from (0.84%) in 2022 to (0.81%) in 2023, as a result of a (4.6%) rise in the core inflation, and therefore the purchasing power of money remains at acceptable levels even though the country is experiencing a rise in the general price level.
2. **Money Excess Ratio**: the money excess increased from (8.3%) in 2022 to (8.5%) in 2023, because of high broad money supply (M2) and low GDP at constant prices, but there is still a surplus of liquidity to the economy's need, resulting in higher overall price level.

Fourth: Money Multiplier (M) and Monetary Sterilization:

1. **Money Multiplier**: Money multiplier recorded an amount (1.10) in 2023 compared to (1.16) in 2022 and a decrease of (5.4%), attributable to higher growth on the monetary basis of (13.7%) which exceeds the increase in the broad money supply of (7.5%) ,This is due to the rise in the Central Bank's net foreign and domestic assets by (3.6%) and (323.8%), respectively, as well as the higher banks' reserves rate than the deposits growth rate derived from the money multiplier.
2. **Money Sterilization**: The Central Bank of Iraq pursues monetary sterilization policies to eliminate the harmful effects of foreign capital inflows by drawing from the foreign reserves to keep the monetary base stable, to contribute improving the stability and the short- term internal and external economic balance indicators. The degree of sterilization decreased from (0.96) in 2022 to (0.88) in 2023, indicating a decrease in the activity of the sterilization process, because of an increase in the net domestic assets by a greater proportion than the Bank's net foreign assets.

" Summary of the Arab Financial Stability Report 2023 "

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Introduction:

Given the increasing global interest in financial stability issues following the global financial crisis, which have become an important priority for central banks, and in order to enhance opportunities for exchanging expertise between Arab countries, the board of governors of Arab Central Banks and Monetary Institutions decided in 2014 to establish a Financial Stability Working Group in Arab countries. The membership of the group includes directors in charge of financial stability issues in Arab central banks and Monetary Institutions.

Objectives:

The team works on developing policies and tools related to enhancing financial stability in Arab countries, and is keen to exchange expertise and experiences in the field of policies and procedures related to enhancing financial stability and enhancing cooperation between various national departments and bodies concerned with financial stability issues in Arab countries in cooperation with relevant international institutions. The team also prepares and publishes the Financial Stability Report for Arab countries, working papers and studies on the financial stability situation in Arab countries and contributes to raising awareness of financial stability issues.

Chapter One: Regional and International Economic Developments Related to Financial Stability in Arab Countries:

Financial stability is affected by the conditions and developments that may occur in the macroeconomic environment. The relationship between economic risks and financial risks is a two-way reciprocal relationship, and there is no better evidence of this than the fact that macroprudential policy takes economic variables into account when making any decision, and vice versa for monetary policy. Economic variables - along with banking and financial variables - are important inputs when applying or using risk management tools and/or macroprudential policy tools that aim to reduce systemic risks and enhance the banking system's ability to withstand potential shocks, thus enhancing financial stability, such as early warning systems, forecasting models using standard modeling and stress tests, activating the capital margin to confront cyclical fluctuations, and building provisions in accordance with International Financial Reporting Standard (IFRS9), financial stability indices and others. Another aspect that demonstrates the importance of the close link between financial and economic stability is the interactions between economic and prudential policies, as macroprudential policy tools can have an impact on the prices and volume of credit in the economy, which in turn can affect the overall economic activity, which is a key element in managing monetary policy. In contrast, interest rate levels, inflation, and real economic activity affect the volume of credit, which is one of the most important factors that may lead to the construction of systemic risks. In the past two years ,we have witnessed the consequences of the significant rise in inflation rates in 2022 and the subsequent adoption of tight monetary policies in order to contain these inflationary pressures, which ultimately led to banking turmoil in the United States and Europe in early 2023, which were quickly contained by the relevant regulatory authorities, as will be explained later. The following is a summary of regional and international economic developments from the perspective of the relationship with financial stability.

Chapter Two: Developments in Legislative and Institutional Frameworks for Financial Stability and Financial Sector Infrastructure Systems in Arab Countries:

Following the recent global financial crisis in 2008, attention increased to the role of central banks in achieving financial stability in accordance with the introduction of the macro-prudential policy, which was added to the functions of central banks and supervisory authorities. After the crisis, central banks also alerted the importance of continuously assessing and following up on systemic risks. Operationalizing macro-precautionary policy tools to reduce risks to the macro-financial system and to enhance its resilience to shocks . Central banks have also been reviewing and modernizing the legislative and regulatory system in accordance with international best practices and standards. Undoubtedly, an adequate legislative framework for the financial

system enhances financial stability. Experience has shown that if the financial system's regulatory and regulatory legislation is inadequate, it may deepen financial crises when they occur. The central banks constantly verify the validity of the operations and performance of the financial institutions under their control and ensure the integrity of their financial positions within the limits of the laws, regulations, applicable instructions and banking customs to meet the requirements of financial stability. In continuation of the efforts they have made to establish sound rules for banking and financial work, the Arab central banks continued in 2023 to review and update the legislative system governing the work of the banking and financial institutions subject to their supervision, and they also continued to work on developing the financial and banking infrastructure in light of the special importance of having a strong financial and banking infrastructure that is compatible with the latest international practices in order to achieve advancement, development and increased reliability in the services provided by financial and banking institutions.

This chapter highlights the latest developments in the efforts of Arab central banks to enhance financial stability. It also addresses the most important legislative developments adopted by Arab countries to enhance the soundness of the financial sector, support its stability, and enhance supervision and control over it. It also reviews developments in the infrastructure of financial and banking institutions. This chapter will be divided into four main axes, including (1) the institutional framework for financial stability , (2)developments related to updating the legislative and regulatory system (3) , developments related to the infrastructure of the financial system, and (4) the framework of the macroprudential policy.

Chapter Three: Developments in the Performance of the Banking Sector in Arab Countries and Potential Risks.

The recent global financial crisis in 2008 emphasized the importance of the soundness of the banking sector and the continuous assessment of risk, which is positively reflected in financial and economic stability, as the banking sector plays a fundamental role in the economy, represented by providing liquidity and financing needs to finance various economic activities, thus enhancing economic growth. The financial position of a large number of banks were at the beginning of the crisis in the United States of America, but the failure of Lehman Brothers led to the collapse of other banks one after the other due to the risks of infection, and even exceeded the borders of the United States of America to put the entire global financial system at risk, which incurred huge losses for the economies of countries for several years. This reinforced the conviction of the supervisory authorities that the stability of both the financial and economic systems can only be achieved if financial and economic risks are taken into account when making decisions in economic and precautionary policies. The novel coronavirus crisis also confirmed the importance of the role played by the banking sector in supporting economic activities in its various sectors during difficult economic conditions, and the stability of the banking system was a major reason for supporting monetary and fiscal policy decisions during the crisis.

Chapter Four: Developments in the Performance of The Non-Banking Financial Sector in Arab Countries and Potential Risks:

Although the share of the non-banking financial sector in the financial system in Arab countries is considered small when compared to the banking sector, as the average volume of the assets of the non-banking financial sector (without pension funds to the total assets of the financial sector amounted to about (6.5) at the end of 2023 compared to about (6.3%) at the end of 2022. While the average volume of its assets (without pension funds) to the GDP at the end of 2023 amounted to about (12.7%) compared to about (12.9%) and (13.0%) at the end of 2022 and 2021 respectively, this does not diminish the importance of this sector. The non-banking financial sector is a partner to the banking sector in promoting economic growth and financial and social stability in Arab countries. This sector also plays a strategic role in enhancing financial inclusion in a way that supports financial and economic stability. For example, the insurance sector contributes to achieving the goals of economic growth and development in general, by providing protection for the property of individuals and institutions and preserving national wealth, as well as attracting huge savings resources that allow by financing medium and long-term investment on the other hand. There are other financial sectors that are no less important than the insurance sector such as the financial

markets sector, as these markets play a vital role in mobilizing savings and directing them to various investment areas, and providing long-term sources of financing for various economic projects. As for the lending institutions sector (such as microfinance institutions, financial leasing companies, and small and medium-sized enterprise financing companies), they also play an important economic role by granting credit to groups that face difficulties in accessing bank financing.

Globally, the Financial Stability Board has estimated total non-bank assets (including pension funds and the insurance sector at $218.5 trillion at the end of 2022, compared with US $(239.5) trillion and US$(226.5) trillion at the end of 2020 and 2021, accounting for approximately (48.0%) of total financial institutions' assets in 2022, and the problem of (270.4 %) of GDP at the end of 2022 .Attention to the systemic risks that may arise from non-bank financial institutions has become one of the most important priorities of the Financial Stability Board as well as regulatory authorities around the world. In addition, there are efforts by the supervisory authorities to strengthen oversight of these institutions' activities and to assess their interdependence with those of banking institutions financial institutions sector through appropriate regulatory and oversight actions .This chapter reviews the developments and risks of the non-banking financial sector in the Arab countries, where it will analyze the developments of important non-banking financial sectors: the insurance sector, the financial market sector, the finance sector, the sector of yellow finance institutions, the sector of other finance companies, and finally the sector of exchange companies.

Chapter Five: Assessment of the Risk of Indebtedness of the Individual Sector in Arab Countries:

The objective of financial and banking stability has become one of the most important objectives pursued by central banks, particularly after the global financial crisis. The stability of the financial system is to continue by facilitating the efficient distribution of economic resources through the provision of financial intermediation services, financial risk assessment, pricing and management even with exposure to internal or external shocks. Financial stability can be affected by the accumulation of systemic risks, which represent the risk of exposure to an event - from within the financial system or the economy or from outside them - that negatively affects a number of financial units of systemic importance and its impact spreads through what is known as contagion risks, which may cause disruption to the role of the financial system or loss of confidence in it and its safety ,and lead to negative effects on the economy. Systemic risks can consist of two dimensions: first, the time dimension, by accumulating total financial imbalances over a period of time, which increases the financial system's impact on the financial cycle, and second, the cross-sectional dimension, as a result of the direct and/or indirect interconnection between financial units within the financial system at a specific point in time.

Given the fundamental role played by the financial system in financing economic activity through financial intermediation, financial development - represented by the high ratio of private credit granted to the business sector and the household sector to nominal GDP - supports long-term economic growth. The household sector's ability to borrow also contributes to increasing public utility and achieving economic stability according to the ability to consume commodities and services and make investments in housing and education at present, and finance them in the future in return. The positive effects of private sector indebtedness on growth begin to decline at high levels of leverage. Excessive growth in private sector credit may increase the likelihood of a financial crisis, as credit growth periods that are often accompanied by relatively low interest rates and relaxation of borrowing standards. This is followed by periods of slowdown in the granting of credit when the financial cycle shifts to a downward trend, which could lead to an economic recession that could adversely affect the banking sector and financial stability. These interactions between the financial system and the real economy indicate the importance of building the banking sector capital margins within periods of fiscal expansion, this eases excessive credit growth and enables the banking sector to continue to finance the real economy in periods of fiscal contraction without affecting its solvency

In this context, Household sector indebtedness becomes a source of macro-financial instability when individuals 'income is negatively shocked when they reach a high level of indebtedness and are unable to increase borrowing - which prompts them to reduce consumption and not ability to meet their

obligations to lending institutions declines , affecting business sector investments and employment and having negative effects on household sector income. On the other hand, when household sector asset prices are negatively shocked, the value of collateral decreases, which weakens the ability to increase borrowing and increases default rates, which negatively affects banks' profitability rates, which in turn may affect banks' capital and their ability to lend. And hence economic activity and financial stability. The potential negative effects of household sector indebtedness on macro-financial stability increase when household sector borrowing is for unproductive purposes or the returns on its investments are insufficient.

Chapter Six: Financial Stability Indices in Arab Countries:

Methodologies and Purposes:

Financial crises are among the most prominent challenges facing financial and banking systems and threaten their stability. Confronting financial crises and fluctuations and maintaining financial stability are among the most important main objectives that regulatory authorities seek to achieve . Therefore, the need arose to build an index that expresses the state of the financial system in Arab countries according to a set of variables through which the challenges facing this system can be identified.

Therefore, most oversight authorities have come to pay close attention to the subject of financial stability indicators.

In this context, the supervisory authorities have developed new systems for the continuous supervision process at the micro and macro levels ,represented in the development of early warning systems and financial stability indices in order to assess the potential risks that the financial system may be exposed to. Financial stability indices are considered tools or an early warning system that contribute to understanding the risks surrounding the financial system, thereby reducing the likelihood of crises. In addition to reducing the costs of dealing with their effects if they occur. Therefore, most supervisory authorities have begun to pay great attention to the issue of financial stability indices. Experience has showed the importance of a prudential framework for dealing with the financial sector, as one of the most significant challenges facing the supervisory authorities of the financial and banking sectors. It is to ensure effective supervision at both the micro and macro levels and provide tools for continuous assessment of the health and strength of the financial positions of financial institutions, which positively reflects on financial stability. Accordingly, dealing with banking crises must begin with providing tools to anticipate the crisis before it occurs, which enhances the effectiveness of overall prudential supervision and identifying, monitoring and reducing risks to the financial system as a whole.

Chapter Seven: The Extent to Which the Banking Crisis Management System Needs to be Reviewed and Updated:

Following the global financial crisis in 2008, regulatory authorities paid great attention to the issue of crisis management in order to analyze the challenges that banks may face, and timing and manner of intervention, as experience has proven the importance of having a clear legal framework and a prudential framework to deal with banks facing challenges at early stages. A number of regulatory authorities have also worked to build a comprehensive crisis management system and a deposit guarantee system. The crisis resolution framework can be defined as a set of legal rules that enhance the ability of regulatory authorities to take measures and procedures towards financial institutions that witness fundamental changes in their financial positions. In order to enhance the continuity of banking services without interruption, avoid any impact on financial stability, and avoid exposing taxpayers' money to losses when protecting systemically important functions.

Chapter Eight: Developments in Modern Financial Technologies, Cryptocurrencies and Digital Currencies and Their Impact on Arab Countries' Financial Stability:

The remarkable development of financial techniques in the past years has led several financial institutions to enhance the level of services provided in accordance with the development of new channels that replace the traditional channels they are accustomed to. With the significant growth in associated technologies and services, the opportunities offered by these technologies and services have increased in terms of enhancing the efficiency of financial and banking operations, especially in supporting access to finance and financial services, encouraging entrepreneurship and promoting financial inclusion. As the use of modern financial technologies becomes increasingly important, financial institutions

face new risks due to cyberthreats and cyberattacks in this context.

The adoption of these advanced financial technologies by the financial and banking sector results in many risks and challenges such as operational risks and legal risks ,and other risks of liquidity, competitiveness and other risks. Accordingly, the role of regulatory authorities lies in empowering the banking and financial sector by creating a vibrant environment that keeps pace with digital development, in addition to adopting a modern and flexible approach to supervision that takes into account the risks resulting from the increasing reliance on financial technologies, while at the same time adopting strategies or programs to encourage sustainable innovation. Contributing to the development of digital and technical knowledge and as a result of the growing efforts of Arab countries on the modern financial technology industry, and due to the great importance in keeping pace with modernity to maintain the competitiveness of the Arab financial sector and thus enhance its stability.

This chapter reflects the position of Arab countries in this field by highlighting the latest developments related to the financial technology industry and to identify the most important achievements made by the Arab countries to establish this industry. In addition to highlighting the various risks and challenges faced by financial technologies in the Arab region and the efforts of countries to reduce them and create a kind of balance between opportunities and risks, the efforts of the supervisory authorities in those countries in empowering the sector will also be reviewed, as well as the efforts made by the authorities to reduce cybersecurity risks.

Chapter Nine: Stress Tests (Tolerance) and Their Results at The Level of The Banking System in The Arab Countries:

Stress tests are one of the most important risks management tools used to assess the banking sector's ability to face shocks and crises under unfavorable circumstances, as it represents one of the main analytical tools of the micro and macroprudential policy that aims to assess the solvency and liquidity position of banks and their ability and flexibility to deal with various risks and reduce them in light of negative exceptional factors. Supposed, but possible with low probability, using scenarios with graded levels of impact intensity and the many types of risks covered by these scenarios such as credit risk, concentration, operational risk, and market risk. Liquidity risks, risk of transmission within the fiscal system, as well as cybersecurity risks and climate changes risks, taking into account the most important macroeconomic variables to measure their impact on the performance of the banking sector. The application of stress tests aims to enhance financial stability, as the results of these tests contribute to taking appropriate proactive and prudential decisions on strengthening the general framework of risks in the face of shocks and sudden crises and plays a key role in the development of emergency plans, business continuity and recovery plans, and helps banks in estimating requirements. Future capital and liquidity to face various risks. Stress tests are mainly divided into sensitivity tests and scenario tests. According to allergy tests. The impact of shocks on one variable is studied with the assumption that the other variables are constant, with the aim of identifying the factors with high risks and the most influential on banks' financial indices. Scenario tests aim to assess the impact of several variables combined at the same time for a set of risk factors included in scenarios that are prepared based on actual or hypothetical historical events based on surrounding events and in the framework of scenario tests. Total stress tests can be performed using standard models based on historical information based on a satellite model, to estimate the impact of many variables on the value of non-performing loans. In addition, the reverse stress test is based on looking for the level of severity of assumptions that result in exceeding the various regulatory ratios associated with solvency or liquidity. On the other hand, stress tests can be applied at the level of the banking sector by the banking supervision or financial stability sector within the central bank (Top-down Approach) or through the bank itself using a general framework defined by the supervisory authority (Bottom-up) (Approach) .The results of the tests are disclosed quantitatively or qualitatively according to financial stability reports or the websites of Arab central banks and monetary authorities.

“ Summary of Iraqi Balance of Payments – Q2 of 2024 (Primary) ”

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In the light of available data, the results of Iraqi balance of payments through Q2 of 2024 showed a surplus of USD (1924.7) million. Several factors contributed to this surplus, reflected in the review of the Iraqi balance of payments components as the following:

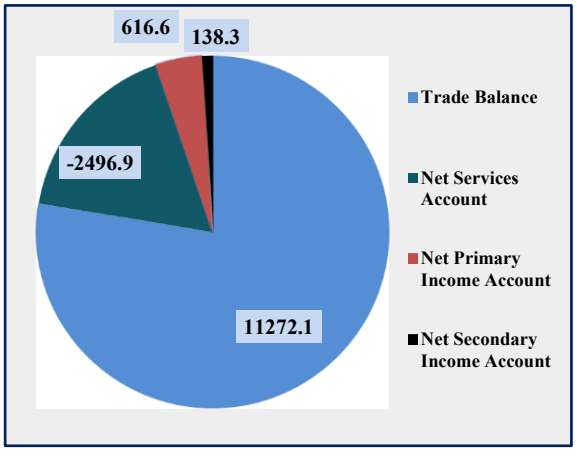
First: Current Account:

The current account indicator in the balance of payments reflects the State's behaviour under the State's public budget and the private sector behaviour. According to the available data, the current net account recorded a surplus of USD (9530.1) million. Below are the detailed components of this account:

1. Trade Balance:

The trade balance achieved a surplus of USD (11272.1) million, as total exports recorded USD (25972.9) million, including the value of in-kind crude oil paid to foreign oil companies of USD (2938.6) million. Total imports recorded USD (17295.1) million on a CIF basis and USD 14700.8 million on a FOB basis, with deducting (15%) of total imports for shipping and insurance costs to be converted from CIF to FOB, as shown in figure (1).

Figure (1) Components of Current Account for Q2 of 2024



2. Net Services Account:

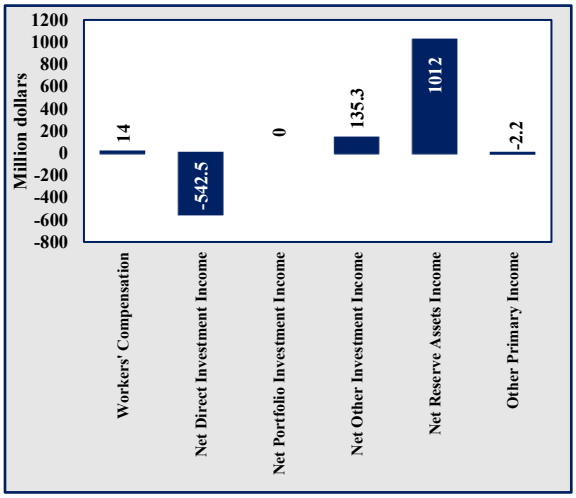
Net services account showed a deficit of USD (2496.9) million due to increased payments of USD (5049.2) million, most of which are related to freight and import insurance costs for conversion from CIF to FOB, as well as travel costs.

The receipts side achieved USD (2552.3) million, mostly under travel item, which included Arab and foreign nationals coming to Iraq for tourism and visiting holy thresholds.

3. Primary Income Account:

Net primary income account achieved a surplus of USD (616.6) million, the following is the details of this account, as shown in figure (2):

Figure (2) Components of Primary Income Account for Q2 of 2024



a. Workers' Compensations:

It represents remittances from workers working abroad for less than one year, as net workers' compensations achieved a surplus of USD (14.0) million.

b. Investment Income:

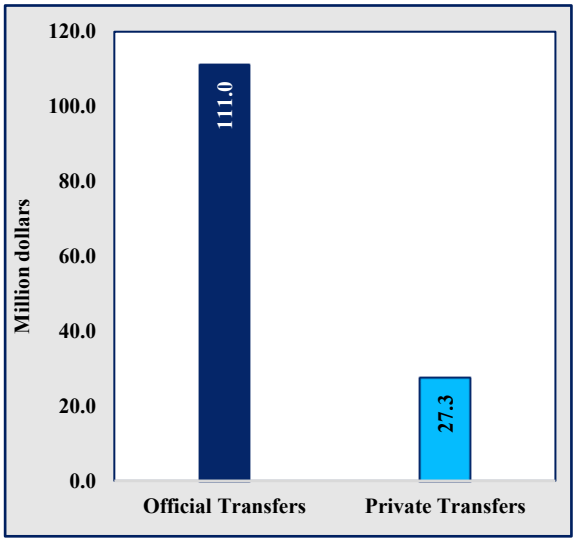
Net investment income account achieved a surplus of USD (602.6) million due to increased receipts with a value of USD (1258.9) million representing foreign currency deposit interests, foreign treasury-bills interests and high European investment interests of foreign banks. As for payments, they amounted USD (656.3) million, mostly related to the profits of foreign oil companies operating in Iraq that are transferred abroad.

4. Secondary Income Account:

Net secondary income account achieved a surplus of USD (138.3) million due to increased receipts of USD (121.2) million, mostly represented assistance provided to Iraq from international organizations as humanitarian

assistance to displaced persons from the conflict zones. Regarding the payments side, it recorded USD (10.2) million., whereas net private transfers achieved a surplus of USD (27.3) million for family assistance provided by non-residents to their families and remittances of workers, working abroad for more than one year, as shown in figure (3).

Figure (3) Components of Secondary Income Account for Q2 of 2024



Second: Capital Account

The net capital account for Q2 of 2024 did not record any transactions resulting from the disposal of fixed assets and capital grants from governments and international organizations

Third: Financial Account:

Net financial account achieved USD (6964.1) million for Q2 of 2024, as it appeared with a positive sign reference because of changes in both foreign financial assets and foreign financial liabilities. The following is a review of the components of this account, as shown in figure (4):

1. Net Direct Investment:

Net direct investment account achieved USD (2908.0) million due to increase in external financial assets of USD for (93.1) million with a decrease of financial liabilities of USD (2814.9) million, for payment of capital costs related to oil fields provided by contractors of services contracts to foreign oil companies operating in Iraq and payments to Chinese companies operating in Iraq.

2. Net Portfolio Investment:

Net portfolio investment didn't achieve a worth mentioning value in Q2 of 2024 because of the absence of investments of the Ministry of Defence's securities investment portfolio or any value on the liability side.

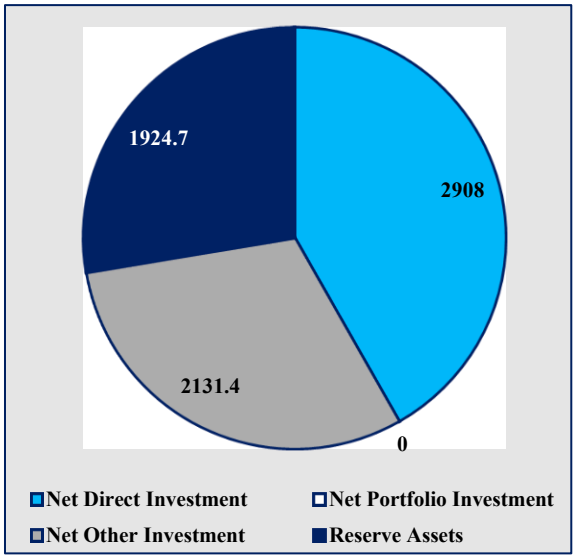
3. Net Other Investment:

Net other investment achieved USD (2131.4) million for Q2 of 2024 , due to increased financial assets of depository companies and net deposits abroad of USD (1769.5) million and USD (599.0) million, respectively. The liability side of the official investment account recorded a decrease of USD (1458.5) million because of low withdrawals from loans and commitments on the government as well as low repayments.

4. Reserve Assets (Official Reserves):

Central bank's reserve assets achieved a rise of USD (1924.7) million because of foreign reserves rise of cash gold and foreign bonds.

Figure (4) Components of the Financial Account for Q2 of 2024



Fourth: Net Errors and Omissions Item:

Net errors and omissions item for Q2 of 2024 recorded USD (2566.0) million, as it appeared with a negative sign reference; meaning that there were debit transactions that were not recorded in the balance of payments or were not fully covered due to lack of availability from the source, or that there might be credit entries that were overestimated.

" Summary of Early Warning Report Q1 2024 "

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The early warning report for the banking sector is regarded as one of the most important means of direct oversight of this sector, through the indices it contains that are capable of predicting the occurrence of imminent and potential crises in general, even if they do not materialize, as well as measuring potential deviations that may affect the banking sector and the variables affecting it.

The report includes three chapters covering most of the indices that affect the work of the monetary authority, as follows:

Chapter One: Analysis of Currency Value Stability Indices:

Analysis of currency value stability involves monitoring several indices that show unusual pre-crisis behavior when the index exceeds a certain limit, these are considered as "signals" of warning to currency value crisis likelihood during the following 24 months. Among the most important indices that provide an accurate analysis of the fluctuations in the value of national currency are:

First: Adequacy of Net Foreign Reserves Indices:

1. **Net Foreign Reserves Adequacy Index to Issued Currency**

Net foreign reserves represent the first line of defense for the stability of the national currency and economic support by enabling the central bank to confront fluctuations in the foreign exchange market and protect the value of the national currency by maintaining an adequate level of these reserves. The ratio of this index reflects the relationship between net foreign reserves and the value of the national currency. A high ratio is considered a positive sign, while a decline indicates weak demand for the domestic currency, negatively impacting the currency's value and the economy.

The coverage ratio of net foreign reserves to the issued currency decreased to (145%) in Q1of 2024, compared to (147%) in the same period of 2023. This decrease is attributed to the continued efforts of the Central Bank of Iraq to defend the value of the dinar by providing the foreign currency required by traders for imports. Additionally, the government's high demand for the central bank's dinar to finance spending led to a growth in the issued currency at a rate higher than the growth of net foreign reserves. This resulted in a decrease of (0.2%) in net foreign reserves during the same period. However, this ratio remained positive and influential as it is higher than the standard benchmark of (100%).

2. **Foreign Reserves Coverage Index to Total Imports:**

This index is utilized in assessing the quality of a country's economy and the stability of its financial system. International financial institutions such as the International Monetary Fund and the World Bank Group are interested in monitoring this index in order to provide financial support when needed. The minimum threshold for this index in several countries ranges from 4-5 months, it varies from one country to another according to the financial situation for each one. In Iraq, the minimum threshold for this index is 6 months.

The coverage period of net foreign reserves to total imports witnessed a decline in Q1of 2024, reaching 17.6 months, compared to (43.4) months during the same period of 2023, this decrease is attributed to the increase in total imports on a CIF basis from IQD (11.6) trillion to IQD (28.5) trillion during the same period, in addition to the decrease in net foreign reserves by (0.2%) compared to Q1 of 2023. Furthermore, the accuracy of balance of payments data has improved due to the implementation of the electronic platform. However, this ratio remained positive and influential as it is greater than the standard benchmark of (6) months.

Secondly: Changes in Interest Rates:

Interest rates are one of the most important factors that influence both national and global economies. This report will present the changes that occur in the interest rates of:

1. **Short-term Interest Rates on Deposits:**

Interest rates on savings deposits remained stable at 3.5% in the Q1 of 2023 and 2024. Similarly, interest rates for a 6-month term maintained a rate of (4.3%) in the same quarters of 2023 and 2024. However, interest rates for a 1-year term decreased from (5.0%) in Q1of 2023 to (4.7%) in Q1of 2024.

2. Real Interest Rate:

The real interest rate is considered a significant index as it takes into account inflationary pressures and their impact on nominal interest rates. According to the report, the real interest rate showed an increase in the Q1 of 2024, reaching (3.35%) compared to (-2.26%) in Q1 of 2023. This increase resulted from a decline in the inflation rate from (6.5%) to (0.8%) during the same period. This sharp decline is attributed to a change in the base year for calculating the consumer price index, where 2022 was adopted instead of 2012, as announced by the Ministry of Planning.

Chapter Two: Analysis of Banks' Performance Indices:

By analyzing and measuring the performance indices of the banking sector, it is possible to identify the risks that the banking sector may face. The following are the most important performance indices for banks:

1. Bank Deposits to Broad Money Supply (M2):

This index reveals the public inclination towards banks due to the need for the services they offer which attract customers. The ratio of bank deposits to M2 decreased slightly from (48.2%) in Q1of 2023 to (47.8%) in Q1of 2024. Conversely, the ratio of currency in circulation to M2 increased from (51.8%) in Q1of 2023 to (52.2%) in the same quarter of 2024. This indicates that a significant portion of the currency issued by the central bank is directed towards cash in circulation rather than as bank deposits, due to the low level of financial literacy regarding the benefits of banking services offered, despite the gradual improvement in the use of electronic payment tools.

2. Types of Deposits at Banks in Iraq:

In tracking the types of deposits held by banks, it was found that current deposits captured the largest share of total bank deposits. Their proportion of total deposits increased from (78.5%) in Q1 of 2023 to (79.9%) in the same quarter of 2024. Meanwhile, the proportion of fixed deposits to total deposits decreased from 8.1% in the Q1 of 2023 to (7.2%) in the same quarter of 2024. As for the proportion of savings deposits to total deposits, it also decreased from (13.4%) in the Q1 of 2023 to (12.9%) for the same quarter of 2024.

3. Total Cash Credit to Total Deposits:

This index shows the banks' ability to utilize funds obtained from deposits to meet customer credit needs. The Central Bank of Iraq has set a limit of (75%) for this ratio to ensure that banks maintain sufficient liquidity to meet customer withdrawals and conduct banking activities. The report shows that the ratio of total cash credit to total deposits increased from 48.6% in Q1of 2023 to (57.1%) in the same quarter of 2024. This is due to a (19.1%) increase in the volume of credit granted compared to a (1.3%) increase in the volume of deposits for the same period. Despite this increase, the ratio of total credit to total deposits did not exceed the limit set by the Central Bank.

4. Money Multiplier:

The money multiplier is defined as the ratio that expresses the amount of new money that banks can create based on their existing reserves. The money multiplier recorded an increase in Q1 of 2024, reaching (1.19) compared to (1.12) in the same quarter of 2023. This was due to a (5.3%) decrease in the monetary base, which stood at IQD (144.7) trillion in Q1of 2024, compared to IQD (152.7) trillion in the same quarter of 2023, while the broad money supply (M2) increased to IQD (172.7) trillion from IQD (170.5) trillion. This reflects the expansion of banking activities by banks in contrast to holding a portion of their deposits with the central bank.

5. Non-Performing Loans to Total Cash Credit:

This index is measured by dividing non-performing loans by total cash credit. The report shows that the ratio of non-performing loans to total cash credit in Q1of 2024 decreased to (6.66%) from (7.26%) in the same quarter of 2023. This decrease is due to a higher growth rate of total cash credit granted at (19.1%), which exceeded the growth rate of non-performing loans at (9.26%).

6. Net Open Foreign Currency Position of Banks:

This index measures the net foreign assets of banks by calculating the difference between their foreign assets and foreign liabilities, divided by capital. The report shows that the ratio of this index for banks increased from (18.7%) in Q1of 2023 to (30.9%) in the same quarter of 2024. This increase is due to a (95.2%) increase in net foreign assets, coupled with an (18.0%) increase in capital. This reflects the desire of banks to increase their holdings of foreign currency assets, such as deposits and securities.

Chapter Three: Analysis of Macroeconomic Performance Indices:

Macroeconomic variables are among the most important variables affecting the financial system, and they directly and indirectly impact the banking sector. The early warning report analyzed the most important macroeconomic indices, including:

1. Inflation Rate:

Inflation is considered a quantitative measure that reflects the change in the general level of prices of goods and services over a specific period. It is measured by calculating the change in the Consumer Price Index (CPI). Notably, the inflation rate for 2024 was calculated using 2022 as the base year for the CPI, instead of 2012 as previously announced by the Ministry of Planning. The inflation rate recorded an increase in March 2024, reaching (1.6%), compared to (0.6%) in February of the same year.

2. Internal Debt Growth Rate:

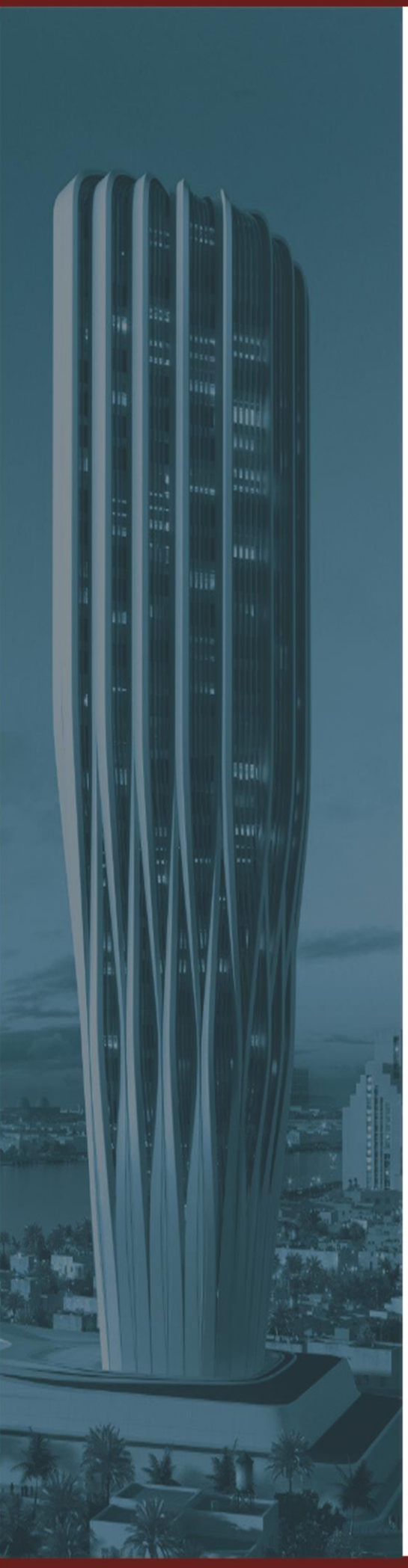
This index reflects the government's obligations to banks and the central bank. The report shows that the ratio of treasury bills held by banks to total internal public debt decreased to (6.6%) in Q1of 2024, down from (8.2%) in the same quarter of 2023. As for the discounted transfers from the central bank to the internal public debt, they also decreased to (56.5%) in Q1of 2024, compared to (64.0%) in the same quarter of 2023, as a result of the government's repayment of a portion of these transfers. On the other hand, the total internal public debt increased to IQD (73) trillion in Q1of 2024, compared to IQD (69.5) trillion in the same quarter of 2023, due to the government borrowing from state-owned banks by an amount of IQD (3.8) trillion to cover the budget deficit in both operating and investment expenditures.

3. GDP Growth:

Gross Domestic Product (GDP) serves as a measure of a country's economic performance, reflecting the level of economic activity over a specific period. Iraq's GDP at current prices decreased by (0.9%) in Q1of 2024, reaching IQD (76.9) trillion compared to IQD (77.6) trillion in the same quarter of 2023. This decline can be attributed to the decrease in crude oil production, which recorded IQD 32.8 trillion compared to IQD (36.2) trillion in the previous year. Similarly, the mining and quarrying sector's production decreased, reaching IQD (32.9) trillion compared to IQD (36.3) trillion during the same period. This factor contributed to the decline in the growth rate of GDP at current prices.

4. Monetary Stability Coefficient:

The monetary stability coefficient index indicates the inflationary pressures faced by a country's economy. It is calculated by dividing the growth rate of broad money supply (M2) by the growth rate of GDP in current prices. Monetary stability is achieved when the value of this index equals one. When the value is greater than the one, the economy faces inflationary pressures (i.e., a rise in the general price level), while if the value is less than one, the economy is experiencing deflation. The report shows that the value of the index recorded (-1.5) in Q1of 2024, compared to (1.7) in the same quarter of 2023. This decrease is due to a decline in the quarterly growth rate of M2 to (1.3%) in Q1of 2024, compared to (32.5%) in the same quarter of 2023, as well as a decline in the growth rate of nominal GDP during the same period to (0.9%). This indicates that the economy is in a deflationary phase.



Publication Guidelines

1) Reports and working papers must meet the following drafting (formatting) requirements:

- Margins should be (2.5) cm from all sides, and line spacing should be (1.0) cm.
- The report or working paper title should be enclosed in quotation marks, like this: "...".
- The title should be written in font size (18) with Bold formatting, and it must accurately reflect the content of the report or working paper.
- For Arabic text: font size should be (14) and font type should be (Simplified Arabic).
- For English text: font size should be (11) and font type should be (Times New Roman).
- Figure and table titles should be in Bold font.
- Figures, illustrations, photographs, and maps should be clear and easy to read.
- All pages of the report or working paper, including figure pages, appendices, tables, and footnotes, should be numbered consecutively.
- The total number of pages should not exceed (25) including figures, illustrations, and appendices, unless deemed necessary by the editorial board.
- For References Documentation: the journal adopts the American Psychological Association (APA) style for scientific publication, which is commonly used in all universities and research centers, or any other reference system, provided that the reference formatting style is consistent throughout the report or working paper.

2) Sections that must be included in Reports and Working Papers Submitted for Publication:

- The report or working paper title must be provided in both Arabic and English.
- Researcher (s) name, institutional affiliation, and email address.
- Abstract in Arabic, limited to (150) words.
- Abstract in English, limited to (150) words.
- Introduction.
- Conclusions and recommendations.

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