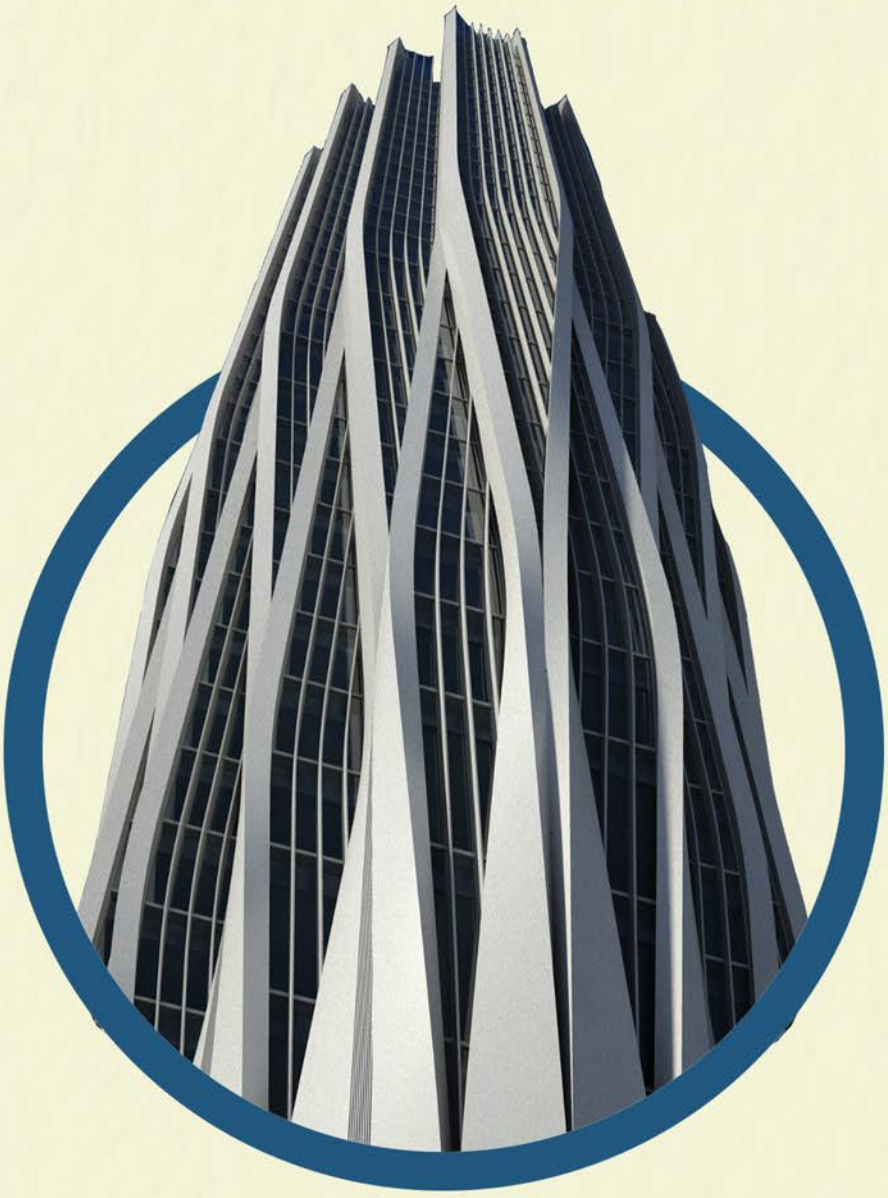
Central Bank of Iraq
Statistics & Research Department
Monetary & Financial Stability Division



Monetary Stability Report

First Quarter 2025

Central Bank of Iraq

Statistics & Research Department

Monetary & Financial Stability Division

Monetary Stability Report
(First Quarter 2025)

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Contents

Introduction:

Monetary stability is one of the fundamental pillars of a healthy macroeconomy. The Central Bank of Iraq is the primary authority responsible for achieving this goal by managing monetary policy to control inflation, stabilize the Iraqi dinar exchange rate, and maintain the purchasing power of the national currency.

To achieve this, the Central Bank of Iraq uses a mix of conventional instruments such as (reserve requirements, open market operations, and the discount rate), in addition to unconventional instruments employed as new economic circumstances arise.

Monetary stability represents a key factor in building confidence in the financial system and stimulating domestic and foreign investment, which positively contributes to sustainable economic growth.

This report aims to analyze the monetary situation in Iraq during the first quarter of 2025. It will do so by examining key monetary indicators and evaluating the effectiveness of measures taken to control liquidity and maintain monetary and financial stability.

Abstract:

In a move to strengthen monetary stability during the first quarter of 2025, the Central Bank of Iraq expanded its liquidity management operations. This resulted in an increase in cash receipts from IQD (21.22) trillion in the first quarter of 2024 to IQD (21.33) trillion in the same period of 2025.

The Central Bank of Iraq primarily relied on its foreign reserves as a cornerstone of monetary stability through its sterilization policy. These reserves have been maintained at secure levels, covering Iraq's import needs

for 14 months and accounting for (74.41%) of the total money supply (M2). This reflects a strong external position and a stable exchange rate.

Conversely, the (12.21%) increase in public spending contributed to a (1.57%) rise in currency in circulation for the same period, reaching IQD (99.87) trillion in the first quarter of 2025. This was met with a (0.53%) decrease in broad money supply (M2) during the same period, indicating the success of monetary policy tools in absorbing excess liquidity by activating the policy rate and increasing the reserve requirement ratio .

Despite these disciplined monetary efforts, the fiscal side still faces structural challenges. Public spending reached (33.91%) of GDP in the first quarter of 2025, reflecting a fiscal expansion that could lead to increased inflationary pressures without parallel disciplinary measures.

With limited non-oil revenues, domestic public debt increased from IQD (73.25) trillion to IQD (85.54) trillion during the same period, signaling a potential rise in future financing burdens. Continuing on this path requires a comprehensive review of spending policies and the adoption of strict fiscal rules to ensure financial sustainability. This would involve reducing reliance on oil resources, which would help alleviate pressure on the monetary sector and enhance the Iraqi economy's resilience to crises.

Chapter One

Analysis of the Evolution of Monetary Stability Variables in Iraq

Monetary stability in Iraq is considered the result of the interaction between various monetary and fiscal variables, which are in turn influenced by the performance of the real and financial sectors. The degree of volatility in these variables reflects the effectiveness of monetary policy in achieving stability and maintaining monetary balance. The following is a review of the most prominent of these variables and their developments:

1.1 Net Foreign Reserves and their Ability to Achieve Monetary Stability:

Net foreign reserves play a pivotal role in achieving monetary stability in Iraq, given their direct link to the Central Bank's policies aimed at preserving the value of the Iraqi dinar. These reserves also enhance the economy's ability to withstand external shocks and meet obligations to international financial institutions.

These reserves are closely tied to the volume of oil revenues, which makes them vulnerable to fluctuations in global oil prices. Furthermore, the monetary sterilization operations carried out by the Central Bank to withdraw liquidity from the market negatively impact reserves, as they require the deployment of foreign assets.

Figure (1) Relationship between Oil Prices, Net Foreign Reserves, and Cash Receipts

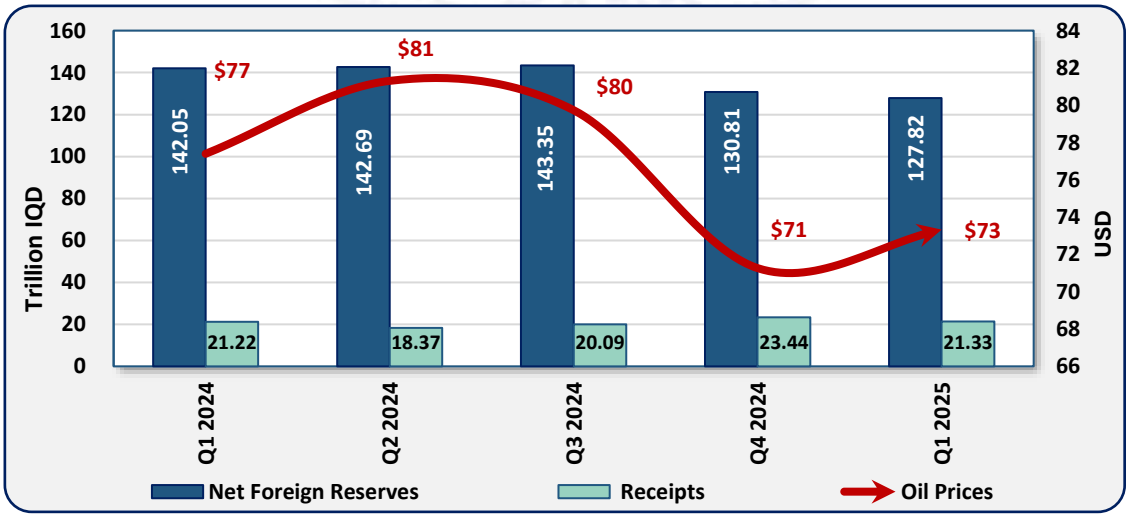


Figure (1) shows that oil prices fell from USD (77) in the first quarter of 2024 to USD (73) in the same quarter of 2025. Similarly, net foreign

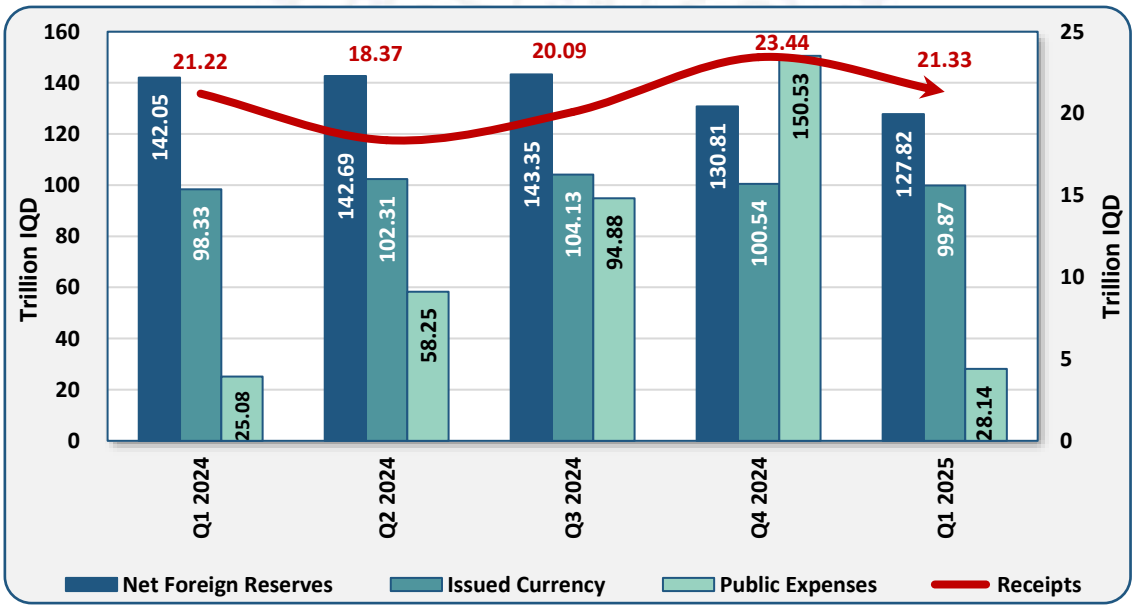
reserves recorded a decrease from IQD (142.05) trillion to IQD (127.82) trillion over the same period. This decline is attributed to the Central Bank of Iraq's intensified use of monetary sterilization operations to withdraw liquidity from the market and maintain monetary stability. This resulted in a (0.52%) rise in cash receipts, from IQD (21.22) trillion to IQD (21.33) trillion during the same period. This indicates that the (5.25%) drop in oil prices, along with the (0.52%) increase in cash receipts, contributed to the (10.02%) decrease in net foreign reserves over the period. This was further compounded by the impact of the public budget deficit on net foreign reserves.

1.2 Volume of Cash Receipts and Their Impact on Foreign Reserves and Volume of Issued Currency:

Cash receipts represent the total domestic currency received by the Central Bank of Iraq from multiple sources, most notably the sale of foreign currency. The volume of these receipts directly impacts net foreign reserves, the volume of issued currency, and the components of the money supply.

An increase in cash receipts typically leads to a decrease in the volume of issued currency, which in turn enhances monetary stability. However, this can also contribute to a decline in net foreign reserves, as more foreign currency is withdrawn in exchange for local dinars.

Figure (2) Relationship between the Volume of Cash Receipts, Net Foreign Reserves, and Volume of Issued Currency



*** The data mentioned is an accumulated balance and is measured by what appears at the end of the ter.**

Figure (2) shows that public spending rose from IQD (25.08) trillion in the first quarter of 2024 to IQD (28.14) trillion in the same quarter of 2025. This led to an increase in currency in circulation from IQD (98.33) trillion to IQD (99.87) trillion over the same period.

Despite an increase in monetary sterilization, which boosted cash receipts from IQD (21.22) trillion to IQD (21.33) trillion during the same period, this action drained a portion of net foreign reserves, causing them to fall from IQD (142.05) trillion to IQD (127.82) trillion. This indicates that the (12.21%) rise in public spending resulted in a (1.56%) increase in currency in circulation.

1.3 Cash Withdrawals (Payments) Required to Cover Public Expenditures and Their Impact on the Volume of the Issued Currency:

Cash withdrawals represent the amount of cash payments in the national currency paid by the Central Bank of Iraq to the Ministry of Finance to cover public expenditures. These payments are funded by the bank receiving foreign currency in return, which contributes to an increase in net foreign reserves. However, a rise in cash payments simultaneously causes an increase in the volume of issued currency, while a decrease in these payments results in a contraction of the money supply.

Figure (3) Relationship between Cash Payments, Issued Currency, and Net Foreign Reserves

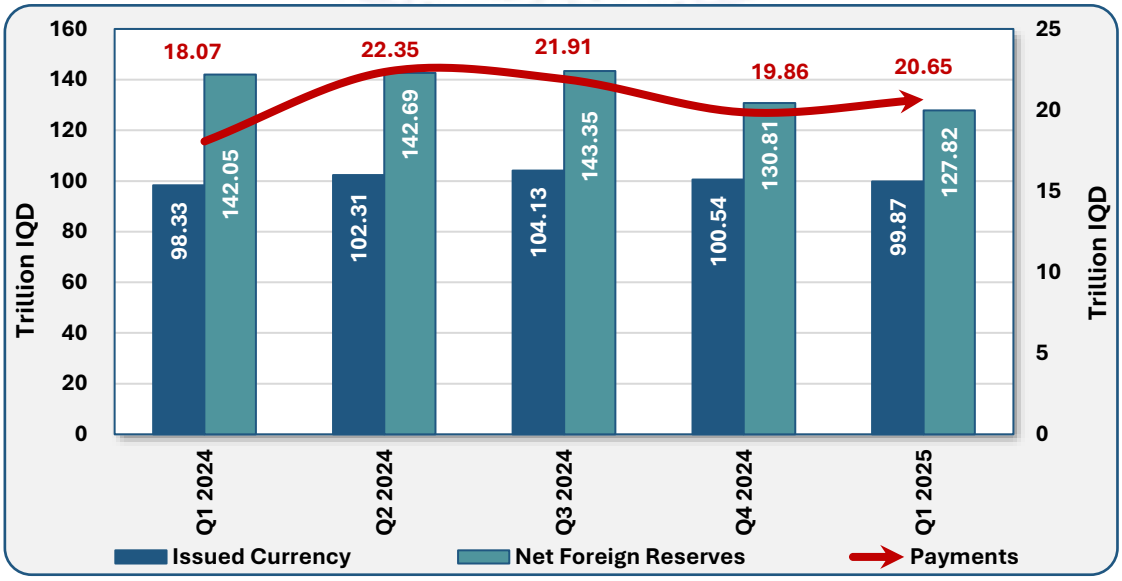


Figure (3) shows that cash payments increased from IQD (18.07) trillion in the first quarter of 2024 to IQD (20.65) trillion in the same quarter of 2025.

This rise, along with a decline in oil revenues due to lower oil prices, contributed to a decrease in net foreign reserves from IQD (142.05) trillion to IQD (127.82) trillion during the same period.

Furthermore, the increase in cash payments caused a rise in issued currency from IQD (98.33) trillion to IQD (99.87) trillion, which required additional intervention through monetary sterilization to curb the inflationary effect and maintain monetary stability. This indicates that the (14.3%) increase in cash payments, coupled with the (5.25%) drop in oil prices, resulted in a (10.02%) decrease in net foreign reserves over the period.

1.4 Impact of Payments and Cash Receipts on Inflation and the Market Exchange Rate:

The monetary impact represents the difference between the Central Bank of Iraq's cash payments and cash receipts. When this effect is negative, it means that the volume of cash receipts exceeds that of payments, which indicates a higher level of monetary sterilization operations. This is considered a positive indicator as it reflects the absorption of liquidity, thereby influencing the general price level. Conversely, a positive monetary impact indicates a decrease in the volume of monetary sterilization.

Figure (4) The Impact of Cash Payments and Receipts on Inflation and the Market Exchange Rate

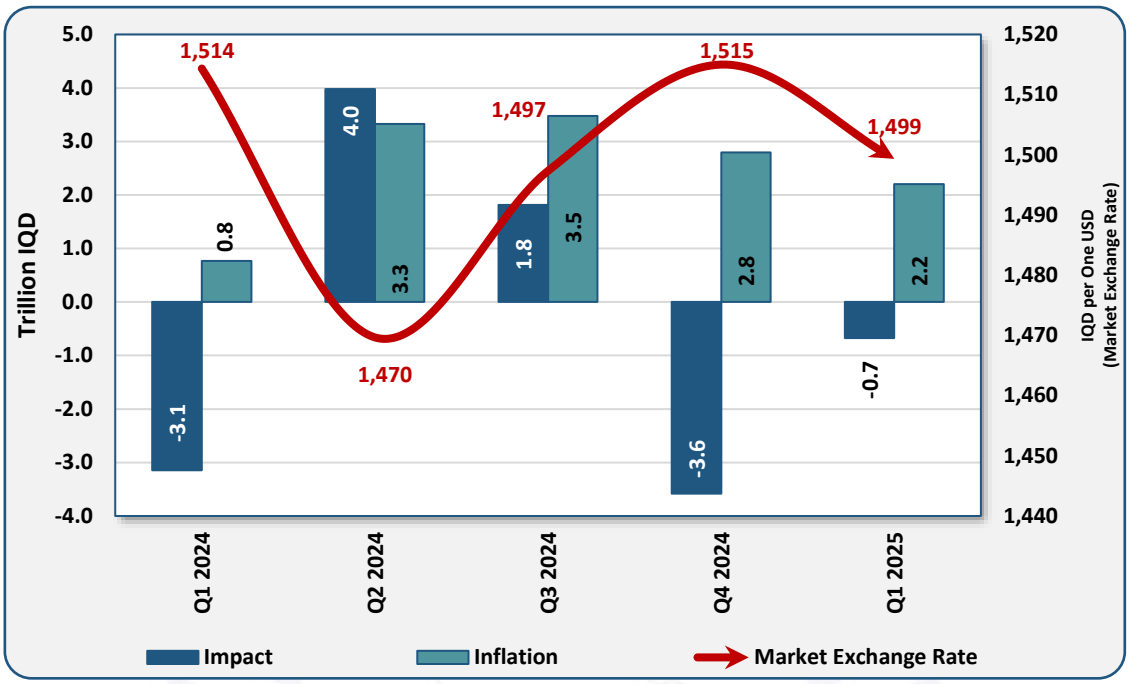


Figure (4) shows that the difference between cash payments and cash receipts (the monetary effect) reached IQD (-0.7) trillion in the first quarter of 2025. This indicates that the volume of cash receipts exceeded that of cash payments due to the Central Bank's intensified monetary sterilization operations.

This had a positive impact on the market exchange rate, as the US dollar decreased from IQD (1,514) to IQD (1,499) per dollar during the same period. This reflects a relative improvement in the value of the Iraqi dinar and better monetary stability. However, the inflation rate still rose from (0.8%) to (2.2%) during the same period.

1.5 Components of the Monetary base:

The Monetary base represents the mini balance sheet of the Central Bank of Iraq and plays a crucial role in maintaining monetary stability. It is reflected in both the assets and liabilities of the Central Bank of Iraq's balance sheet. This indicator is considered one of the Central Bank of Iraq's most important instruments because it forms the foundation upon which the economy's money supply is built (via the money multiplier), as follows:

1.5.1 Monetary base from the Assets Side of the Central Bank of Iraq's Balance Sheet:

It is represented in the **net foreign assets of the Central Bank of Iraq plus net domestic assets,** that the net foreign assets of the Central Bank of Iraq represent the largest part of the assets side of the monetary base. It is directly and positively related to both net foreign reserves and net domestic credit which is provided by the Central Bank of Iraq to the central government, the latter is linked to the state of public finances which in turn drive the components of the monetary base on the liabilities side.

Figure (5) The Relationship between the Monetary base, Net Domestic Assets, and Net Foreign Reserves of the Central Bank of Iraq

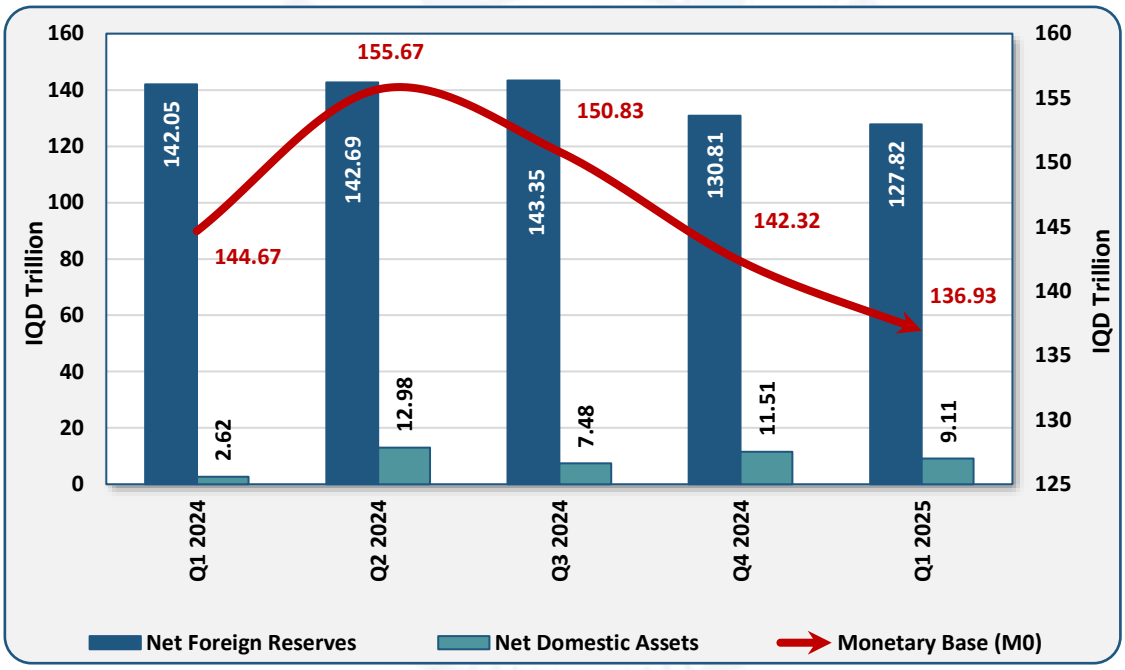


Figure (5) shows that net foreign reserves decreased from IQD (142.05) trillion in the first quarter of 2024 to IQD (127.82) trillion in the same quarter of 2025. This caused the monetary base to fall from IQD (144.67) trillion to IQD (136.93) trillion over the same period, despite a rise in net domestic assets from IQD (2.62) trillion to IQD (9.11) trillion during the same period. This indicates that the (10.02%) decrease in net foreign reserves led to a (5.35%) decrease in the monetary base for the period.

1.5.2 Monetary base from the Liabilities Side of the Central Bank of Iraq's Balance Sheet:

The monetary base on the liabilities side refers to reserve money, also known as high-powered money. This is represented by the total amount of **currency in circulation and banks' reserves**. Currency in circulation constitutes the largest portion of the monetary base (M0) on the liabilities side, in addition to excess and required reserves. Therefore, an increase in currency in circulation leads to a rise in the monetary base.

Figure (6) The Relationship between the Monetary base, Currency in Circulation, and Banks' Reserves

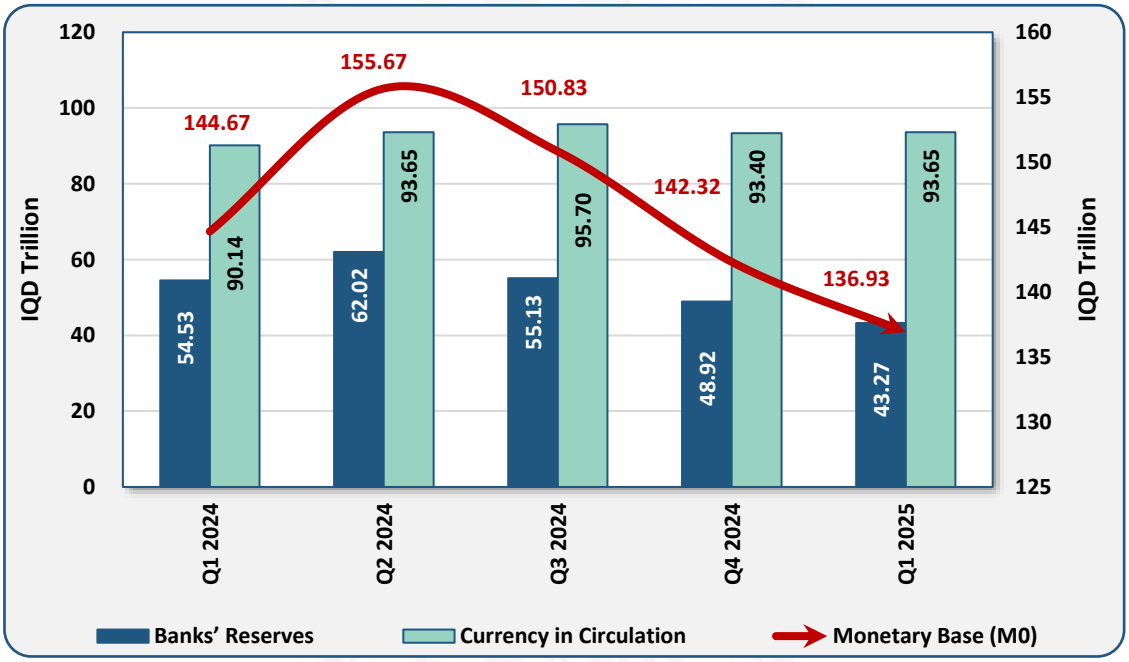


Figure (6) shows that currency in circulation increased from IQD (90.14) trillion in the first quarter of 2024 to IQD (93.65) trillion in the same quarter of 2025. In contrast, banks' reserves decreased from IQD (54.53) trillion to IQD (43.27) trillion during the same period. This led to a drop in the monetary base from IQD (144.67) trillion to IQD (136.93) trillion over the same period. This indicates that the (20.16%) decrease in banks' reserves was the primary factor that caused the (5.35%) decrease in the monetary base for the period.

1.6 Volume of Currency in Circulation and its Impact on Monetary Stability:

The volume of currency in circulation is a key factor affecting monetary stability. When it increases at a rate exceeding real economic growth, it contributes to a rise in aggregate demand. This is reflected in higher price levels and, consequently, an increase in inflation rates.

Figure (7) Relationship between Inflation and Currency in Circulation

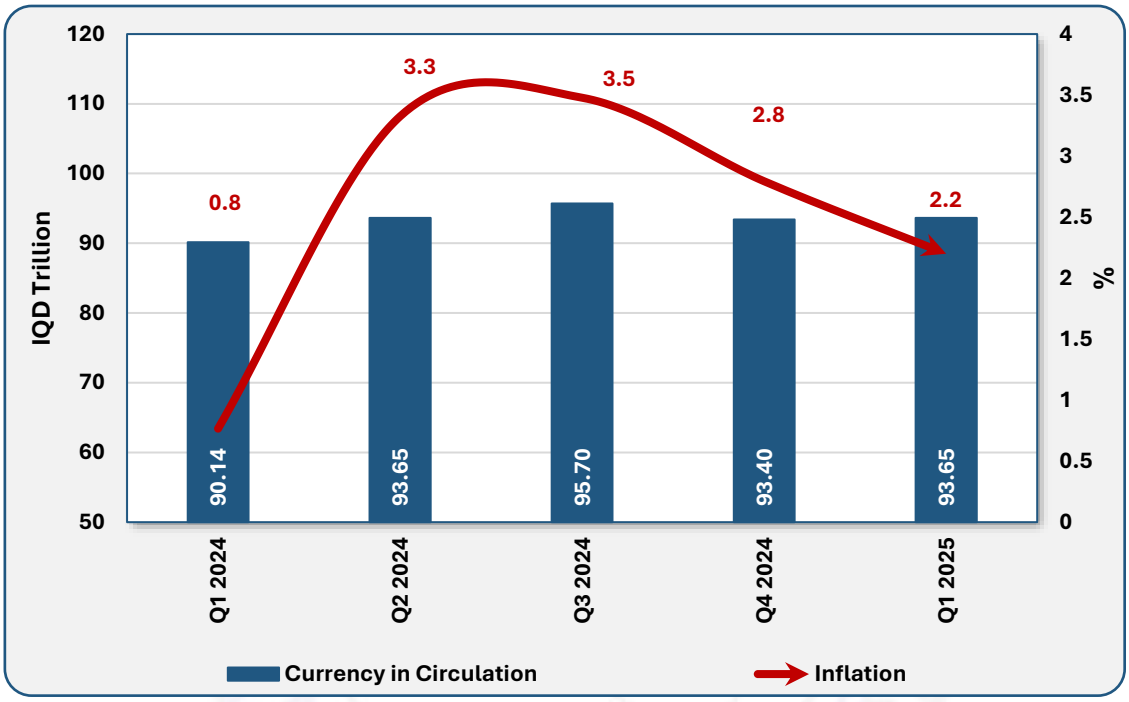


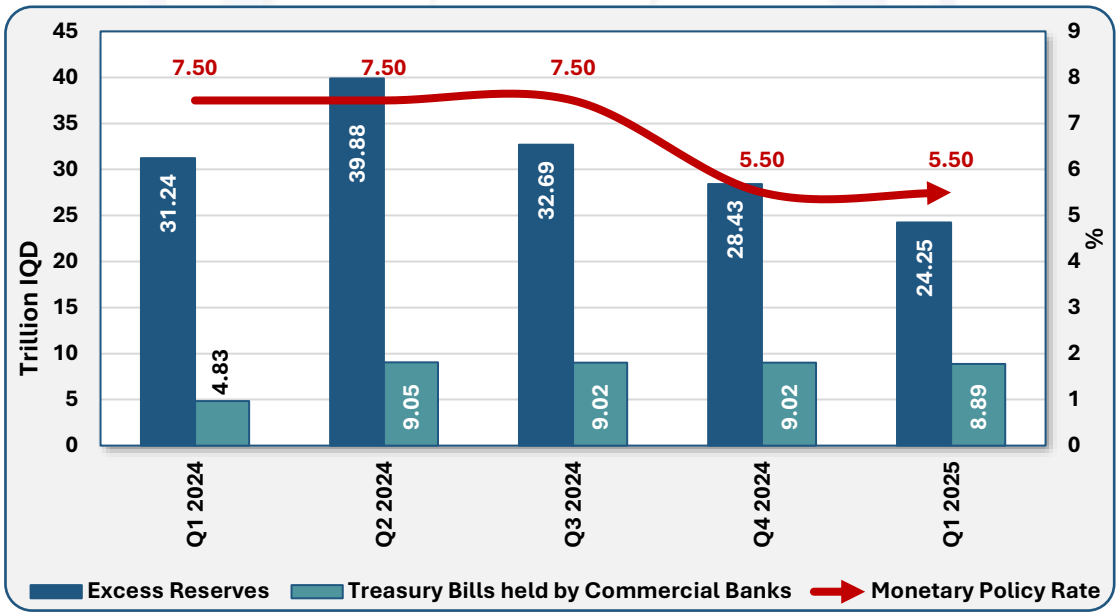
Figure (7) illustrates a clear rise in the volume of currency in circulation from IQD (90.14) trillion in the first quarter of 2024 to IQD (93.65) trillion for the same quarter of 2025, with a growth rate of (%3.90). This rise was accompanied by rising inflation rate from (%0.8) in the first quarter of 2024 to (%2.2) for the same quarter of 2025, despite this uptick in inflation rate, it is still within natural limits.

1.7 Monetary Policy Rate:

Monetary policy rate is the reference interest rate set by the Central Bank of Iraq to influence the cost of borrowing in the economy, thereby controlling liquidity, inflation, and economic growth levels. The monetary policy was reduced from (7.5%) to (5.5%) in 2024. Figure (8) shows the impact of this reduction in the first quarter of 2025, as excess reserves held by banks decreased from IQD (31.24) trillion in the first quarter of 2024 to IQD (24.25) trillion in the same quarter of 2025.

This indicates that banks shifted toward investing in government debt instruments, with the value of treasury bills held by commercial banks rising from IQD (4.83) trillion to IQD (8.89) trillion over the same period.

Figure (8) The Monetary Policy Rate, Excess Reserves, and Treasury Bills Held by Commercial Banks



1.8 Reserve Requirement:

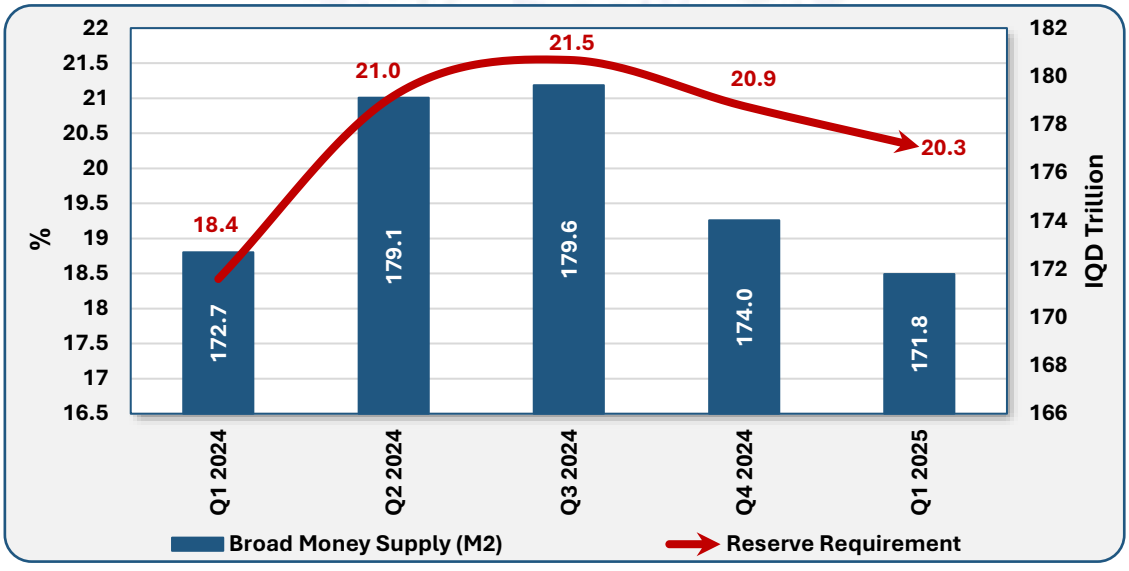
The reserve requirement is considered a fundamental monetary policy instrument. It is a percentage of customers' deposits that banks are obligated to hold with the central bank. The importance of this reserve lies in ensuring banks can meet customer monetary withdrawal requests, in addition to its role in controlling liquidity levels within the financial system.

When the Central Bank of Iraq aims to implement an expansionary monetary policy, it lowers the reserve requirement ratio. This allows banks to lend more money, which leads to an increase in economic activity.

Conversely, when the Central Bank of Iraq pursues a deflationary monetary policy, it raises the reserve requirement ratio. This reduces banks' ability to lend, affecting the amount of liquidity and consequently influencing the inflation rate.

In this context, the Central Bank of Iraq raised the reserve requirement ratio, which led to an increase in reserve requirement from IQD (18.4) trillion in the first quarter of 2024 to IQD (20.3) trillion in the same quarter of 2025. This action restricted banks' ability to extend monetary credit to the private sector and contributed to a (0.53%) decrease in the broad money supply (M2), which fell from IQD (172.70) trillion to IQD (171.79) trillion for the same period, as shown in Figure (9).

Figure (9) Relationship between Reserve Requirement and Broad Money Supply (M2)



Chapter Two

Analysis of the Evolution of Monetary Stability Indicators

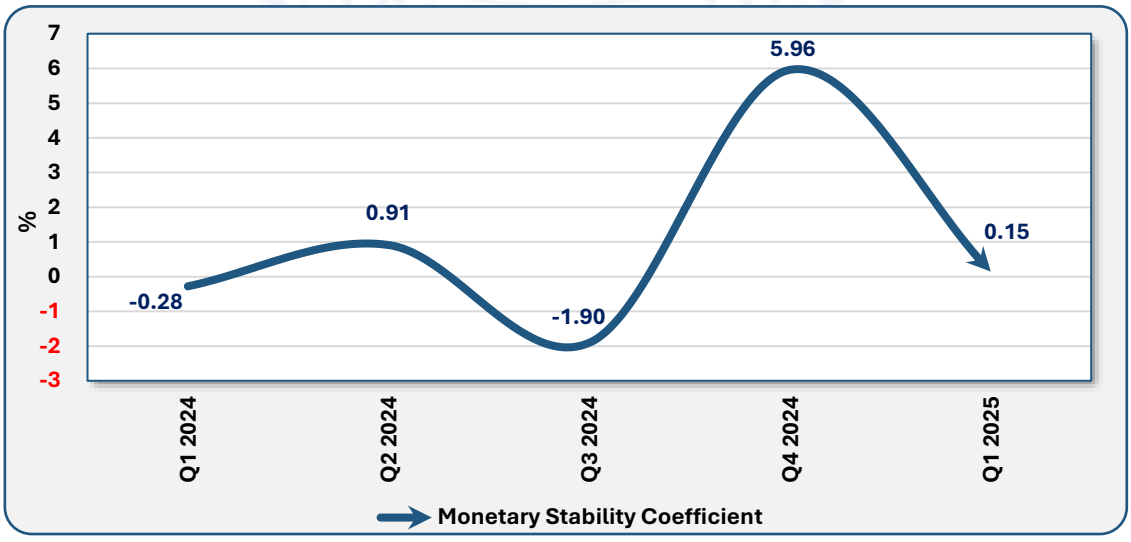
This chapter aims to provide a comprehensive overview of the evolution of key indicators used to assess monetary stability, focusing on key criteria including the adequacy of foreign reserves, fiscal discipline, and their role in supporting monetary stability in the Iraqi economy.

2.1 Monetary Stability Criteria:

2.1.1 The Monetary Stability Coefficient based on the Elasticity of Money to Changes in GDP [1]:

The monetary stability coefficient expresses the relationship between the growth rate of the broad money supply (M2) and the growth rate of real GDP (at constant prices). This indicator is an important analytical instrument for assessing the consistency between monetary liquidity growth and real growth in the economy and thus diagnosing the possibility of inflationary or deflationary pressures. Figure (10) shows that the monetary stability coefficient reached (0.15) for Q1 of 2025. This indicates that the growth rate of liquidity has declined, and this decline was less than the decline in the growth rate of real GDP. This indicates that the economy operates within a secure level of liquidity and does not face clear inflationary pressures, reflecting a state of relative monetary stability that supports price stability.

Figure (10) Monetary Stability Coefficient

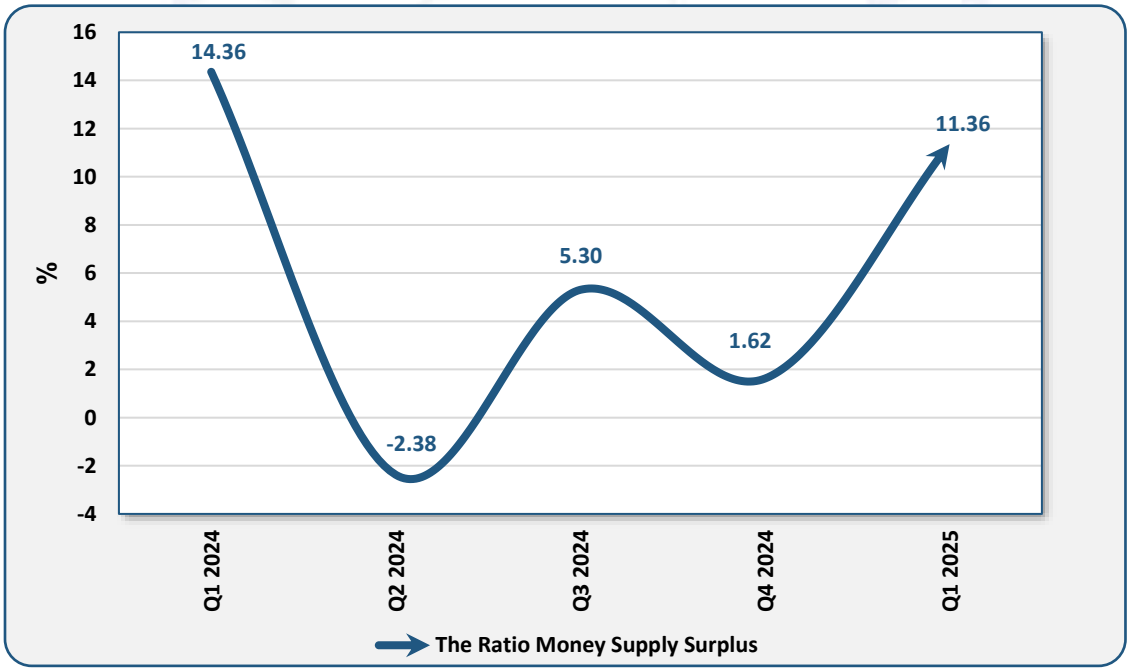


(1) For more information, see Monetary Stability Report Q3 /2024.

2.1.2 Money Supply Surplus [2]:

This criterion is used to measure the inflationary gap by calculating the difference between the change in the narrow money supply (M1) and the change in the demand for money over a specific period. A surplus supply is an indicator of excess purchasing power that is not matched by a similar increase in the production of goods and services, which can push domestic prices upward. Figure (11) shows that the ratio of money supply surplus decreased from (14.36%) in the first quarter of 2024 to (11.36%) in the same quarter of 2025. This decline indicates relative success in absorbing excess liquidity and reducing inflationary pressures, which contributes to enhancing monetary stability and achieving a better balance between aggregate demand and aggregate supply in the economy.

Figure (11) Ratio of Money Supply Surplus

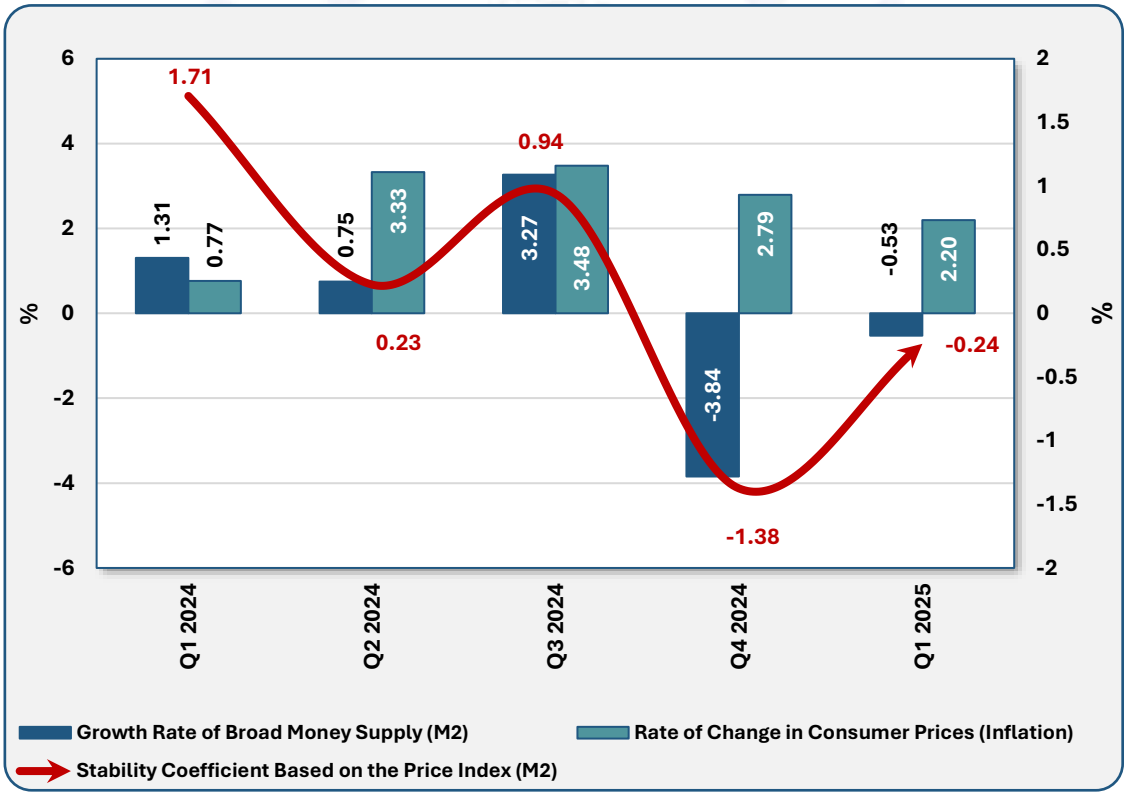


(2) For more information, see Monetary Stability Report Q3 /2024.

2.1.3 Monetary Stability Coefficient Based on the Elasticity of Money Supply to Price Changes [3]:

It is one of the important indicators that reflects the degree of relative response to monetary liquidity towards price changes in the economy. This indicator can be measured from the rate of growth in the money supply to the rate of change in the price index. Figure (12) shows that the value of the index decreased by (0.24%) in the Q1 of 2025, as a result of recording negative growth in the broad money supply (M2), which indicates that the economy is not suffering from tangible inflationary pressures.

Figure (12) Monetary Stability Coefficient Based on the Elasticity of Money Supply to Price Changes



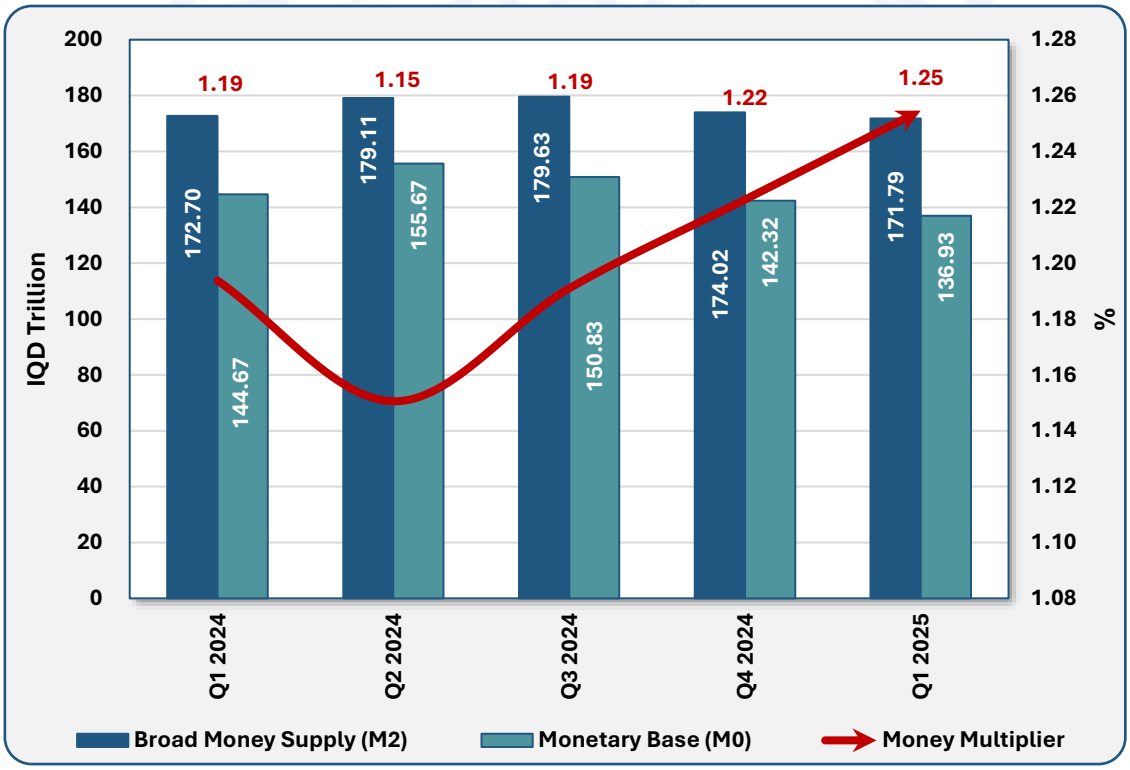
(3) For more information, see Monetary Stability Report Q3 /2024.

2.1.4 The Money Multiplier [4]:

The money multiplier measures the banking system's ability to create money and influence its volume within the national economy through the process of attracting deposits. Figure (13) shows that the money multiplier recorded a slight increase from (1.19) times in the Q1 of 2024 to (1.25) times in the same quarter of 2025. This increase indicates a strengthening of the banking system's role in creating liquidity, reflecting a relative improvement in its operational efficiency.

This improvement in the value of the multiplier is attributed to a decrease in the monetary base that was greater than the decrease in the money supply. The monetary base decreased by (5.35%) to decrease from IQD (144.67) trillion to IQD (136.93) trillion for the same period trillion during the same period.

Figure (13) Money Multiplier



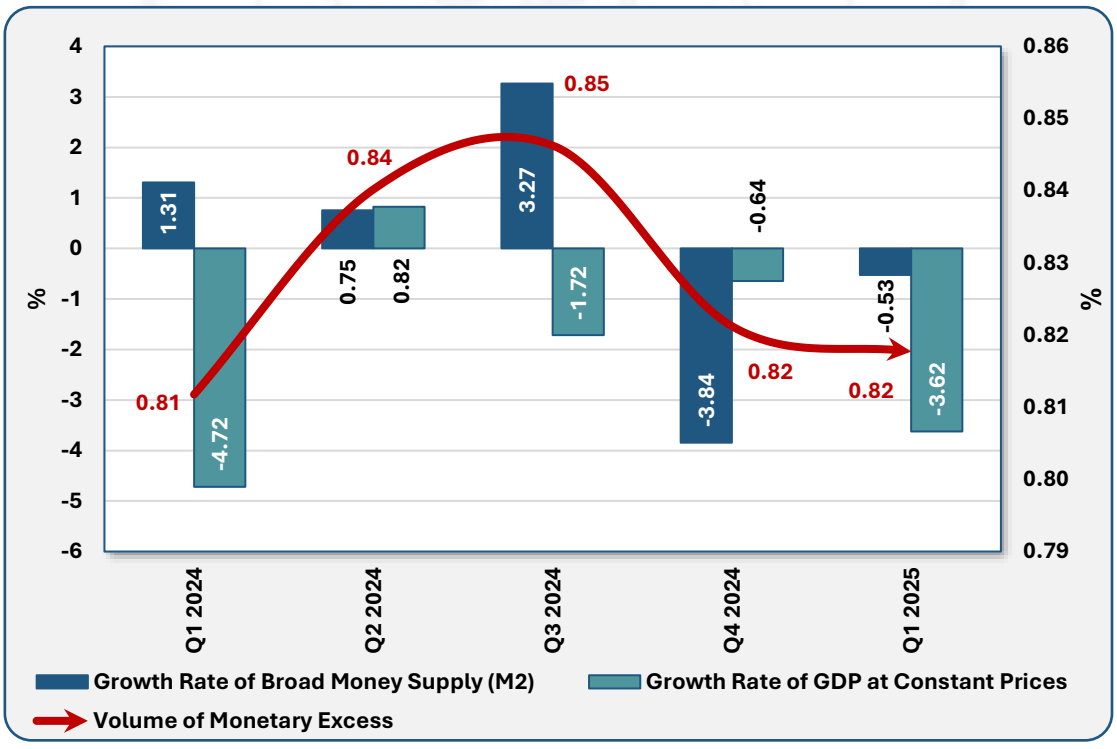
(4) For more information, see Monetary Stability Report Q3 /2024.

2.1.5 Volume of Monetary Excess [5]:

According to this indicator, inflation is caused by the amount of money per productive unit rising above its optimal level. This leads to a monetary excess, which generates a sustained rise in the general price level, i.e. inflation. Figure (14) shows that the volume of the monetary excess reached (0.81) in the Q1 of both 2024 and 2025, respectively. This indicates relative stability in the relationship between broad money supply (M2) and real GDP during the same period, despite overall changes in both.

Both real GDP and broad money supply(M2) experienced contraction during this period. The real GDP growth rate decreased by (3.62%), while the broad money supply recorded (-0.53%). However, despite this decline, the stability of the monetary excess at the same level means that the relative relationship between the money supply and real GDP has not changed, which means the absence of inflationary pressures resulting from monetary imbalance.

Figure (14) Volume of Monetary Excess



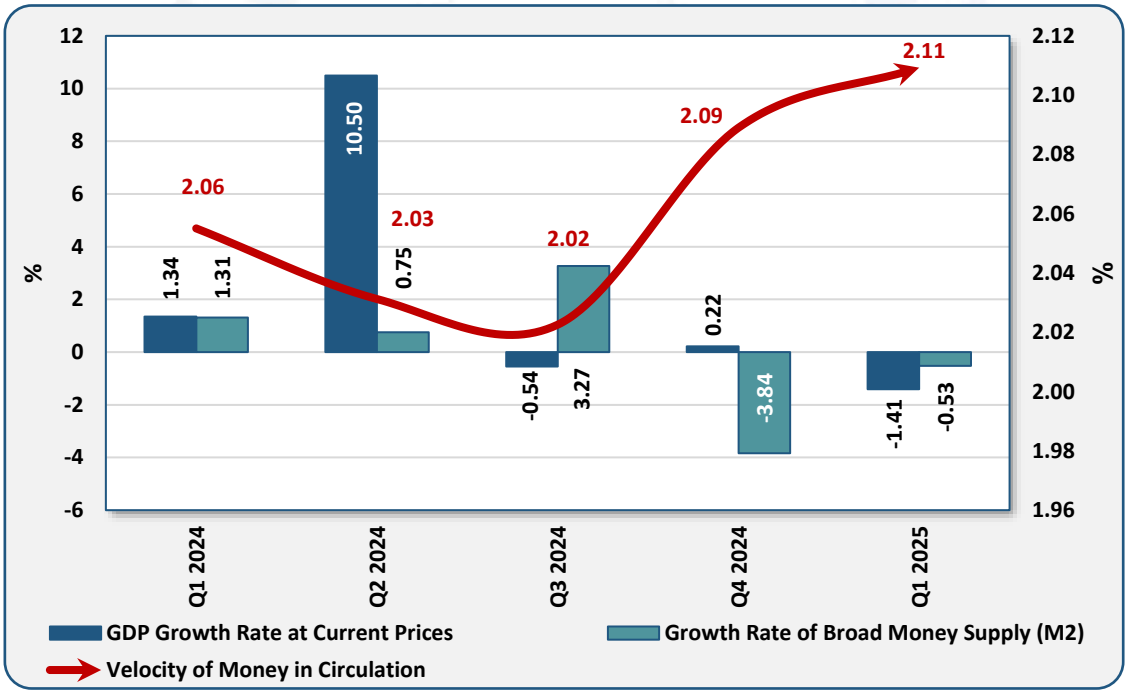
(5) For more information, see Monetary Stability Report Q3 /2024.

2.1.6 The Velocity of Money in Circulation [6]:

The velocity of money in circulation refers to the average number of times that each dinar in the money supply is used to conduct financial transactions (purchasing goods and services) that included in the GDP. This has an inverse relationship with the money in circulation, the more money available, the slower each unit of currency moves, and vice versa.

Figure (15) shows that money circulated faster in the economy for 2025, each dinar was (2.11) times to buy goods or services during the first quarter of 2025, compared to (2.06) times in the same quarter of 2024, and the high the velocity of money in circulation is usually an indicator of an increase in economic activity, as it indicates that individuals and companies spend their money faster.

Figure (15) Velocity of Money in Circulation



(6) For more information, see Monetary Stability Report Q3 /2024.

2.2 Adequacy of Foreign Reserves:

2.2.1 Ratio of Net Foreign Reserves to Issued Currency:

The coverage of issued currency by the foreign reserves held by the Central Bank of Iraq is critically important. Having sufficient reserves means maintaining the value of the national currency from depreciation and keeping inflation at acceptable levels. The higher the ratio of net foreign reserves to issued currency, the greater the Central Bank of Iraq's capacity for monetary sterilization, which in turn influences the exchange market to protect its national currency from sharp fluctuations. The standard ratio for this should preferably not be less than (100%).

Figure (16) Ratio of Net Foreign Reserves to Issued Currency

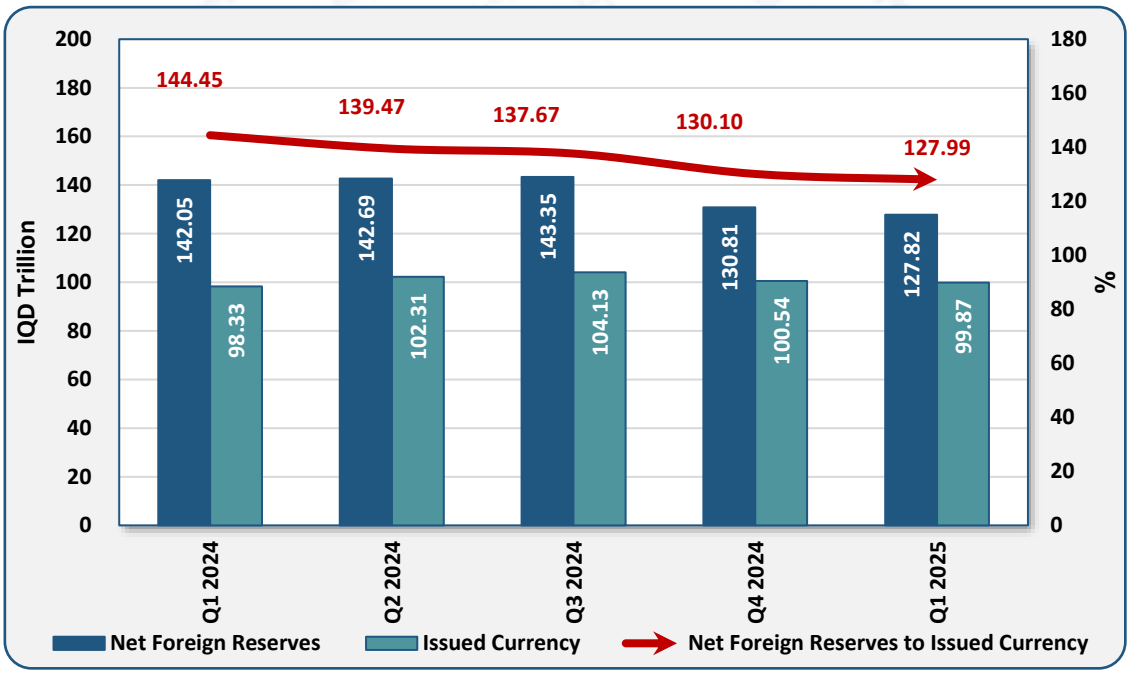


Figure (16) shows a decrease in the ratio of net foreign reserves to issued currency from (144.45%) in the first quarter of 2024 to (127.99%) in the same quarter of 2025. Despite this decline, it is still higher than the standard ratio (100%). This indicates that the Central Bank of Iraq has a larger amount of net foreign reserves compared to the issued national currency, indicating greater stability in the value of the issued currency because it is covered by a percentage greater than (100%).

2.2.2 Ratio of Net Foreign Reserves to Broad Money Supply (M2):

The ratio of net foreign reserves to broad money supply (M2) is an indicator used to measure the Central Bank's capacity to cover monetary liquidity with its foreign currency reserves. A ratio exceeding (20%) signifies a strong ability to support the national currency and signifies higher financial stability. It's worth noting that the more a country's reliance on a fixed exchange rate, the higher ratio it needs to defend the value of its national currency.

Figure (17) Ratio of Net Foreign Reserves to Broad Money Supply (M2)

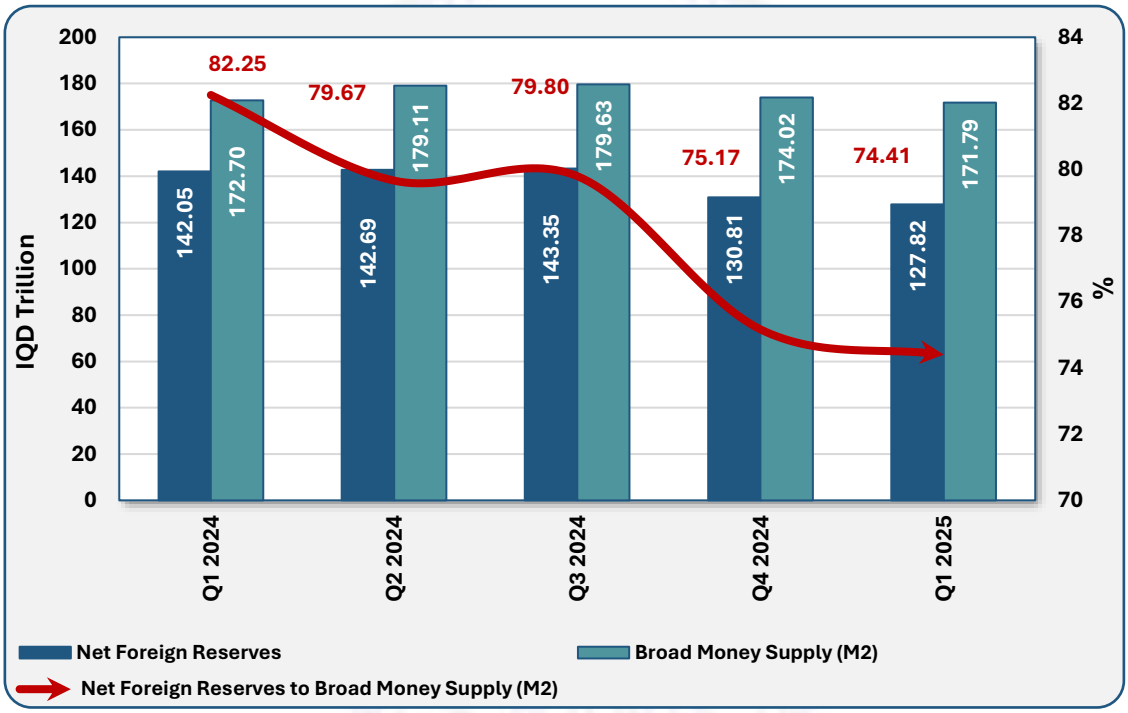


Figure (17) shows a decline in the ratio of net foreign reserves to broad money supply (M2) from (82.52%) in Q1 of 2024 to (74.41%) in the same quarter of 2025.

Despite this decrease, the ratio remains at a relatively safe level compared to the standard ratio of (20%), which means that the amount of net foreign reserves is sufficient to defend the value of the currency.

2.2.3 Import Coverage Indicator:

The import coverage indicator is commonly viewed as a measure of the number of months imports can be sustained if all foreign currency inflows were to cease. The standard for this ratio is typically between (3-6) months.

Figure (18) Import Coverage Indicator

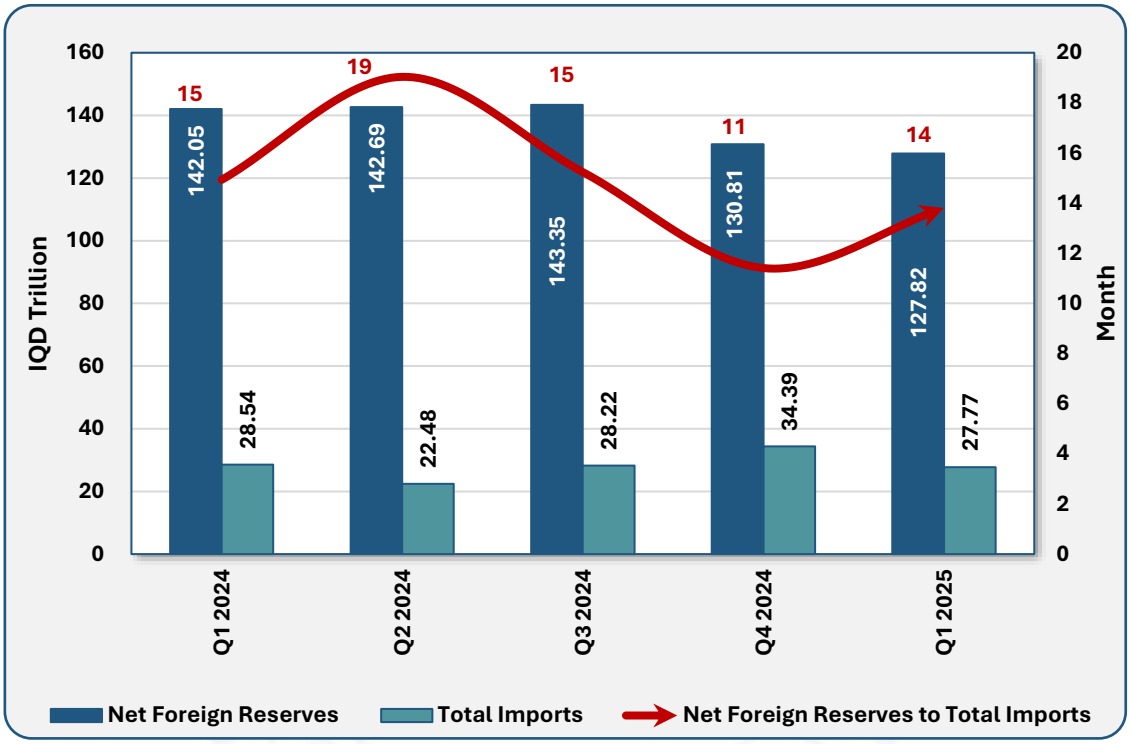


Figure (18) shows a decrease in the ratio of foreign reserves to imports from (15) months in the Q1 of 2024 to (14) months in the same quarter of 2025. Despite this decline, Iraq's reserves can still cover (14) months of imports, even if it were to receive no foreign currency revenues starting from the first quarter of 2025.

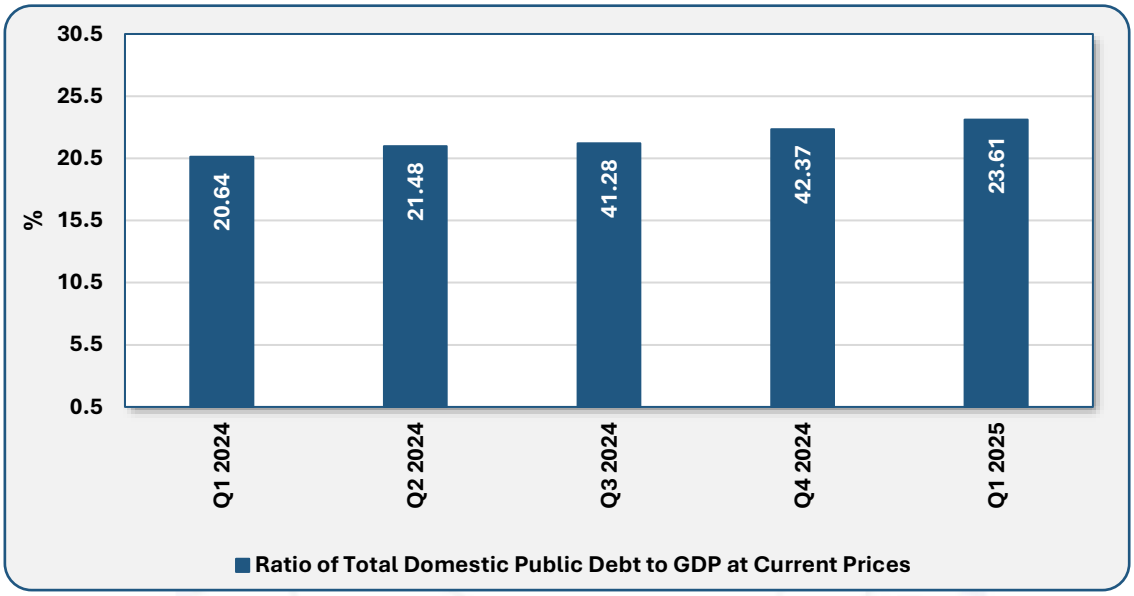
2.3 Financial Discipline Indicators:

2.3.1 Ratio of Total Domestic Public Debt to GDP at Current Prices:

The ratio of public debt-to-GDP at current prices is a fundamental indicator for assessing a government's capacity to service its debt relative to the volume of its economy. According to international standards, a

fiscally sound ratio should not exceed (60%)[7] of GDP at current prices. However, this ratio can vary significantly across countries, influenced by their specific economic conditions and the adaptability of their productive sectors. Nevertheless, exceptionally high debt levels are almost always a cause for economic concern.

Figure (19) Ratio of Total Domestic Public Debt to GDP at Current Prices



*** This indicator is calculated by dividing the total debt by the GDP for the current quarter, plus the three preceding quarters.**

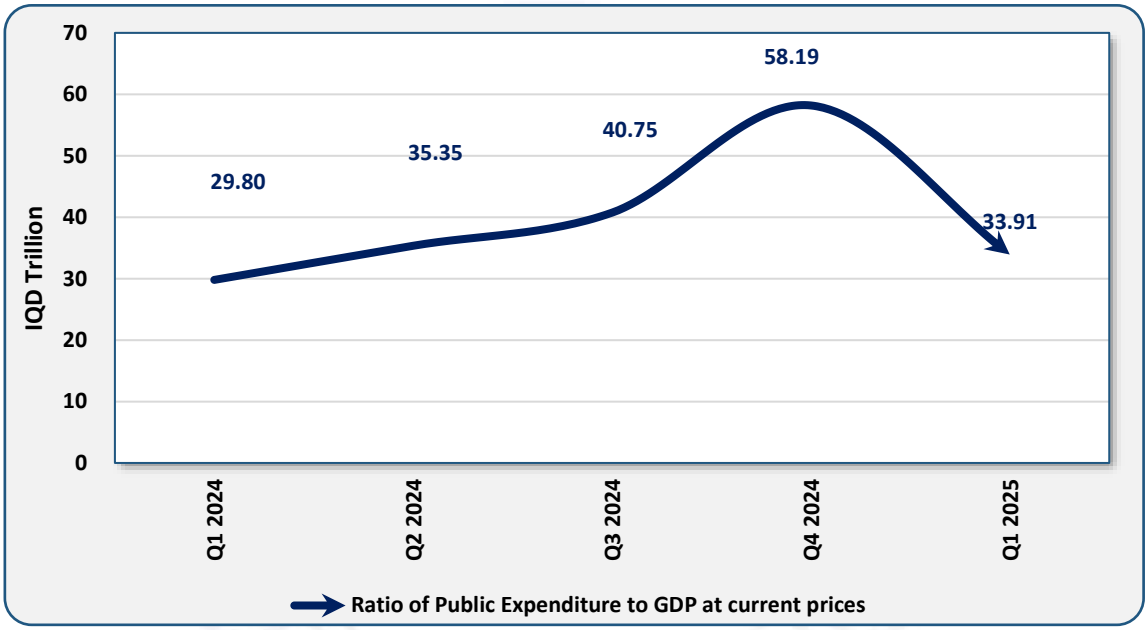
Figure (19) shows that the ratio of domestic public debt to GDP at current prices increased from (20.64%) in the Q1 of 2024 to (23.61%) in the same quarter of 2025. This rise is attributed to an increase in total domestic public debt from IQD (73.25) trillion to IQD (85.54) trillion during the same period. This trend suggests that the government has resorted to debt financing to cover public spending requirements, leading to a noticeable increase in total domestic public debt. If this approach continues, it will place an additional burden on the state in the form of interest payments, which could restrict the future ability to direct resources toward investment spending and thus lead to a continuous rise in the debt-to-GDP ratio.

(7) https://www.ecb.europa.eu/ecb-and-you/explainers/tell-me-more/html/maastricht_treaty.en.html

2.3.2 Ratio of Public Expenditure to GDP at Current Prices:

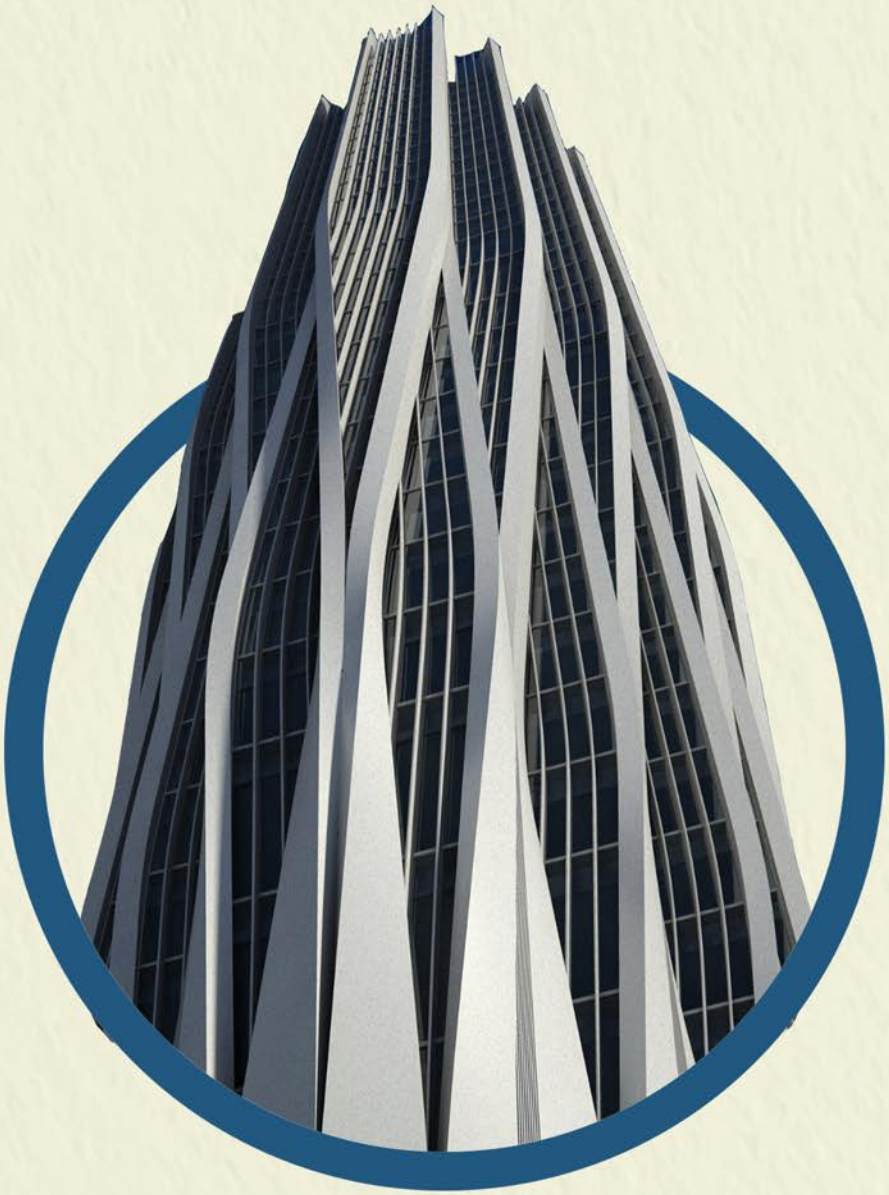
The ratio of public expenditure to GDP at current prices is a vital for instrument to measure the scale of government involvement in the economy and its potential effect on monetary stability. Policymakers must approach this ratio with care, as a substantial increase in public spending without a parallel a rise in production can boost aggregate demand for goods and services, potentially leading to inflationary pressures.

Figure (20) Ratio of Public Expenditure to GDP at Current Prices



*** Public spending was relied upon as a flow-through amount.**

Figure (20) shows that the ratio of public expenditure to GDP increased from (29.80%) in the Q1 of 2024 to (33.91%) in the same quarter of 2025. This means that government spending was equivalent to (33.91%) of the country's GDP at current prices during the Q1of 2025, compared to (29.80%) in the same period in 2024. Despite this significant increase in spending, the Central Bank of Iraq played a major role in maintaining monetary stability and defending the currency's value.



البنك المركزي العراقي
Central Bank of Iraq

رقم الإيداع في دار الكتب والوثائق ببغداد ٢٢٨٦ لسنة ٢٠٢٥