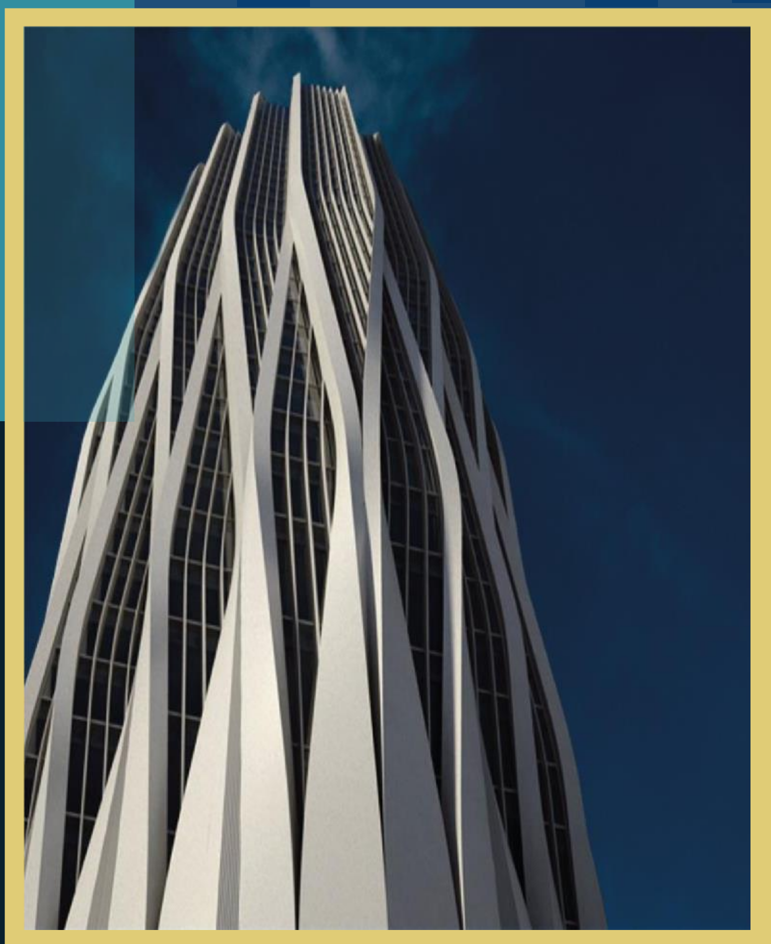
Central Bank of Iraq

Statistics & Research Department

Annual Report

Monetary Policy Report of Central Bank of Iraq 2024



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Monetary Indicators Brief

Indicators	2024	2023
Monetary Base (M0) (Trillion IQD)	142.3	165.2
Narrow Money Supply (M1) (Trillion IQD)	153.0	160.3
Broad Money Supply (M2) (Trillion IQD)	174.0	181.0
Foreign Reserves (Trillion IQD)	130.3	145.3
CBI Average Interest Rates (%)	5.5	7.5
General Inflation Rate (%)	2.6	4.4
Core Inflation Rate (%)	2.8	4.6
Average Consumer Price Index (CPI) (point)	107.1	104.4
Average Consumer Price Index after exclusion (point)	107.5	104.6
Implicit Deflator for GDP (%)	228.9	213.8
Imported Inflation (%)	1.8	1.6
Velocity of Money Circulation (times)	2.4	2.2
Monetary Stability Coefficient (%)	2.5	14.6
Monetary Excess Ratio (%)	2.0	5.5
Purchasing Power of Money (%)	0.93	0.96
Monetary Multiplier	1.22	1.10

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Introduction

The year 2024 witnessed relative economic stability, especially due to low inflation in major economies. This was largely driven by the stability of energy and food prices following fluctuations in previous years, which helped ease inflationary pressures. On the other hand, global supply chains continue to recover, energy prices stabilize, and the technology and renewable energy sectors are growing.

This, in turn, led the Federal Reserve to cut interest rates several times throughout 2024. The Federal Reserve is expected to be fixed and then reduce interest rates, depending on changes in inflation rates.

The above factors directly and indirectly affected the Iraqi economy and its monetary policy. During 2024, the Central Bank of Iraq adopted a less restrictive policy as a result of the decrease inflation experienced throughout the year, as the Central Bank cut the policy rate.

Monetary indicators witnessed several developments during 2024, as follows:

- The monetary base (M0) recorded a 13.9% decrease at the end of 2024 compared to the previous year. Similarly, the narrow money supply (M1) and the broad money supply (M2) saw a decrease of 4.6% and 3.8% at the end of 2024, respectively, compared to the previous year. This decline is attributed to a decrease in the components of the monetary base on both the sources and uses sides for 2024. Additionally, foreign reserves decreased by (10.3%) at the end of 2024 compared to the previous year to record IQD (130.3) trillion, compared to IQD (145.3) trillion at the end of 2023.

- The general inflation rate at the end of 2024 recorded (2.6%), and the core inflation rate after excluding both petroleum derivatives (oil and gas) and the two groups (fruits and vegetables) was (2.8%).

- At the level of monetary policy, the Central Bank moved towards reducing the interest policy rate from (7.5%) to (5.5%), while the reserve requirement ratio on government deposits of both types (current and time) in the banking sector was raised to be (22%) instead of the ratios of (18%) for current deposits and (13%) for forward deposits in Iraqi dinars only.

- The Central Bank has reactivated its securities (Islamic certificates of deposit and CBI 'S bills), as part of an annual plan with two maturities the first: a term of (14) days with a return of (4%), and the other a term of (182) days with a return of (5.5%).

- Regarding the effectiveness of monetary policy indices, the monetary stability coefficient reached (2.5%), and the money multiplier registered (1.22) units in 2024. Additionally, foreign reserve adequacy indicators recorded ratios higher than the benchmark levels, demonstrating the effectiveness of the monetary policy.

Concepts Guide

1- **Monetary Policy**: list of measures and tools used by the monetary authority represented by the Central Bank to implement a set of goals.
2- **Operating Banks in Iraq**: It includes all national (state-owned and private) and foreign banks operating in The Republic of Iraq that are licensed and subject to the supervision of the Central Bank of Iraq, including commercial, specialized and Islamic banks, licensed to conduct their business in accordance with the provisions of the Central Bank Law No. 56 of 2004, Article 40, Section Eight, Banking Law No. 94 of 2004, Article 4, and Islamic Banks Law No. 43 of 2015.
3- **Banking System**: Consists of the Central Bank of Iraq and Operating Banks in Iraq.
4- **Issued Currency**: It is the cash issued by the Central Bank for circulation except for money held in Central Bank's vaults.
5- **Currency Outside Banks**: It represents the currency issued by the Central Bank for circulation (excluding currency in the vaults of the central bank) minus the currency held in the vaults of commercial banks.
6- **Deposits**: It includes all types of economic sectors deposits with banks operating in Iraq.
7- **Monetary Base** (M0): represents issued currency (currency outside banks + currency at banks) plus surplus and reserve requirement, current accounts of commercial banks at the Central Bank of Iraq (in dinars and dollars).
8- **Narrow Money Supply** (M1): represents the currency outside banks, plus transferable deposits at the Central Bank and current deposits of a current nature at commercial banks (in dinars and dollars).
9- **Broad Money Supply** (M2): represents the narrow money supply plus other deposits of all economic sectors (except the central government sector) with commercial banks in (dinars, dollars), and postal savings deposits.
10- **Money Multiplier** (M): It is the ability of banks to create money in the economy, and it is the result of dividing the broad money supply by the monetary base (M0).
11- **Foreign Assets** (net): Includes foreign assets in the banking system, minus foreign liabilities on the banking system represented by the Central Bank and banks operating in Iraq.
12- **Domestic Assets** (net): represent the sum of net debts on the government, debts on the private sector and other sectors, and net of other items.
13- **Reserve Requirement**: A percentage of the total deposits with banks operating in Iraq of all types that are kept at the Central Bank, current deposits, savings deposits, and fixed deposits.
14- **General Consumer Price Index**: It measures the general level of prices of a fixed basket of goods and services consumed by Iraqi families in Iraq, with a specific base year (100 =20122) and is prepared by the Commission of

Statistics and Geographic Information Systems (GIS) / Directorate of Price Indices.

15- **Core Inflation**: inflation is calculated after excluding some commodities with fluctuating prices, which are the two groups of fruits and vegetables in the food and non-alcoholic beverages section, in addition to (oil and cooking gas) within the housing section, and it is prepared by Commission of Statistics and Geographic Information Systems (GIS) / Directorate of Price Indices.

16- **Spread Coefficient** represents the difference between the average interest rate on deposit and the average interest rate on lending.

Chapter One

Global Developments of Monetary Policy

The year of 2024 witnessed a clear turning point in interest rate policies, after central banks began to take less stringent decisions, including reducing interest rates after a series of raising them in the previous two years, as well as signs of continuing to reduce interest rates starting next year. On the other hand, China has continued to pursue a accommodative monetary policy to support economic growth, relying on low inflation rates, while the rapid escalation in trade tensions and the sharp rise in levels of policy uncertainty is expected to have a huge impact on global economic activity.

The report will address the following in this chapter:

First — **Global Monetary Policy Developments**

Second — **Arab Monetary Policy Developments**

Third — **Global Monetary Policy Outlook**

First: Global Monetary Policy Developments

The world witnessed a noticeable decline in inflation rates in 2024, even if price pressures continued in some countries. This is what prompted many central banks to reduce their interest rates. Five out of nine central banks that supervise the world's ten most traded currencies held several meetings in December to cut (reduce) interest rates. The Central Banks of Switzerland and Canada reduced interest rates by (50) basis points alike, while the Federal Reserve, the European Central Bank, and the Swedish Central Bank reduced interest rates by (25) basis points. In contrast, the Central Banks of Australia, Norway, Japan and Britain kept interest rates unchanged, while the Central Bank of New Zealand did not hold a meeting.

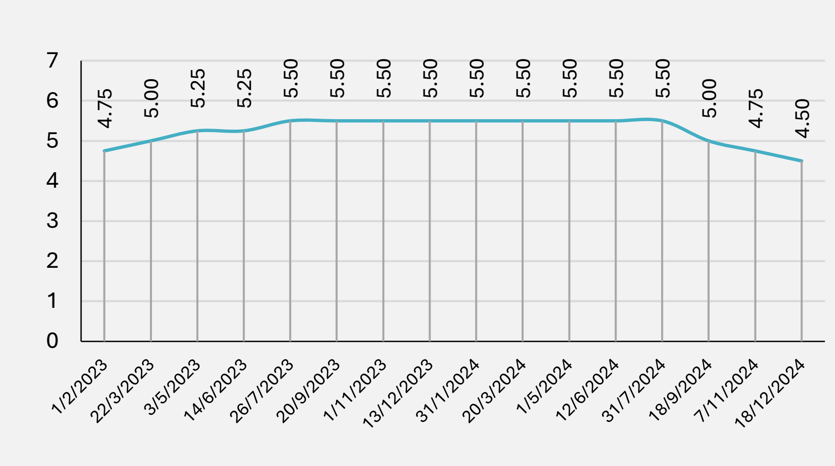
On the other hand, China continued to pursue an accommodative monetary policy to support economic growth, relying on low inflation rates.

1. Advanced Countries

1.1 United States

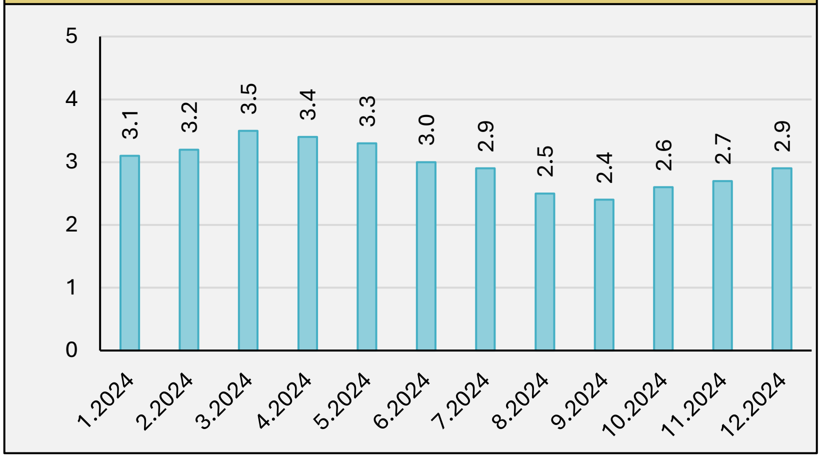
The US Federal Reserve continued to reduce the pace of raising interest rates, as it reduced the interest rate three times during 2024 after a series of declines during the previous year, as the interest rate fell from (5.5%) in August to (4.5%) in December 2024, at the same time the Federal Reserve raised its inflation expectations for 2025 and 2026, and lowered its growth expectations for 2025 With interest rates still expected to be cut by about (50) basis points during 2025, the majority of officials also indicated the possibility of continued inflationary pressures from various sources more than previously expected. They believe that inflation risks tend to rise, while employment risks tend to fall.

Figure No. (1):US Federal’s Decisions on Interest rate (%)2023-2024



Inflation data for the United States showed a slowdown during 2024, as the inflation rate fell from (3.1%) in January 2024 to (2.5%) in August 2024, rising slightly to reach (2.96%) in December 2024, as a result of slowing inflation in the prices of shelter, used cars and trucks, and transportation.

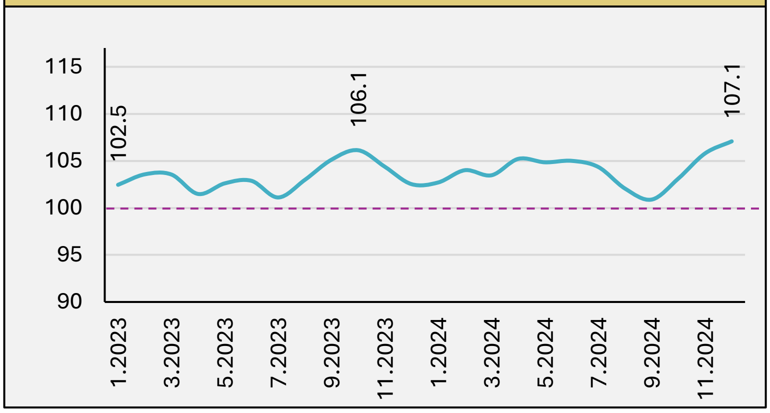
Figure (2) Inflation Rates (%) for the United States 2024



Foreign exchange reserves in the United States decreased to USD (34.9) trillion at the end of 2024, compared to USD (37.3) trillion at the end of 2023.

The value of the USD rose against a basket of currencies, according to the US Dollar Index (DXY). On the other hand, as the Federal Reserve continued to reduce interest rates, the value of the US dollar headed upward as the US Federal Reserve continued to reduce interest rates, reaching its highest value in December 2024, reaching (107.1) points but as the European Central Bank continues to reduce interest rates, along with a number of central banks that make up this index, the value of this index has risen, because the euro constitutes the highest relative weight among currencies used in this index.

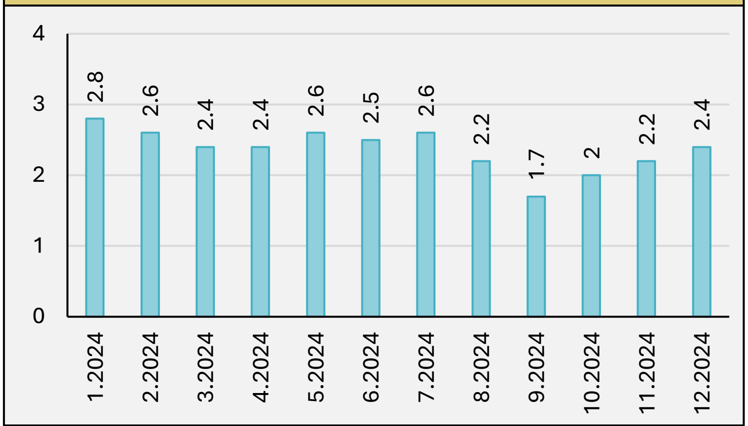
Figure (3) The US Dollar Index (DXY) 2023-2024



1.2 Eurozone

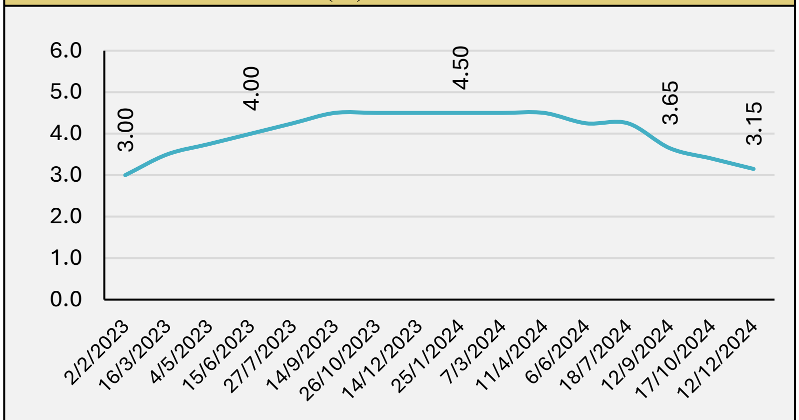
The inflation rate recorded a decline during 2024 compared to 2023, as it stabilized between (2.8%) in January 2024 and (2.4%) in December of the same year, exceeding the average European Central Bank target of (2%). According to preliminary estimates the sharp decline in energy prices was offset by higher inflation rates for services, food, alcoholic beverages and tobacco. Prices of non-energy industrial goods also rose. At the same time, the core inflation rate fell which excludes food and energy to (2.7%), which is its lowest level in the last three years.

Figure (4) Inflation Rates (%) for Eurozone in 2024



As a result, the European Central Bank (ECB) moved to cut interest rates five times during 2024, from (4.5%) to (3.15%) in December of the same year. The ECB indicated that it was not committed to further cuts, emphasizing that future decisions would depend on economic data, inflation dynamics, and the strength of monetary policy transmission.

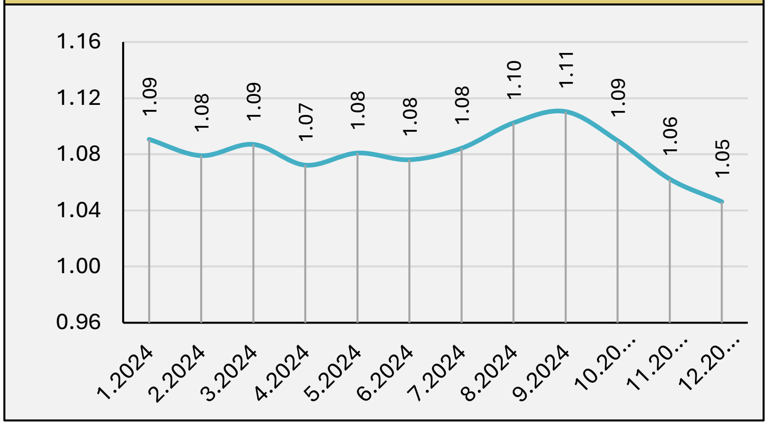
Figure (5) European Central Bank Decisions Regarding Interest Rate (%) for 2023-2024



In conclusion, inflation rates witnessed fluctuations during 2024, but they did not exceed (3%), as the highest rate was recorded in January to (2.8%), while the lowest rate was recorded in September to (1.7%). This is due to the strict measures taken by the European Central Bank, the decline in energy prices, and the decline in food prices.

On the other hand, the European Central Bank's reduction in interest rates led to a decline in the value of the euro to reach its lowest level in December 2024, reaching (1.05) euros per dollar.

Figure (6) Exchange Rate of Dollar Against Euro 2024



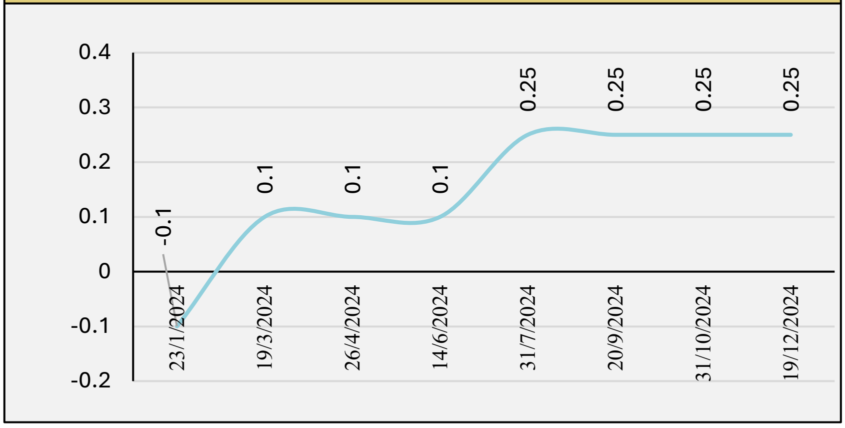
We note from the above figure that the exchange rate of the euro against the dollar reached its highest level during 2024 in September, when it reached (1.11) euros per dollar, and this improvement in the euro exchange rate is due to differences in the pace of interest rate adjustments between the European Central Bank and the Federal Reserve.

1.3 Japan

The Central Bank of Japan raised interest rates twice during 2024 after they were (-0.1%) at the beginning of the year, raising them to (0.1%) and (0.25%) in March and July, respectively.

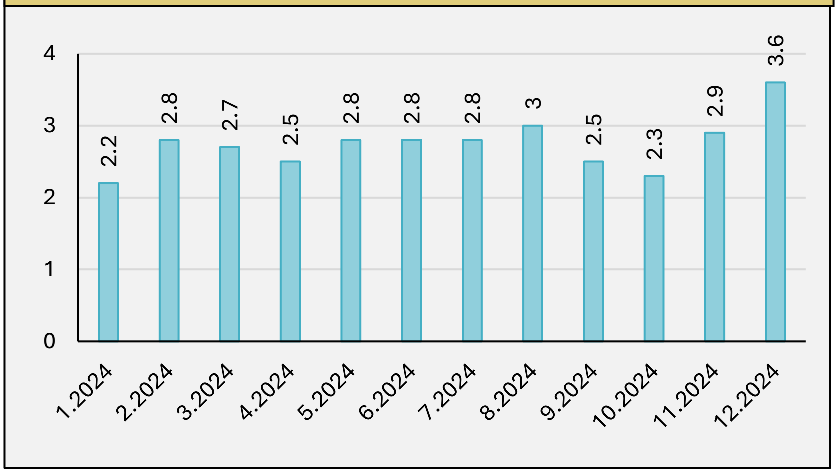
The Economic Council indicated that it would raise interest rates if economic and price expectations were met. Quarterly forecasts indicated that GDP for the fiscal year 2025 will grow by (0.5%), affected by trade risks and political uncertainty.

Figure (7) The Central Bank Of Japan's Decisions On the Interest Rate (%) 2024



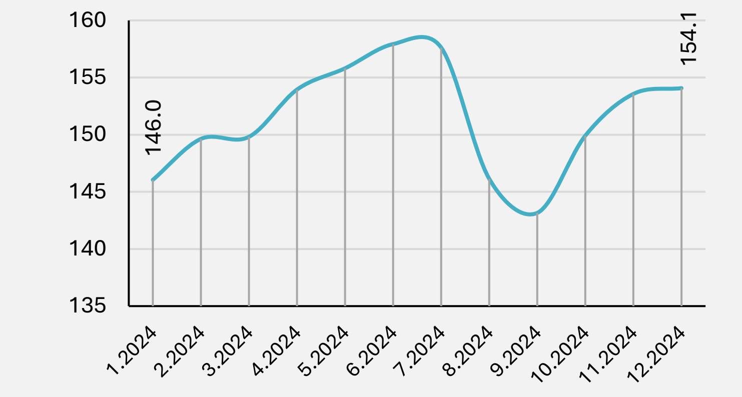
The annual inflation rate in Japan rose to (3.6%) in December 2024, compared to (2.2%) in January of the same year, recording its highest level since the beginning of the year. Food prices saw their lowest rise in three months, even as rice prices rose due to poor harvests, demand rose due to record numbers of tourists, and the government issued emergency reserve stocks. Electricity and gas prices also fell further under energy subsidies, Meanwhile; the Bank of Japan lowered its core inflation forecast for fiscal year 2025 to (2.2%) from (2.7%) and is expected to decline to (1.7%) in fiscal year 2026 before rising to (1.9%) in fiscal year 2027. At the same time, general inflation is expected to remain around (2%) until the end of the fiscal year.

Figure (8) Inflation Rates (%) of Japan 2024



The monthly average value of the Japanese yen against the US dollar increased during this year from (128.74) yen/dollar in January 2024 to (112.87) yen/dollar in December 2024 as a result of the US Federal Reserve reducing the interest rate, which led to a decline in the value of the dollar against global currencies, including the Japanese yen.

Figure (9) :Exchange Rate of Dollar Against Yen 2024



2- Emerging Markets

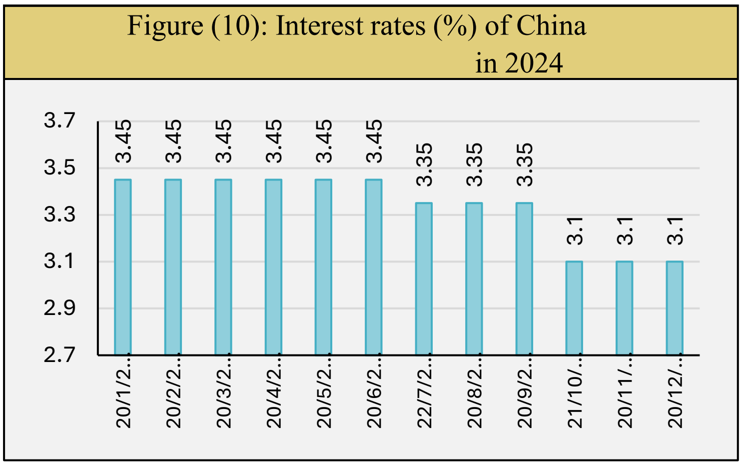
1.2 China

The People's Bank of China (PBOC) has taken an expansionary approach in an attempt to support the national economy amid slowing growth, a continuing real estate crisis, and weak domestic and global demand. This policy came as a direct response to internal and external challenges that affected market stability and investor confidence.

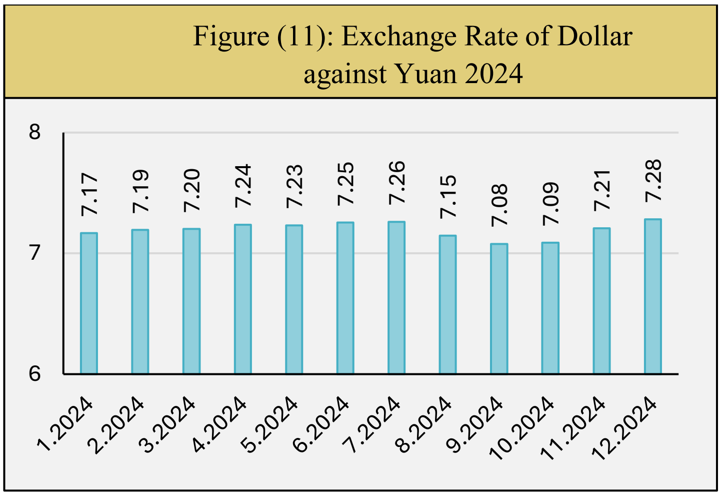
The Chinese Central Bank reduced the one-year lending rate (base interest rate) twice during 2024 to record (3.1%) compared to (3.45%) in 2023, indicating that the authorities are moving towards monetary stimulus to support the economy.

Foreign reserves recorded an increase of (0.15%), and this is due to the increase in gold reserves, as its contribution to the reserve increased by (27.8%), compared to a decrease in other foreign reserves by (1.1%). This is due to global economic fluctuations, monetary policy, and geopolitical tensions Changing the structure of reserves in favor of gold is a strategic shift towards diversifying assets and reducing dependence on the dollar, and China is expected to continue this strategy in the coming years to enhance its financial and political stability.

On the other hand, the Chinese Central Bank reduced the mandatory reserve ratio twice during 2024 to reach (8%) compared to (9%) in 2023, and to achieve the growth target of about (5%) during the current year.

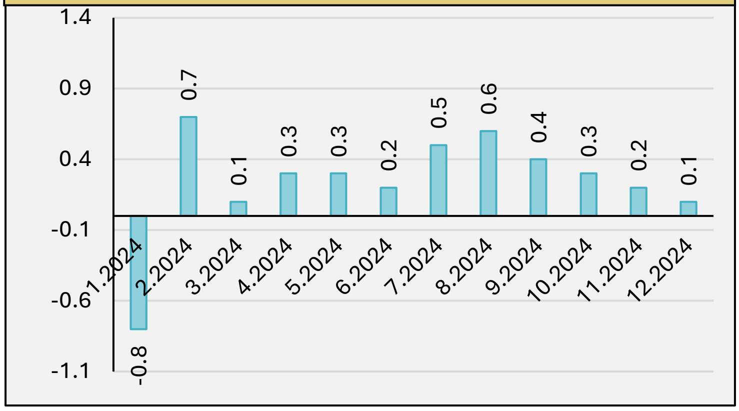


Despite the expansionary measures, the Chinese Central Bank was keen to maintain the stability of the yuan's exchange rate against the US dollar to avoid any disruptions in foreign trade or capital flight, which reflects the authorities' commitment to achieving a balance between supporting growth and maintaining financial stability. Accordingly, the value of the yuan increased by (1.7%) from (7.1) yuan/dollar in 2023 to (7.2) yuan/dollar in 2024.



China's Inflation rates recorded low rates below (1%), as the consumer price index recorded (102.9) points in January 2024. This stability in the inflation rate reflects weak domestic demand, which is expected to continue to affect inflation expectations. The decline in inflation in China is supposed to contribute to the global inflation slowdown process.

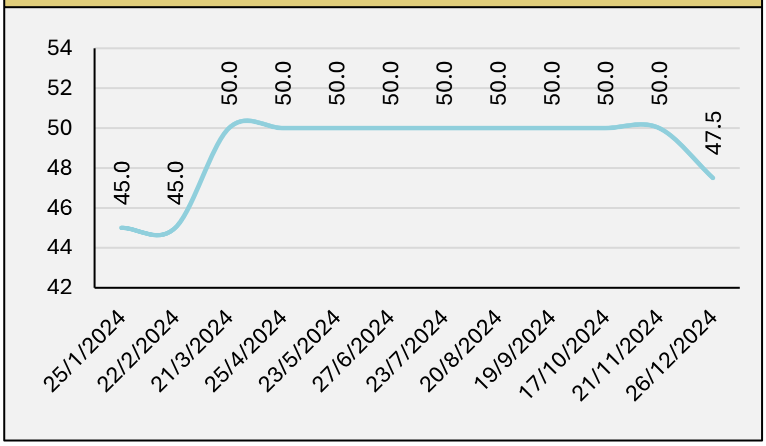
Figure (12): Inflation Rates (%) of China 2024



2.2 Turkey

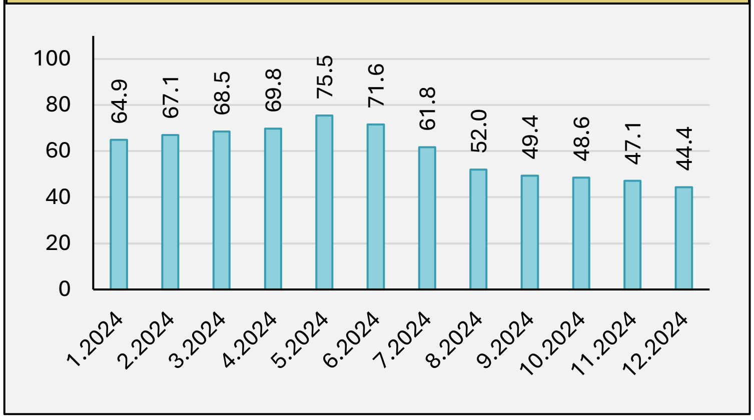
During this year, the Turkish Central Bank continued its monetary tightening policy, raising the interest rate once in March 2024 to reach (50%). However, the Central Bank reduced the interest rate on 12/26/2024 to reach (47.5%). This reduction came as a result of inflation rates that began to gradually decline, in addition to the decline in the value of the Turkish lira.

Figure (13) Inflation Rates (%) of Turkey 2024



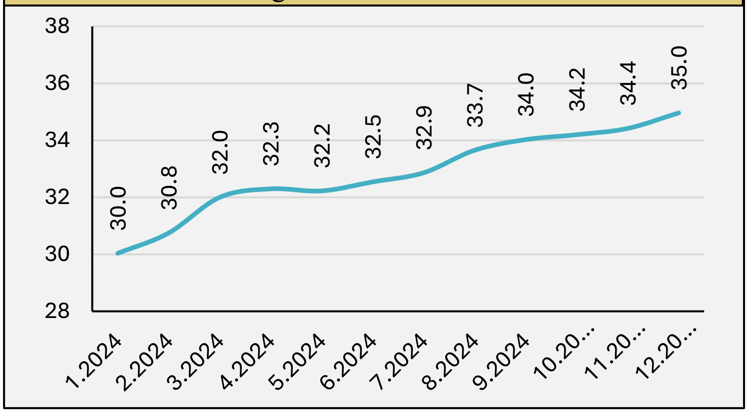
The annual inflation rate witnessed a decline to reach (44.4%) during December 2024, after recording its highest level during this year to reach (75.5%) as a result of the decline in global energy prices, in addition to the decline in global commodity prices.

Figure (14) Inflation rates (%) of Turkey 2024



The easing of monetary tightening adopted by the Turkish Central Bank led to a decline in the value of the Turkish lira to record (35) liras per dollar in December 2024, compared to (30) liras per dollar in January of the same year.

Figure (15) Turkish Lira Exchange Rate Against the US Dollar in 2024



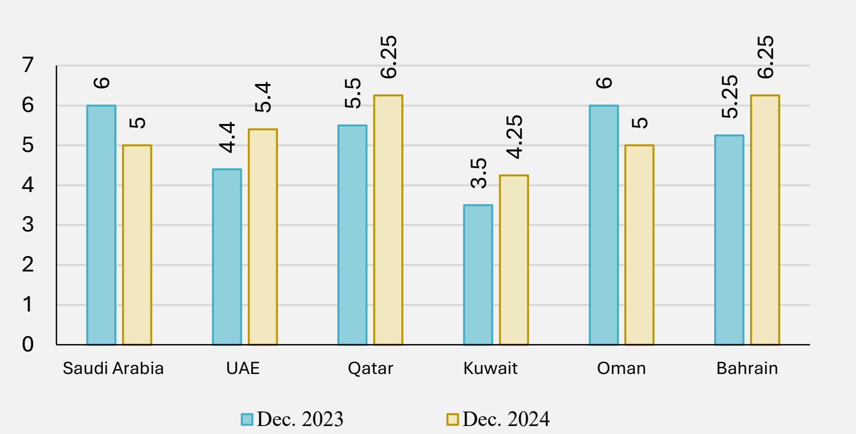
As for foreign reserves, they recorded an increase of (9.9%) during this year, reaching USD (155.1) billion compared to USD (141.1) billion in 2023, and this is attributed to the increase in foreign capital flows as a result of the stable economic policies, in addition to the improvement in the credit rating that led to attracting foreign investment, in addition to the noticeable recovery in the tourism sector during 2024.

Second: Arab Monetary Policy Developments

1- Gulf Cooperation Council Countries (GCC)

[1]Gulf central banks (UAE, Qatar, Bahrain, Kuwait) raised interest rates in 2024, despite the US Federal Reserve which lowered interest rates several times during 2024, with the exception of Saudi Arabia and Oman, which followed the Fed's policy.

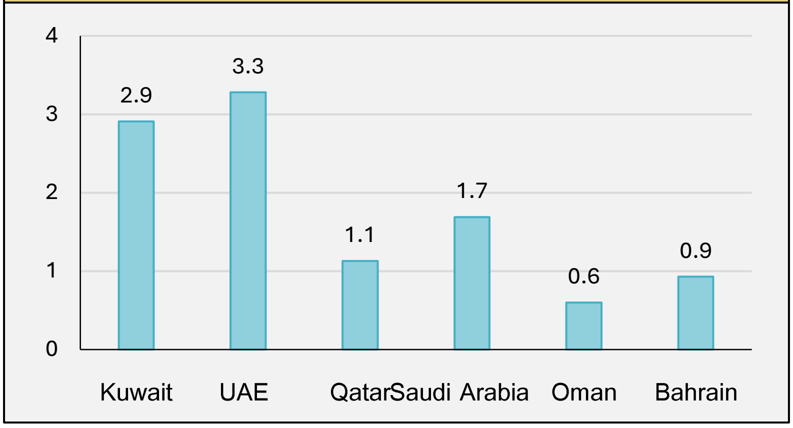
Figure (16): Interest Rates (%) for Gulf Cooperation Countries 2023- 2024



We note that the change in interest rates in the Gulf Cooperation Council countries was linked to inflation rates, as the UAE maintained the same inflation rate of (3.3%), which is the highest rate in the countries of this group and was consistent with raising the interest rate, while monetary policy in both Saudi Arabia and Oman became more accommodative as a result of inflation rates falling more than the previous year to reach (1.7%) and (0.6%) respectively, while Bahrain and Qatar raised the interest rate in line with the inflation rate that rose more than the previous year. However, Kuwait took a different direction, raising interest rates despite its low inflation rate.

[1] Arab central banks pursue monetary policies according to the nature of the economy and the degree of its development, because the Gulf Cooperation Council countries have developed financial markets. Therefore, it is noted that their policies differ from those of other Arab oil-exporting countries

Figure (17) Inflation Rates (%) for (GCC) in 2024

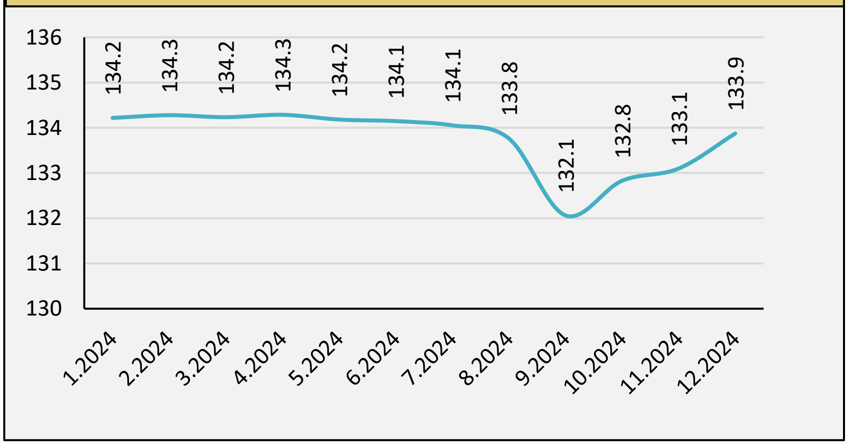


2- Arab Countries Outside GCC

Both Libya and Algeria kept interest rates at (3%) in 2024. Its monetary policy has continued to ease, with the key interest rate remaining unchanged since May 2020. At the same time, the growth of monetary mass and credit to the private sector accelerated during the first nine months of 2024. This shift in monetary policy contributed to supporting economic activity, despite the decline in oil exports.

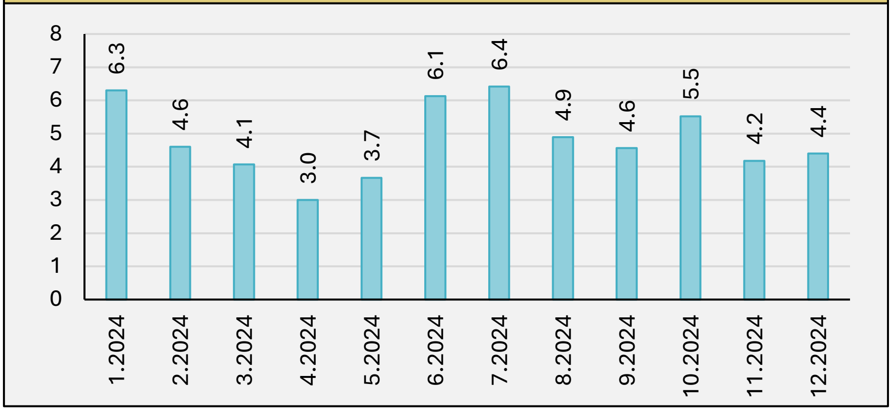
At the level of the Algerian economy, foreign reserves increased slightly to reach about (16.2) months of imports of goods and services by the end of September 2024. The Central Bank of Algeria raised the exchange rate of the Algerian dinar against the dollar during 2024 to reach (134.05) dinars per dollar, compared to (135.84) dinars per dollar in 2023.

Figure (18): Dollar Exchange Rate Against the Algerian Dinar in 2024



Inflation recorded a significant decline in 2024 to reach (4%) compared to (9.3%) in 2023, as it recorded its lowest level in April to reach (3%). This is due to the decline in global inflation on the one hand and the improvement in the value of the Algerian dinar, which directly affects import prices on the other hand.

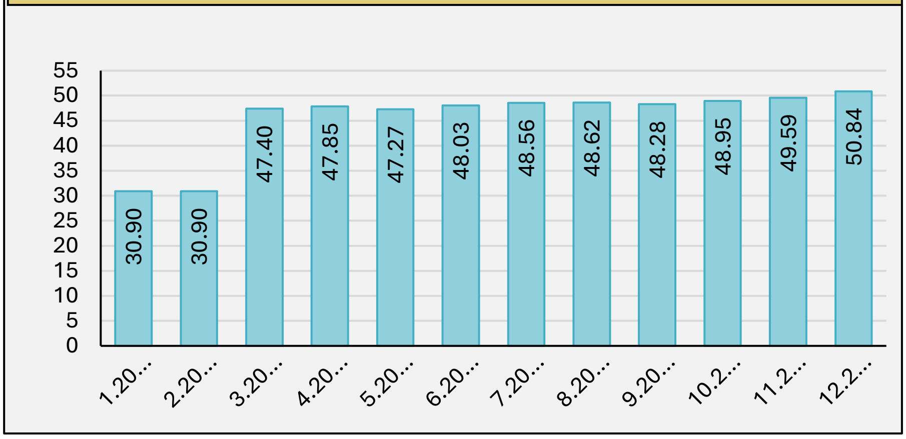
Figure (19): Inflation Rate of Algeria in 2024



3- Oil Importing Arab Countries

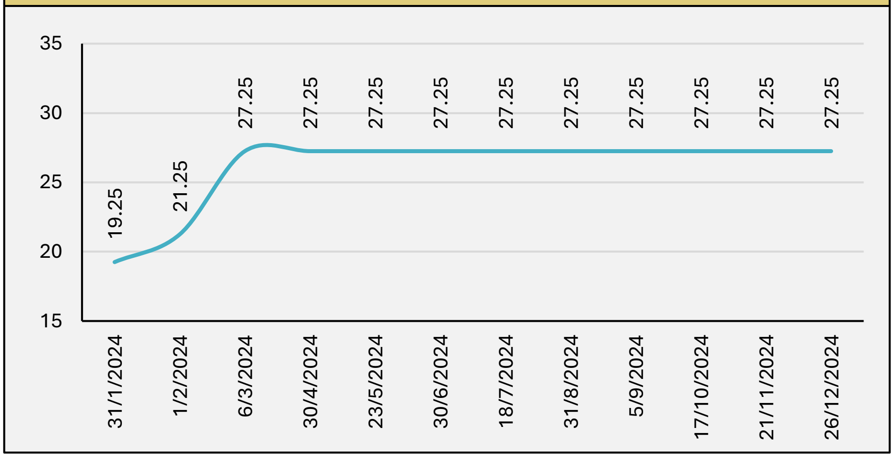
Unlike the oil-exporting Arab countries, the monetary policy of Arab oil-importing countries is linked to changes in oil prices, which affected interest rates, their currency exchange rates, and annual inflation rates in 2024.

Figure (20) Dollar Exchange Rate Against Egyptian Pound in 2024



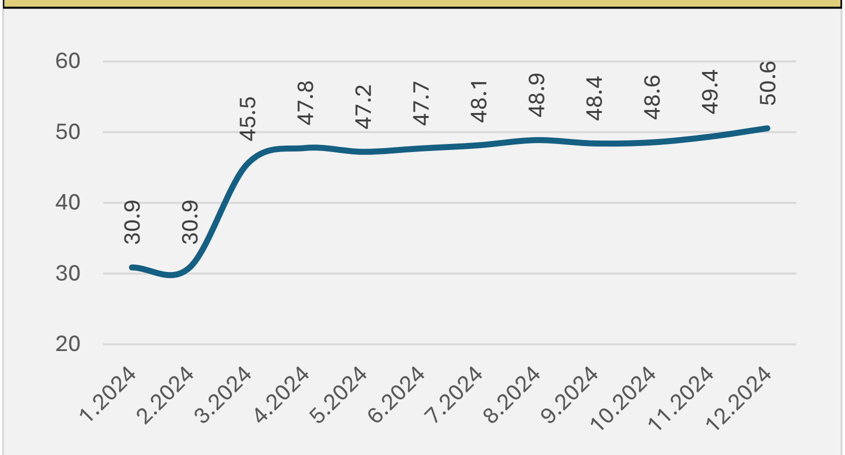
During 2024, **Egypt** witnessed a financial and economic crisis as a result of the accumulation of debts, declining revenues, and external and internal pressures. This led to a decline in the value of the Egyptian pound, especially after the Central Bank of Egypt decided to liberalize the exchange rate of the pound, which led to a decline in its value to record (50.6) pounds per dollar in December 2024, compared to (30.9) pounds per dollar in December 2023. Which prompted the central bank to raise interest rates twice this year to reach (27.25%).

Figure (21) Interest Rates (%) as per to the Decisions of of the Egyptian Central Bank in 2024



Meanwhile, inflation rates in Egypt witnessed a decline from (29.8%) in January 2024 to (24.1%) in December 2024, as a result of following a deflationary monetary policy to control rising prices on the one hand and to reduce global inflation and fuel prices on the other hand.

Figure (22) Inflation Rate in Egypt for 2024



Third: Global Monetary Policy Outlook

Considering the complexities and instability of the current year, the rapid escalation of trade tensions and the sharp rise in policy uncertainty are expected to have a tremendous impact on global economic activity. Global growth is projected to decline to (2.8%) in 2025 and (3%) in 2026.

Diverging policy stances, rapid policy shifts, or deteriorating sentiment could lead to a new wave of asset repricing after the first wave that followed the announcement of sweeping US tariffs on April 2, 2024, and the sharp adjustments in exchange rates and capital flows, particularly in economies that have already reached a critical debt point.

This could lead to a broader scope of financial instability and harm the international monetary system.

Global aggregate inflation is expected to decline at a slightly lower pace than expected in January, reaching (4.3%) in 2025 and (3.6%) in 2026, with a noticeable rise in the expectations of advanced economies and a slight decline in the expectations of emerging market economies and developing economies in 2025.

In the **United States**, the US Federal Reserve is moving towards reducing interest rates during 2025. The US Federal Reserve moved towards reducing interest rates after its success in curbing inflation rates, as inflation reached (2.9%) in December 2024, following its unprecedented measures to raise interest rates. The Federal Reserve faces a challenge in interest rate trends, because lowering the interest rate too early risks keeping inflation above the target (2%), and if it moves too slowly to lower interest rates, it risks economic activity through high interest rates and may lead to economic contraction, especially after raising customs duties on imported goods, which could lead to a reduction in economic activity after the rise in the cost of imported raw materials that are included in the GDP.

In the Eurozone, inflation is expected to reach an average of (2.4%) in 2025. According to the European Central Bank's website, the risks of rising inflation stem primarily from geopolitical tensions, in addition to potential changes in trade policy in the United States, although there is an indication of downside risks associated with weak economic growth prospects. The above forecast is close to the European Central Bank's target inflation rate of (2%).

Regarding deposit interest rates (the European Central Bank's reference rate), the International Monetary Fund urges the European Central Bank to keep interest rates on deposits at their current level of (2%) unless new shocks occur.

In **emerging and developing countries in Asia**, the International Monetary Fund expects inflation to record a rate of (1.7%) in 2025. After a series of downward surprises, inflation in China is expected to remain low. According to the International Monetary Fund, emerging and developing countries in Asia have a wide range of interest rate cuts to mitigate the effects of US tariffs. In addition to the low inflation rates of these countries.

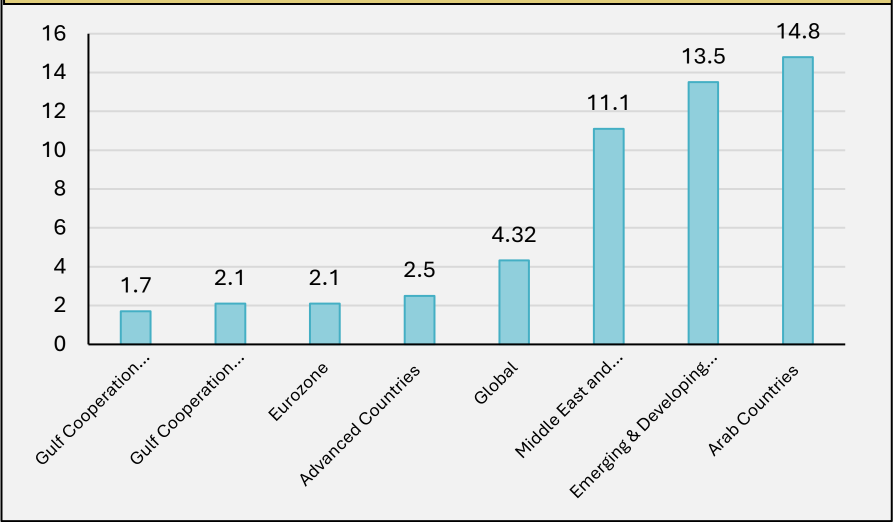
Inflation Outlooks in **Arab countries** will be determined by the prices of major commodities around the world, in addition to changes in exchange rates, as a large part of Arab countries depend on imports to cover their consumer needs, which leads to imported inflation being affected by the domestic inflation of Arab countries. According to the Arab Economic Prospects report (July 20, 2024), the inflation rate in Arab countries is expected to decline to (14.8%) in 2025. This high inflation is primarily driven by internal conditions in Sudan, Syria, and Lebanon. When excluding these countries, which are facing exceptionally high inflation, the projected inflation rate for 2025 is expected to be (7.8%).

Inflation in **the Gulf Cooperation Council countries** is expected to record a rate of (2.1%) in 2025, as the price levels of these countries are linked to import prices, as controlling inflation rates in the Gulf Cooperation Council countries results from governments providing support to control inflation, in addition to a few Gulfs Central Banks implementing a strict monetary policy.

In **Arab countries outside the Gulf Cooperation Council**, the inflation rate in **Algeria** is expected to record (6.1%) in 2025, as the government seeks to target inflation to less than (4%) in order to preserve the purchasing power of citizens.

Egypt, which is classified among the Arab oil-importing countries, recorded the highest inflation rate, as the rise in inflation rates in Egypt was linked to exchange rate pressures, and the Central Bank of Egypt is reducing interest rates, after the decline in inflation rates and the recovery of the Egyptian economy. The Central Bank of Egypt aims to achieve price stability by switching to a flexible inflation targeting system that seeks to limit inflation fluctuations from the level that is compatible with price stability, as well as limit fluctuations in real economic activity from its maximum production capacity. Inflation in Egypt is expected to record (18%) in 2025.

Figure (23) Global Inflation Expectations 2025



Chapter Two

Developments of Monetary Policy Indicators and Instruments in Iraq

Monetary policy is the instruments used by a central bank to manage the money supply and credit in an economy with the goal of achieving certain objectives such as price stability by controlling inflation and supporting economic growth by lowering interest rates, encourage investment and spending, reduce unemployment by supporting economic growth, creating more jobs, and balancing the balance of payments by influencing exchange rates and capital flows.

Monetary policy in Iraq constitutes a fundamental pillar in the country's financial and economic system by maintaining monetary and financial stability. The Central Bank managed the policy rate in accordance with the requirements of monetary stability and economic growth in line with the decline of global interest rates, as the interest rate was reduced from (7.5%) to (5.5%). To ensure the stability of exchange rates, the Central Bank completed the procedures for operating the electronic platform.

In this chapter the report will address the following:

First — **Developments of Monetary Indicators**

Second — **Developments of Indirect Monetary Policy Instruments**

First: Developments of the Most Important Monetary Indicators

1- Monetary Base (M0)

The monetary base balance witnessed a decrease of (13.9%), recording an amount of IQD (142.3) trillion in 2024 compared to IQD (165.2) trillion in 2023. This decrease is attributed to a decrease in net foreign assets and net domestic assets at the Central Bank by (10.2%) and (41.0%) respectively on the sources side, in addition to a decrease in both currency outside banks by (1.3%) and banks' reserves by (30.6%) as a result of a decrease in deposits entering the monetary base despite the increase of cash assets on the uses side.

Table No. (1): Monetary Base (M0) for 2023-2024

Components	2023	2024	Growth Rate %
Net Foreign Assets at CBI	145.6	130.8	-10.2
Net Domestic Assets at CBI	19.5	11.5	-41.0
Currency Outside Banks	94.6	93.4	-1.3
CBI Reserves	70.5	48.9	-30.6
M0	165.2	142.3	-13.9

2- Narrow Money Supply (M1)

Narrow money supply (M1) recorded a decrease of (4.7%) at the end of 2024 compared to 2023, reaching IQD (153.0) trillion compared to IQD (160.3) trillion for the last year, which is mainly attributed to the decrease of currency outside banks by (1.3%) to record IQD (93.4) trillion compared to IQD (94.6) trillion in 2023 constituting a contribution rate of (61.1%) of narrow money supply (M1) in 2024 compared to (59%) in 2023. Current deposits recorded a decrease of (9.5%) to reach IQD (59.4) trillion compared to IQD (65.7) trillion in 2023, to constitute (38.9%) of narrow money supply (M1) in 2024 compared to (41%) in 2023, as shown in **Table (2)**. As the continued high contribution of the currency outside banks at the expense of current deposits is noted.

Table (2): Narrow Money Supply (M1) for 2023-2024

Components	Dec. 2023	Dec. 2024	Growth Rate %
Narrow Money Supply M1	160,318	152,860	-4.7
Current Deposits	65,697	59,460	-9.5
Currency Outside Banks	94,621	93,400	-1.3
Ratio of Current Deposits to M1(%)	41	38.9	
Ratio of Currency Outside Banks to M1 (%)	59	61.1	

Figure (24): Narrow Money Supply (M1) and its Components for2023-2024

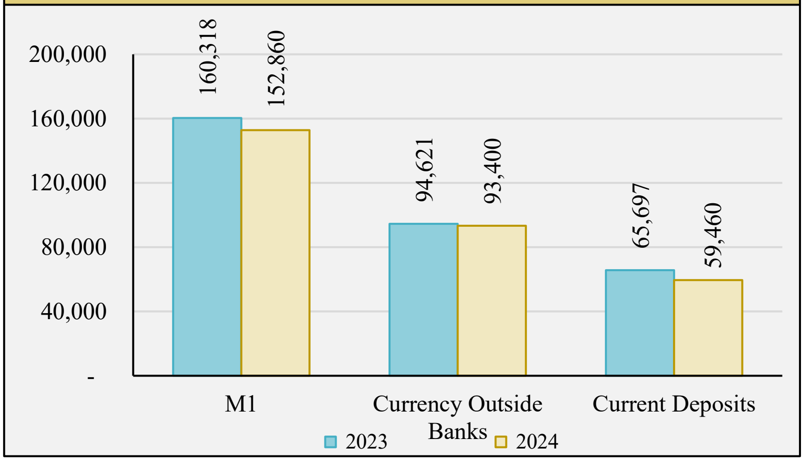
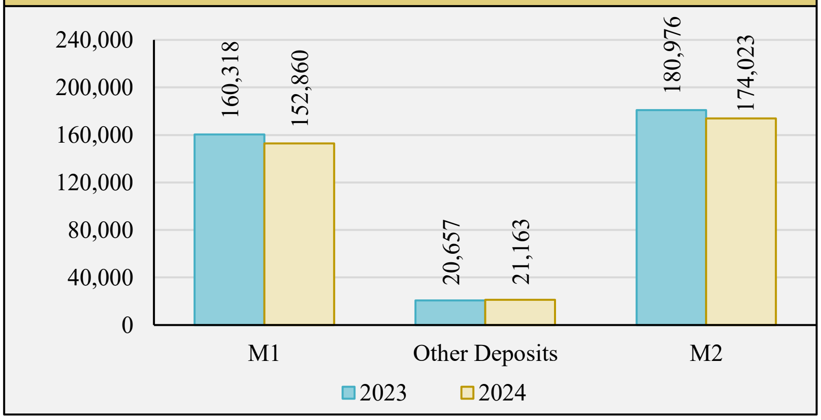


Figure (25): Broad Money Supply (M2) for 2023-2024 (IQD billion)



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

At the end of 2024, broad money supply (M2) (domestic liquidity) recorded a decrease of (3.8%) compared to 2023, recording IQD (174.0) trillion compared to IQD (181.0) trillion for 2023, and constituted (47.9%) of GDP at current prices to reach IQD (363.5) trillion, as shown in **Table (3).**

Table (3): Domestic Liquidity Components (M2) for 2023-2024 (IQD billion)

Components	De 2023	De 2024	Growth %
Narrow Money Supply M1	160,318	152,860	-4.7
Other Deposits	20,657	21,163	2.4
Broad Money Supply M2	180,975	174,023	-3.8
Contribution of Other Deposits in M2	11.4	12.2	

The decrease in domestic liquidity (M2) came as a result of the decrease in the growth of narrow money supply (M1) by (4.7%), despite the increase in other deposits (savings, postal and insurance deposits) by (2.4%) recording IQD (21.2) trillion in 2024 compared to IQD (20.7) trillion in 2023. The increase in the contribution of other deposits to broad money supply, reaching (12.1%) in 2024 compared to (11.4%) in 2023, is noted.

4-Factors Affecting Money Supply

Total deflationary factors affecting money supply recorded IQD (30.3) trillion during 2024, represented by the amount of change in the items (net foreign assets, other deposits, and budget) for 2023-2024. As for expansionary factors, they recorded IQD (22.8) trillion during 2024, represented by the amount of change in the items (private sector and other sectors' debt, government debt, and government deposits). It is noted that the increase in deflationary factors by IQD (7.5) trillion compared to expansionary factors had a clear role in the decrease of money supply during 2024, as shown in **Table (4).**

Table (4): Money Supply and Affecting Factors for 2023-2024 (IQD Billion)

Indicators	Dec.2023	Dec.2024	Rate of Change from Previous Year	Growth Rate (%)
Net Foreign Assets at the Financial Sector (CBI + Other Banks)	178,135	166,804	-11,331	**-6.4**
Private Sector & Other Sectors' Debts	45,997	52,202	6,205	**13.5**
Government Debts	77,680	87,738	10,058	**13.0**
Total Assets	**301,811**	**306,743**	**4,932**	**1.6**
Narrow Money Supply (M1)	160,318	152,860	-7,458	**-4.7**
Currency Outside Banks	94,621	93,400	-1,221	**-1.3**
Current Deposits	65,697	59,460	-6,237	**-9.5**
Other Deposits	20,657	21,163	506	**2.5**
Government Deposits	68,252	61,667	-6,585	**-9.7**
Budget Item	-52,584	-71,053	-18,469	**-35.1**
Total Non-Monetary Liabilities	141,493	290,883	12,390	**8.8**
Total Liabilities	**301,811**	**306,743**	**4,932**	**1.6**

Figure (26): Money Supply and Affecting Factors (Liabilities Side) for 2023-2024

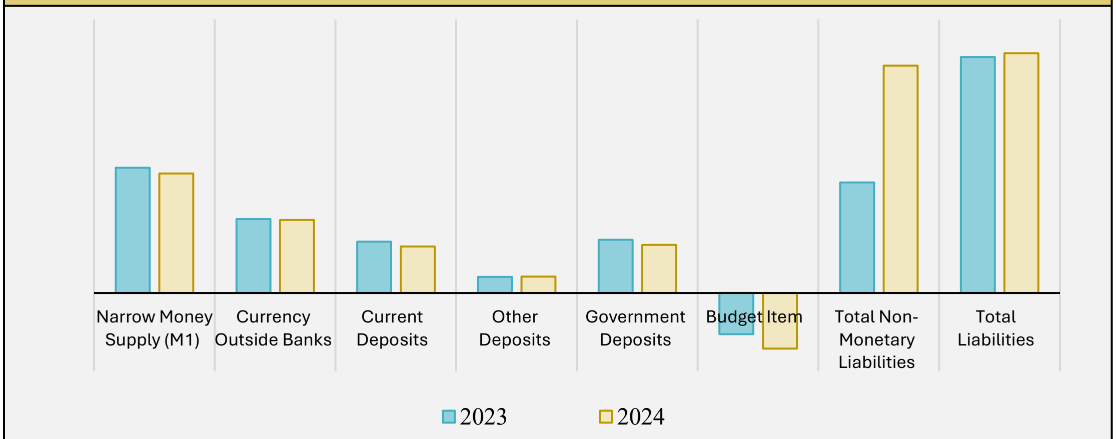
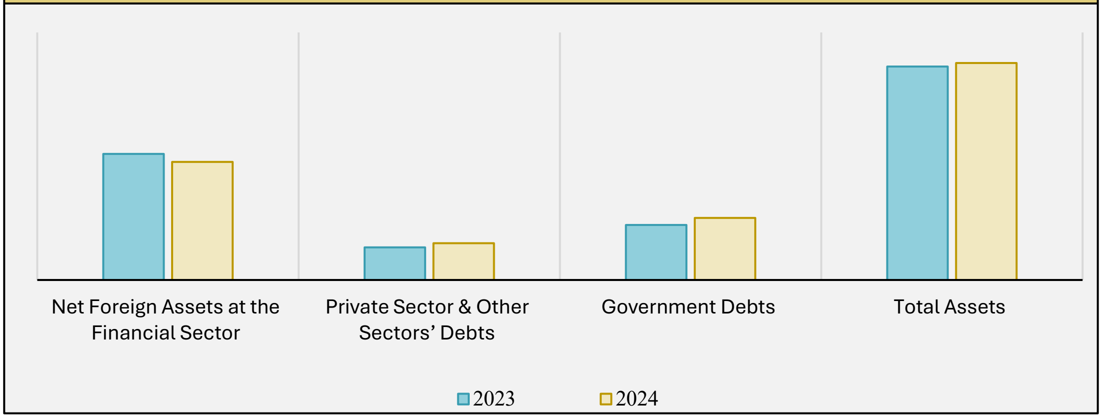


Figure (27): Money Supply and Affecting Factors (Assets Side) for 2023-2024



5- Foreign Reserves at The Central Bank of Iraq

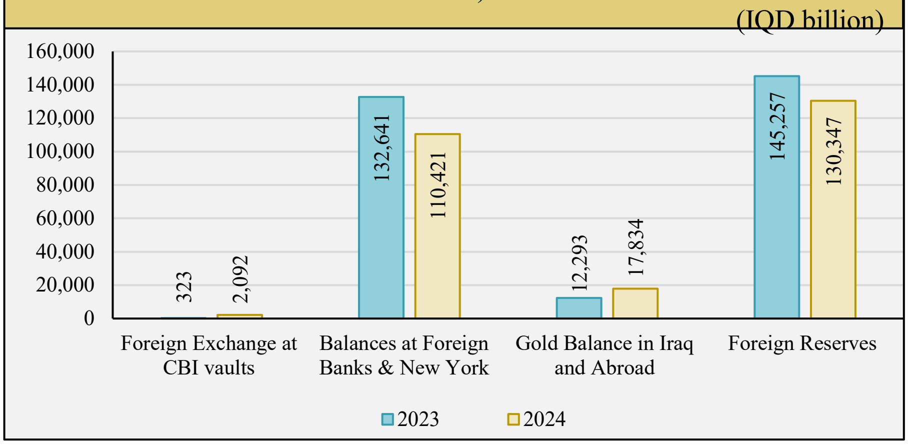
At the end of 2024, balance of foreign reserves recorded a decrease of (10.3%) compared to the previous year, reaching IQD (130.3) trillion compared to IQD (145.3) trillion at the end of 2023, as shown in **Table (5).**

This decrease is attributed to a decline in balances of foreign banks and FR-in New York by (16.8%) reaching IQD (110.4) trillion in 2024, compared to IQD (132.6) trillion for the previous year, which constituted a contribution rate of (84.7%) of reserves. The decline is attributed to the increase in dollar sales for the purposes of enhancing banks' accounts for transfers abroad by (56%) despite the increase in the gold balance in Iraq and abroad by (45.1%), which amounted to approximately IQD (17.8) trillion at the end of 2024 compared to IQD (12.3) trillion at the end of 2023, with a contribution rate of (13.7%) as a result of the Central Bank purchasing new quantities of gold in order to achieve greater stability and having the ability to confront domestic and global changes. Also, the foreign exchange balance at Central Bank's vaults increased by (547.7%) to record IQD (2.1) trillion in 2024 compared to IQD (0.323) trillion in 2023, with a contribution rate of (1.6%). This increase is attributed to a decrease in the monetary sales through the dollar selling platform by (62%).

Table (5): Main Components of Foreign Reserves at the End of (2023-2024) (IQD billion)

Item	2023	2024	Growth Rate (%)	Contribution (%)
Foreign Exchange at CBI Vaults	323	2,092	547.7	1.6
Balances at Foreign Banks & New York	132,641	110,421	(16.8)	84.7
Gold Balance in Iraq and Abroad	12,293	17,834	45.1	13.7
Foreign Reserves	145,257	130,347	(10.3)	100.0

Figure (28): Main Components of Foreign Reserves at the End of (2023-2024)



Box (1)

The Central Bank of Iraq carried out purchases of new amounts of gold during 2024, approximately (17) tons. This increase came within the framework of the Central Bank's strategy to manage its assets to achieve higher levels of stability and ability to confront domestic and international economic changes.

It is noteworthy that gold is one of the most important assets held by central banks and international financial institutions, and a safe resort in conditions of uncertainty due to its acceptance at the international levels.

Second: Developments of Indirect Monetary Policy Instruments

1- Foreign Currency Selling Platform

The Central Bank of Iraq has worked to stabilize the official exchange rate of the Iraqi dinar against the US dollar through the platform during 2024 at a rate of IQD (1320) per US dollar.

The quantities of sold dollars through the foreign currency selling platform at the Central Bank (cash, balance enhancement) in 2024 recorded a decrease of (32.7%) compared to 2023, to record USD (22.5) billion compared to USD (33.5) billion in 2023, as a result of the decrease in both cash sales and the balance enhancement by (61.9%) and (21.9%) respectively in 2024 after the implementation of the new mechanism (electronic platform). Also, dollar sales for documentary letters of credit purposes decreased by (40.9%), while US dollar sales outside the electronic platform (enhancement of banks' accounts abroad) increased by (143.9%) to record USD (55.12) billion in 2024 compared to USD (22.60) billion in 2023.

As for total sales, they recorded an increase of (38.4%) during this year, reaching USD (77.65) billion during 2024, compared to USD (56.1) billion during 2023.

As for the Central Bank's purchases of US dollars from the Ministry of Finance, they recorded an increase of (7.3%) reaching USD (68.7) billion during 2024, compared to USD (64) billion in 2023.

It is noted that the Central Bank's dollar sales increased during 2024 compared to its purchases from the Ministry of Finance by USD (9) billion compared to the previous year, which led to a decrease in the Central Bank's foreign reserves during this year.

Figure (29): Sales and Purchases of US Dollars for (2023-2024) (IQD billion)

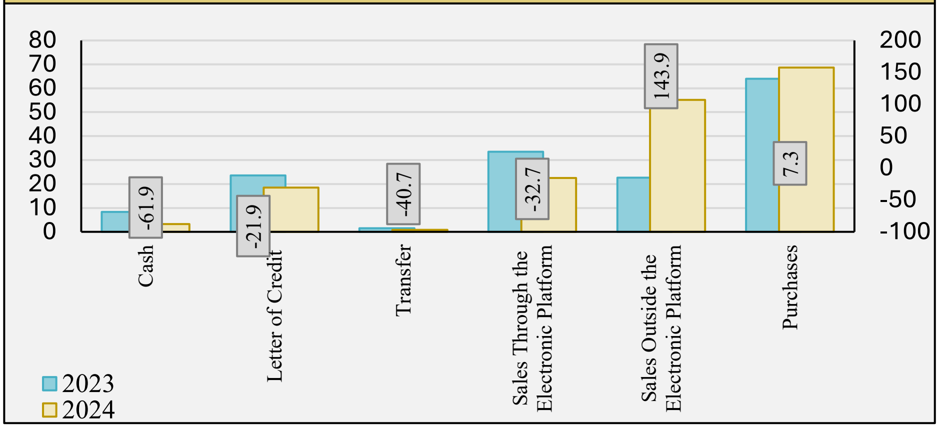


Table (6): Sold Amounts of the US Dollar Through Selling Foreign Currency Window (Cash, Enhancement of Balances Abroad) and the Purchased Quantities for (2023-2024)

(USD billion)

	2023	2024	Growth Rate%
Cash	8.35	3.18	-61.9
Enhancement of Balances Abroad	23.62	18.45	-21.9
Letter of Credit	1.52	0.901	-40.7
Sales Through the Electronic Platform	33.50	22.53	-32.7
Sales Outside the Electronic Platform	22.60	55.12	143.9
Total Sales (1)	56.1	77.65	38.4
Purchases (2)	64.0	68.65	7.3
The Gap (1-2)	7.9	-9	-31.1

Box (2)

The electronic platform for external transfers, managed by the Central Bank of Iraq, began in early 2023 as a first phase of reorganizing financial transfers, ensuring proactive control over them rather than subsequent control through the Federal Reserve Bank auditing daily transfers, which was an exceptional measure, as the Federal Reserve Bank does not usually undertake such measure. A gradually shift was made towards building direct relationships between banks in Iraq and foreign correspondent and accredited banks, with a mediated international auditing company to pre-audit transfers before they are implemented by correspondent banks.

From the start of 2024 up to 04/09/2024, (95%) of the conversion process from the electronic platform to the mechanism of direct correspondent banking between international and Iraqi banks has been achieved. This means that only approximately (5%) of transactions remain within the platform. According to the plan, the transfer of this remaining portion is expected to be completed using the same direct mechanism before the end of 2024.

2- Outstanding Facilities

The sold amount of CBI'S bills for a period of (14) days during 2024 recorded IQD (54,843) billion, which was paid in full.

One auction was held for CBI'S bills at the end of 2024 for a period of (182) days with an amount of IQD (155.9) billion, and an amount of IQD (150) billion was paid for the bills issued during 2023 for a period of (365) days.

Table (7): Central Bank of Iraq bills for a Period of (14 & 182) Days in 2024 and (365) Days in 2023 (US$ billion)

Transfers	Sold Amount	Paid Amount
14 days	54,842,420	54,842,420
182 days	155,900	-
365 days	-	150,000

Regarding the outstanding lending facilities, the Central Bank of Iraq continued to utilize this instrument to implement the objectives of its monetary policy.

With the aim of extending credit to banks in a manner that ensures control and influence over the banking liquidity the through interest rates (price signals), that were set for each type according to the following:

-Primary credit (7.5%) annually.

-Secondary credit (8.5%) annually.

-Loan of last resort (9%) annually.

However, no bank has taken any of these facilities.

Box (3)

Based on the directives of the Central Bank of Iraq's (CBI) Monetary Policy, the Bank initially decided to suspend investment in securities (CBI Bills and Certificates of Deposit) as per letter No. 24/216 dated 03/06/2024.

Subsequently, the securities (Islamic Certificates of Deposit and Conventional Bills) were re-activated according to an annual plan and with two maturities.

First - For (14) days with a return of (4%).

Second - For (182) days with a return of (5.5%) according to Letter No. 24/371 on 24/10/2024.

3-Reserve Requirement

The balance of reserve requirement recorded an increase of (12.0%) reaching IQD (20.9) trillion in 2024 compared to IQD (18.7) trillion in 2023. This is attributed to the increase of reserve requirement on SOBs deposits by (10.6%) to record IQD (17.8) trillion compared to IQD (16.1) trillion in 2023 and the rise of reserve requirement on deposits at private banks by (15.4%) to record IQD (3.1) trillion compared to IQD (2.6) trillion in 2023, due to the increase of reserve requirement on government deposits from (18%) to (22%) in 2024.

While deposits subject to reserve requirement in foreign currency decreased by (8.9%), in addition to a decrease in deposits subject to reserve requirement in dinars by (1.1%).

Table (8): Reserve Requirement for 2023- 2024
(%IQD trillion)

	2023	2024	Growth Rate %
Private Banks	2.6	3.1	15.4
State Owned Banks	16.1	17.8	10.6
Total Reserve Requirement	18.7	20.9	12.0

Box (4)

Based on the decision of CBI Board of Directors No. (63) of 2024 and on the requirements of formulating monetary policy and implementing its requirements, it was decided to raise the reserve requirement ratio on government deposits of both types (current deposits and time deposits) at the banking sector, to be (22%) instead of (18%) for current deposits and (13%) for term deposits in Iraqi dinar only. It will be applied starting from reports of April 2024 for the purpose of reserving amounts of May 2024.

Chapter Three :

Price Indicators in Iraq

The inflation rate is calculated as the average increase in the prices of a basket of selected goods and services over a period of one year. High inflation means that prices are rising quickly, while low inflation means that prices are rising more slowly. Inflation can be compared to deflation, which occurs when prices fall and purchasing power increases. On the other hand, there is a strong relationship between inflation rates and interest prices, which are the most important cost factors for banks and individuals, as inflation affects real interest, whether credit or debit, through its relationship with nominal interest.

Iraq, like other countries, is affected by several drivers of inflation rates, such as the inflation rates of trading partners, since it imports its commodity needs from abroad.

The report will address the following in this chapter:

First	**Trends of General Consumer Price Index**
Second	**Developments of Inflation rates by Commodity Groups in 2024 Compared to 2023**
Third	**General Inflation (Monthly and Annual)**
Fourth	**The Implicit Deflator on GDP Prices for 2024 Compared To 2023**
Fifth	**Imported Inflation**
Sixth	**The Weighted Interest Rate On (Deposits and Credit)**

First: Trends of Consumer Price Index

The 2024 Consumer Price Index saw the base year changed to (100=2022) instead of (100=2012), which resulted in updating consumer basket weights to reflect current changes in consumption patterns and improve the accuracy of this indicator.

The consumer price index as an index of inflation showed a decrease in its growth rate to reach (2.6%) in the year of 2024 compared to (4.4%) for the previous year. Accordingly, it recorded (107.1) points in 2024 compared to (104.4) points in 2023. While the consumer prices index after excluding (oil derivatives (oil and gas) and the group of vegetables and fruits) recorded (107.5) points in 2024 compared to (104.6) points in 2023. Subsequently, the core inflation decreased from (4.6%) in 2023 to (2.8%) in 2024, this is partially attributed to the tight monetary policy of the Central Bank of Iraq. In addition to the decline in global food prices, as the Food and Agriculture Organization's Food Price Index for 2023 decreased from (124.5) points in 2023 to (122.0) points in 2024, i.e. a decrease of (2.0%), as Iraq is affected by price movements (decline and increase) with trading partners and external shocks, which are resulting from the fluctuations in oil prices and the rise in some basic commodities, especially (food, iron and transportation costs) in global markets.

When comparing the main components of the consumer basket for 2024 with the previous year, it is noted that an increase was observed across all index groups, with the exception of the Transport group.

Second: Developments of Inflation Rates According to Commodity Groups in 2024 Compared to 2023

The **food and non-alcoholic beverages** group recorded an increase of (2.6%) as a result of the rise in all items of this group, which includes (Meat, fish, vegetables, sugar and sugar products, other food products), which constitute the highest relative weight, accounting for (31.633%) of the consumer basket.

The **housing, water, electricity and gas** group increased by (3.1%), as a result of the increase in all its items (rent, housing maintenance and services, water and electricity supplies) with the exception of the fuel item (gasoline, oil and gas), which did not witness any change during this year. This group comes in second place in the relative weight that constitutes (24.386%) of the consumer basket. **The above two groups constitute approximately more than half of the consumer basket**.

The details of the other half, representing a weight of (43.981%) of the consumer basket, are as follows:

- The **clothing and footwear** group increased by (2.6%), as a result of the increase in all its items.
- The **health** group also increased by (1.5%), as a result of the rise in drug prices.
- The **household appliances, equipment and maintenance** group increased by (0.9%) as a result of the increase in the (Furniture and Equipment) and (Home Appliances) segments.
- The (**Miscellaneous Goods and Services**) and (**Communication**) groups increased by (5.0%) each.
- **Entertainment and culture, restaurants and hotels, tobacco, and education** groups recorded an increase by (5.5%), (5.1%), (11.4%) and (4.0%) respectively.

While **the transportation** group recorded a decrease of (0.3%), this group accounts for a weight of (12.467%) of the consumer basket.

Figure (30) Annual Inflation Rate (%) 2024

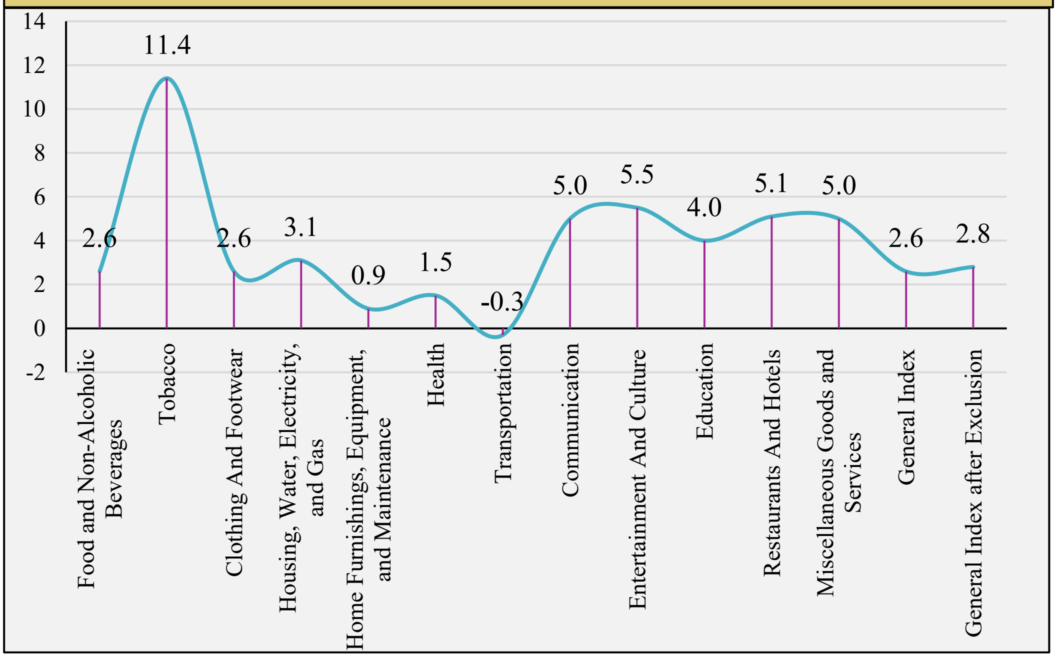


	Table No. (9): Consumer Price Index for 2024 compared to 2023 (100=2012)							
	Section / Main Group / Subgroup	Weights 2023 (100=2012)	Weights 2024 (100=2022	Weight difference	Consumer price record 2023 (100=2022	Consumer price record 2024 (100=2022	Annual inflation 2023 (100=2012) (%)	Annual inflation 2023 (100=2012) (%)
1	Food And Non-Alcoholic Beverages	29.605	31.633	2.03	105.9	108.7	**5.9**	2.6
2	Tobacco	0.615	1.626	1.01	104.6	116.5	**4.5**	11.4
3	Clothing and Footwear	6.472	6.472	0.00	106.6	109.4	**6.6**	2.6
4	Housing, Water, Electricity, and Gas	25.359	24.386	-0.97	99.6	102.7	**-0.3**	3.1
5	Home Furnishings, Equipment, and Maintenance	6.524	6.040	-0.48	107.7	108.7	**7.7**	0.9
6	Health	4.142	6.124	1.98	105.4	107.0	**5.4**	1.5
7	Transportation	15.185	12.467	-2.72	108.3	107.9	**8.3**	-0.3
8	Communication	3.109	3.159	0.05	93.9	98.6	**-6.2**	5.0
9	Entertainment And Culture	1.998	1.835	-0.16	107.9	113.8	**7.9**	5.5
10	Education	0.922	1.069	0.15	103.0	107.1	**3.0**	4.0
11	Restaurants And Hotels	1.527	1.504	-0.02	107.5	113.0	**7.6**	5.1
12	Miscellaneous Goods and Services	4.542	3.685	-0.86	106.9	112.2	**6.9**	**5.0**
	General Index	100	100		104.4	107.1	**4.4**	2.6
	General Index After Exclusion	100	100		104.6	107.5	**4.6**	2.8

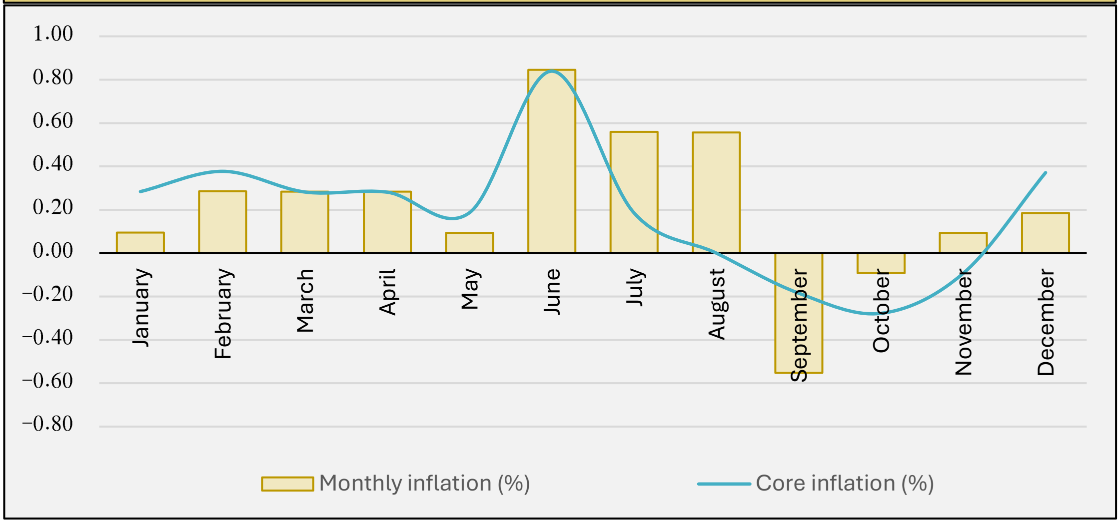
Source: Ministry of Planning, Statistics and Geographic Information Systems Authority

Third: General Inflation (monthly)

Monthly inflation rates recorded slight fluctuations during 2024, ranging between (0.85%) in June 2024 and (0.55-%) in September 2024, as the consumer price index continued to rise until August 2024 before declining during September and October 2024, and rising again during the last two months of 2024.

The groups (food and non-alcoholic beverages), (housing, water, electricity, gas), and (transportation) affected the inflation path for the year 2024, as these aforementioned groups represent a relative weight of (68.486%) of the total consumer basket. As for the **monthly core inflation rates**, they fluctuated between (0.84%) in June 2024 and (0.28-%) in October 2024.

Figure (31) Monthly General and Core Inflation Rates for 2024 (%)



Fourth: The Implicit Deflator on GDP Prices (Implicit Index) for 2024 Compared To 2023

Implicit deflator is a measure of the extent of change in GDP based on changes in prices. This indicator is more comprehensive because it is based on everything produced within the country, not just a basket of goods and services.

The GDP deflator witnessed an increase of (4.4%) this year to reach (171.6%) compared to (164.4%) in 2023, which indicates that the GDP at current prices has increased at a higher rate than GDP at constant prices, which indicates that there is an increase in the prices of goods and services produced internally.

While the implicit deflator on non-oil GDP increased by (7.1%) from (213.8%) to (228.9%), this indicates that GDP had a greater impact on prices.

Figure (32) Implicit deflator of GDP (%)
2023-2024

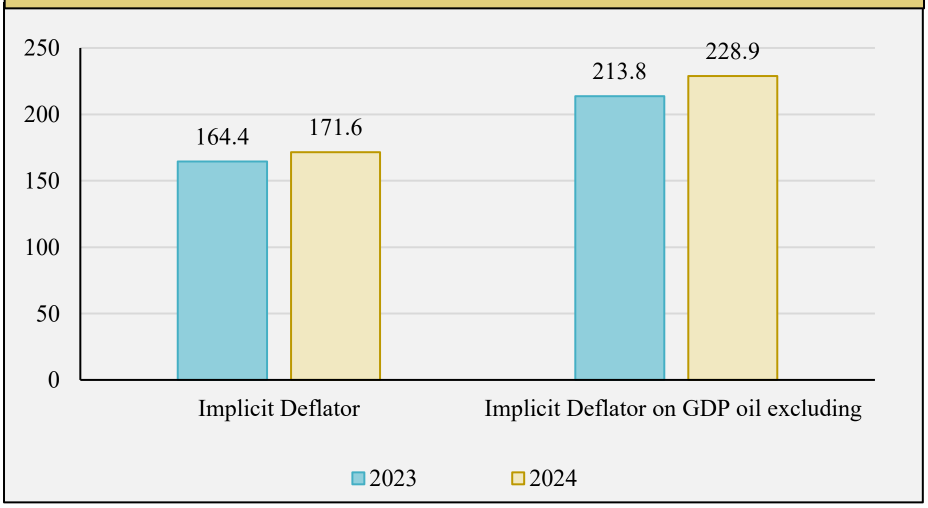


Table (10): Implicit deflator for 2023-2024		
	2023	2024
GDP (IQD billion)		
At current prices	353,780.2	363,533.6
At constant prices	215,232.2	211,906.3
GDP deflator (%)	164.4	171.6
Non-oil GDP (IQD Billion)		
At current prices	204,275.5	228,100.0
At constant prices	95,544.3	99,668.9
Non-oil GDP deflator (%)	213.8	228.9

Implicit deflator = GDP at current prices \ GDP at constant prices *100

Fifth: Imported inflation

Changes in a country's exchange rate can affect the prices of goods and services, which is reflected in the inflation rate, as a currency decline, i.e. a decrease in its value, leads to increased inflation through higher prices of goods and services produced abroad compared to those produced domestically. Therefore, consumers pay more to buy the same imported products, and on the other hand, production in a country depends on the imported raw materials products are used in their production processes, as they are paid more to purchase these materials, which contributes to increasing the prices of goods and services and directly affects inflation through the cost-paying channel. Imported inflation is also affected by shipping costs and new customs tariffs imposed on goods. Import inflation rose from (1.6%) in 2023 to (1.8%) in 2024, due to a significant increase in imports despite the decline in global inflation.

Table (11) Record imports for the years 2023-2024		
	2023	2024
Global Inflation (%)	6.66	5.76
Imports (USD Billion)	65.8	87.4
GDP At Current Prices (USD Billion)	268.0	275.4
Imported Inflation (%)	1.6	1.8

Imported inflation = imports \ GDP at current prices * Global inflation.

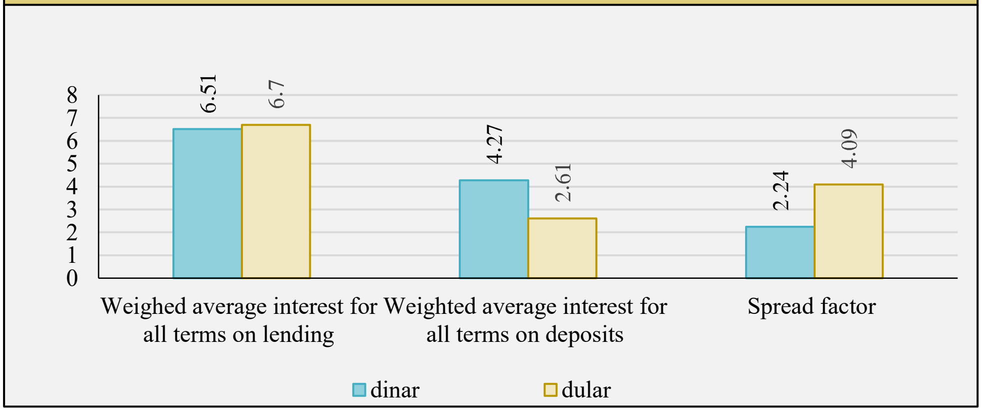
Sixth: The Weighted Interest Rate On (Deposits and Credit)

The weighted interest rate index on deposits and credit during 2024 was created for the first time in monetary statistics, and it is a standard interest rate that expresses the cost of money in the banking sector and is calculated by giving relative weights to banks' contribution to attracting deposits and granting loans through the interest rates they determine. The data in **Table (12)** indicate that the average weighted interest rate on deposits in 2024 recorded (4.27%) in Iraqi dinars, compared to (2.61%) in US dollars, while the real interest rate on deposits in Iraqi dinars recorded (1.67%) in 2024, which is low compared to the opportunity cost. The average weighted interest on lending in 2024 was recorded at (6.51%) in Iraqi dinars, compared to (6.7%) in US dollars. The average real lending interest rate was recorded at (3.91%) in Iraqi dinars. The domestic and foreign interest spread coefficient recorded (2.24%) and (4.09%), respectively, and is within the standard ratio of (2-4%).

Table (12) Weighted Interest Rate on Lending and Deposits (%) In 2024	
Items	2024
Weighted average interest for all terms on lending in dinars	6.51
Weighted average interest for all terms on deposits in dinars	4.27
Domestic interest spread factor in dinars	2.24
Average real lending interest	3.91
Average real deposit interest	1.67
Overall inflation	2.6
Weighted average interest for all terms on lending in dollars	6.7
Weighted average of all-term lending interest in dollars	2.61
Foreign interest spread factor in dollars	4.09

Average real lending interest = Average short-term lending interest - inflation rate. Average real deposit interest = average interest on one-year deposits - inflation rate

Figure (33) Weighted interest rate on lending and deposits in 2024 (%)



Frame (5)

Based on its monetary policy objectives to promote the achievement of targeted inflation rates in a manner that does not conflict with expected economic growth rates, and in alignment with a policy of deposit development and increasing credit ratios aimed at targeting specific projects, and by adopting a data-driven approach based on information obtained from the banking sector, the Central Bank decided on 23/10/2024 to reduce its key policy rate to (5.5%) from (7.5%).

Chapter Four

Developments in Iraq's Monetary Policy Performance

The Central Bank of Iraq (CBI) is dedicated to maintaining domestic price stability, as mandated by the CBI Law No. (56) of 2004.

The bank pursues this objective by ensuring stable inflation rates, a crucial task given the Iraqi economy's heavy reliance on imports to meet its needs. This dependence leads to the effects of rising prices of imported goods being passed on to the local economy, creating inflationary pressures.

In this framework, the CBI remains focused on achieving its goals, including stabilizing the official exchange rate through the use of a range of monetary policy instruments, such as open market operations and liquidity management to meet this objective. The bank has also implemented a contractionary monetary policy to reduce excess liquidity in the domestic market in order to alleviate pressure on prices. The foreign exchange reserves experienced a minor decline over the past year, but they remain at a high and secure level, demonstrating robust financial security that aligns with international standards.

The CBI has also announced its continued efforts to adopt an electronic platform for foreign transfers conducted through correspondent banks. This transition has unfolded in several stages: from the initial buying and selling of foreign currency via the currency sale window, to the introduction of an electronic platform for foreign transfers, and finally, to operations designed to strengthen banks' foreign balances.

This chapter of the report will cover the following

First Analysis of CBI's Foreign Reserve Adequacy

Second Velocity of Money Circulation

Third Monetary Stability Coefficient

Fourth Monetary Excess Ratio

Fifth Purchasing Power of Money

Sixth Monetary Multiplier

Seventh Monetary Sterilization

First: Analysis of CBI's Foreign Reserve Adequacy Indicators

Foreign reserve adequacy indicators serve as a measure of both the optimal utilization of reserves on one hand and the overall state of the economy on the other.

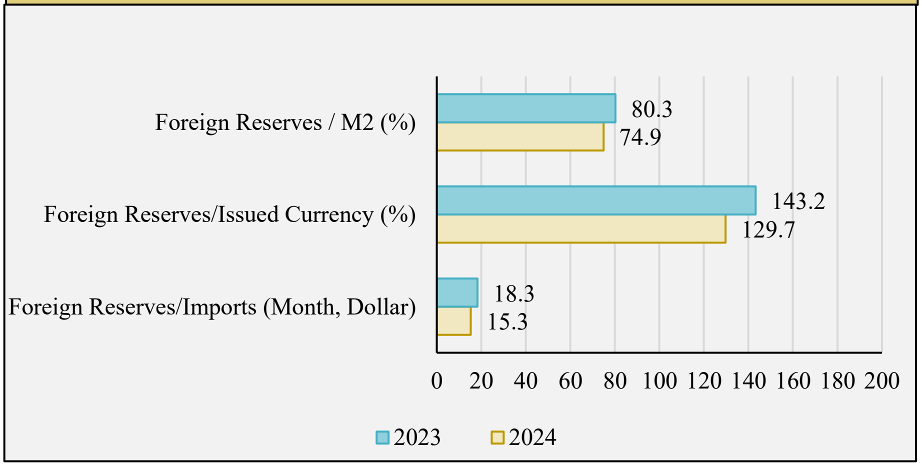
Data indicates a decrease in the ratio of reserves to issued currency from (143.2%) in 2023 to (129.7%) in 2024. This is due to a larger percentage decrease in foreign reserves than in issued currency. Issued currency amounted to IQD (100.5) trillion in 2024, compared to IQD (101.5) trillion, a decrease of (1.0%). Meanwhile, reserves recorded a (10.3%) decrease, reaching IQD (130.3) trillion this year compared to IQD (145.3) trillion in 2023. Despite this decline, the ratio remains above the standard ratio of (100%), meaning the Iraqi Dinar is fully covered.

The ratio of foreign reserves to broad money supply (M2) also exceeded the standard ratio of (20%), despite a decrease from the previous year. It registered (74.9%) in 2024 compared to (80.3%) in 2023, which resulted from a smaller decrease in broad money supply (M2) than in foreign reserves, as shown in **Table (13).** Furthermore, the indicator for months of import cover in US dollars exceeded the standard ratio of (6) months. It registered (15.3) months in 2024, compared to (18.3) months in 2023, the decline being a result of the decrease in foreign reserves. This signifies that the foreign reserve adequacy indicators have surpassed the international standard ratio, which reflects the quality of the monetary policy's performance in managing reserves.

Table (13) Foreign Reserves Adequacy Indicators 2023-2024 (IQD Trillion)

	2023	2024
Foreign Reserves	145.3	130.3
M2	181.0	174.0
Issued Currency	101.5	100.5
Foreign Reserves/ M2 (%)	80.3	74.9
Foreign Reserves/ Issued Currency (%)	143.2	129.7
Reserves /Months of Imports Cover (Month)	18.3	15.3

Figure (34) Foreign Reserves Adequacy Indicators for 2023-2024(%)



Second: Velocity of Money Circulation

Data indicates an increase in the velocity of money circulation from (2.2) times in 2023 to (2.4) times in 2024. This points to an increase in the number of times a single Iraqi Dinar is spent during the year, resulting from a rise in GDP at current prices, despite the continued decrease in narrow money supply (M1). This indicates a recovery in economic activity, as shown in **Table (14).**

Table (14)
Velocity of Money Circulation and Its Influencing Factors, 2023-2024

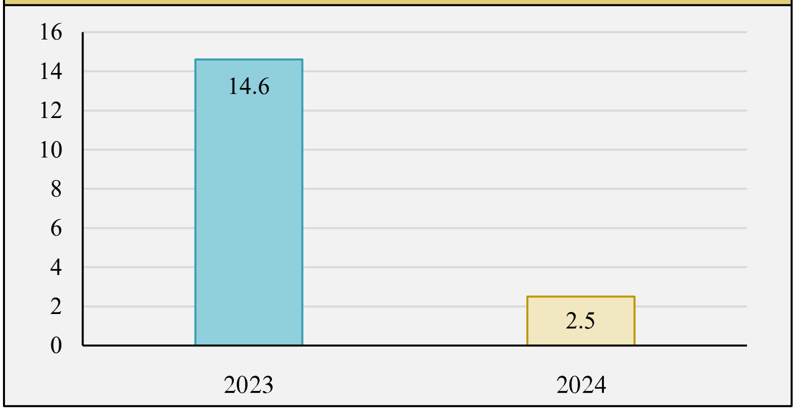
(Billion IQD)

Year	GDP at Current Prices (1)	Narrow Money Supply (M1) (2)	Velocity of Money Circulation (1/2)
2023	353,780.2	160,318	2.2
2024	363,533.6	152,906	2.4

Third: Monetary Stability Coefficient (A Measure of Inflationary Pressure)

The monetary stability coefficient registered (2.5) in 2024, compared to (14.6) in 2023. This change resulted from a (1.5%) decrease in the growth rate of GDP at constant prices in 2024 compared to 2023. The coefficient value indicates a trend toward economic contraction due to a decrease in monetary liquidity.

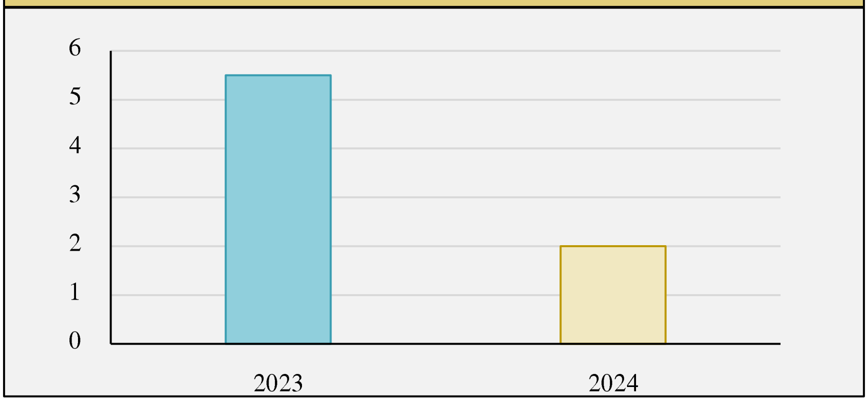
Figure (35) Monetary Stability Coefficient of 2023-2024



Fourth: Monetary Excess Ratio

Achieving long-term stability in the general price level is only achieved determining the optimal size of the money supply. That is, any change in the share of the productive unit causes changes in the prices level. his means that inflationary forces are attributed to the increase in the share of the productive unit in the amount of money above its optimal size, which results in a monetary excess that leads to a rise in prices. The monetary excess ratio decreased from (5.5%) in 2023 to (2.0%) in 2024. This was a result of a larger decrease in broad money supply (M2) than in GDP at constant prices, which led to lower inflation compared to the previous year.

Figure (36) Ratio of Monetary Excess (%) for 2023-2024



Fifth: The Purchasing Power of Money

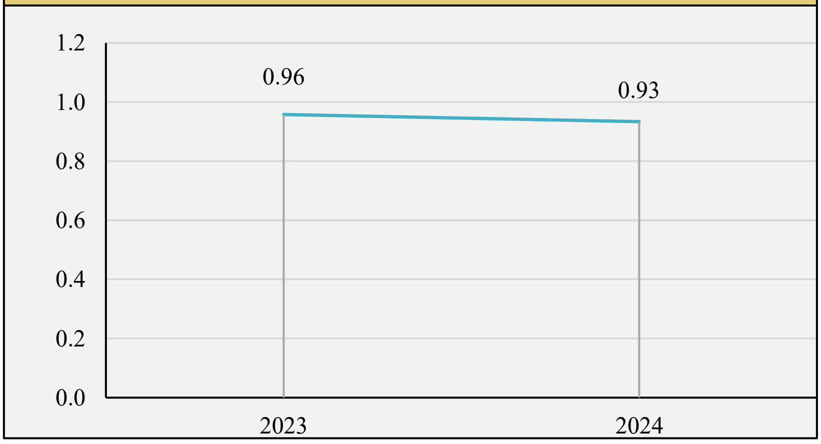
The purchasing power of the Dinar saw a slight decrease, falling from a level of (0.96)in 2023 to (0.93)in 2024. This was driven by a (2.6%)increase in the Consumer Price Index (CPI) during 2024. This decline would have been more significant if not for CBI's policy to support the Dinar's value, coupled with the cabinet’s decision to increase the provision of goods to those covered by social welfare programs.

A similar slight decrease in the Dinar's purchasing power is also noted when using the core Consumer Price Index (core inflation). It dropped from (0.96) in 2023 to (0.93) in 2024, reflecting a (2.8%) increase in the core CPI. Despite the slight increase in the country's overall price level, the purchasing power of the currency remains at acceptable levels.

Table (15) Purchasing Power of Money of 2023-2024

Year	Index after exclusion based on (2012=100)	Purchasing Power of money %	Price Index based on (2012=10)	Purchasing power of money %
2023	104.6	0.96	104.4	0.96
2024	107.5	0.93	107.1	0.93

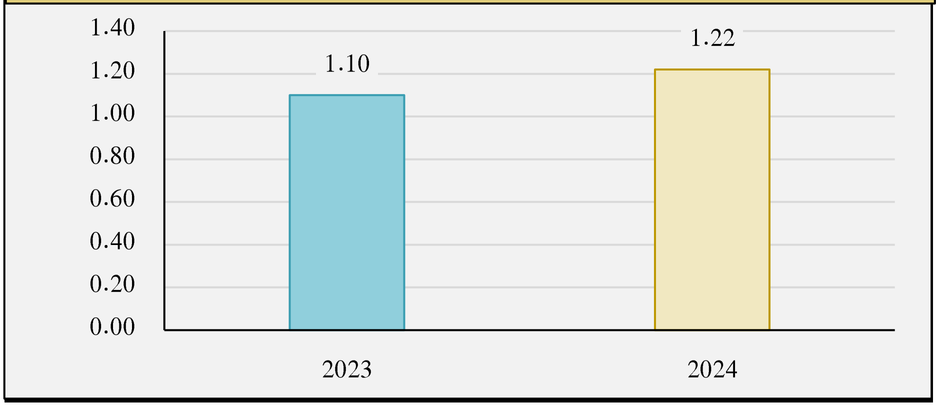
Figure (37) The Purchasing Power of Money of 2023-2024 (%)



Sixth: The Multiplier Money (M)

The money multiplier measures the ability of banks to create money and influence its volume within the national economy. In 2024, the money multiplier was (1.22), up from (1.10) in 2023, an increase of (11.6%) . This rise is attributed to a (13.8%) decrease in the growth of the monetary base, which exceeded the (3.8%) decline in the broad money supply. This was a result of a decrease in CBI's net foreign assets and net domestic assets by (10.3%) and (41%), respectively.

Figure (38) Money Multiplier for 2023-2024



Seventh: Monetary Sterilization

The CBI employs monetary sterilization policies to nullify the harmful effects of foreign flows by drawing down from foreign reserves to keep the monetary base stable, which helps to improve certain indicators of domestic and external economic stability and balance in the short term. It works by withdrawing excess liquidity from the economy, which is a consequence of the state's heavy reliance on oil revenues to cover its expenses.

The degree of sterilization increased from (0.88) in 2023 to (0.92) in 2024, indicating a rise in the activity of the sterilization process. This is a result of CBI's net foreign assets increasing at a higher rate than its net domestic assets. Figure (39).

Figure (39) Monetary Sterilization of 2023-2024