



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



Monetary Stability Report

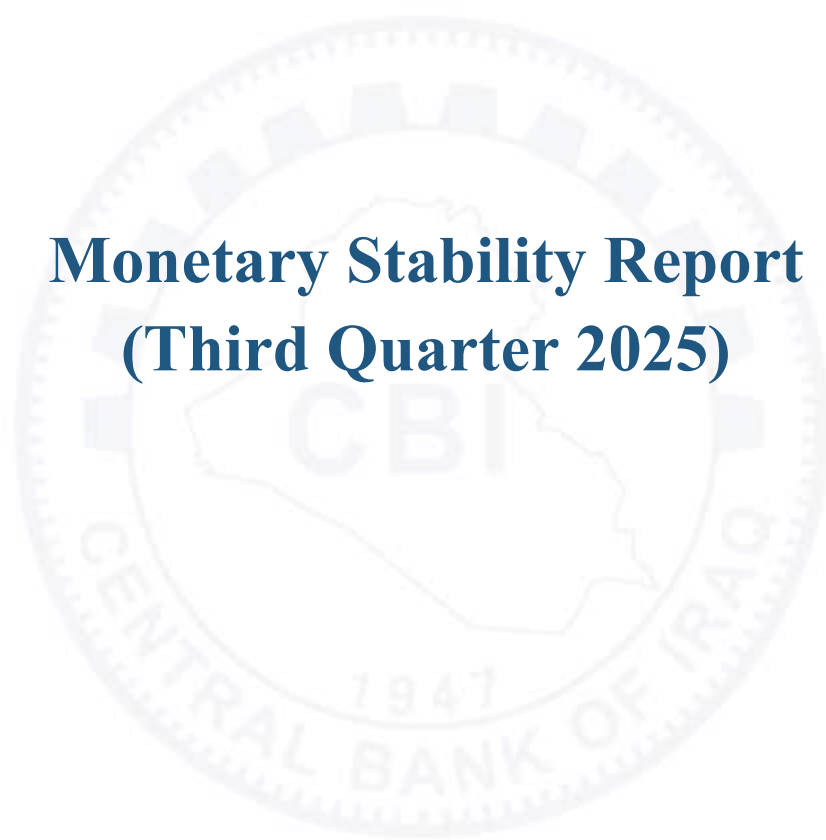
Third Quarter 2025

Central Bank of Iraq

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Monetary Stability Report (Third Quarter 2025)



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List of Contents	Page No.
Abstract	a - b
1. Chapter One: Analysis of the Developments of Monetary Stability Variables in Iraq	1
1.1 Net Foreign Reserves and their Ability to Achieve Monetary Stability	1
1.2 Volume of Cash Receipts and Their Impact on Net Foreign Reserves and the Volume of Issued Currency	2
1.3 Cash Withdrawals (Payments) Required to Cover Public Expenditures and Their Impact on the Volume of Issued Currency	3
1.4 The Volume of the Monetary Impact Between Cash Payments and Receipts on Inflation and the Market Exchange Rate	4
1.5 Components of the Monetary Base	5
1.5.1 Monetary Base from the Assets Side of the Central Bank of Iraq's Balance Sheet	5
1.5.2 Monetary Base from the Liabilities Side of the Central Bank of Iraq's Balance Sheet	6
1.6 Volume of Currency in Circulation and Its Impact on Monetary Stability	7
1.7 Monetary Policy Rate	8
1.8 Reserve Requirement	8
2. Chapter Two: Analysis of the Development of Monetary Stability Indicators	10
2.1 Monetary Stability Criteria	10
2.1.1 The Monetary Stability Coefficient based on the Elasticity of Money to Changes in GDP	10
2.1.2 Money Supply Surplus	11
2.1.3 Monetary Stability Coefficient Based on the Elasticity of Money Supply to Price Changes	12
2.1.4 The Money Multiplier	13
2.1.5 The Velocity of Money	14
2.2 Foreign Reserves Adequacy Criteria	14
2.2.1 Ratio of Net Foreign Reserves to Issued Currency	14
2.2.2 Ratio of Net Foreign Reserves to Broad Money Supply M2	15
2.2.3 Import Coverage Indicator	16
2.3 Fiscal Discipline Indicators	17
2.3.1 Ratio of Total Domestic Public Debt to GDP at Current Prices	17
2.3.2 Ratio of Public Expenditure to GDP at Current Prices	18

List of Figures	Page No.
Figure 1: The Relationship of Oil Prices, Net Foreign Reserves, and Cash Receipts	1
Figure 2: The Relationship of the Volume of Cash Receipts, Net Foreign Reserves, and Volume of Issued Currency	2
Figure 3: The Relationship of Cash Payments, Issued Currency, and Net Foreign Reserves	3
Figure 4: The Volume of the Monetary Impact Between Cash Payments and Receipts on Inflation and the Market Exchange Rate	4
Figure 5: The Relationship of Monetary Base, Net Domestic Assets, and CBI's Net Foreign Reserves	5
Figure 6: The Relationship of the Monetary Base, Currency in Circulation, and Banks' Reserves	6
Figure 7: The Relationship of Inflation and Currency in Circulation	7
Figure 8: Monetary Policy Rate, Excess Reserves, and Treasury Bills at Commercial Banks	8
Figure 9: The Relationship of Reserve Requirement and Broad Money Supply (M2)	9
Figure 10: Monetary Stability Coefficient	10
Figure 11: Ratio of Money Supply Surplus	11
Figure 12: Monetary Stability Coefficient Based on the Elasticity of Money Supply to Price Changes	12
Figure 13: Money Multiplier	13
Figure 14: Velocity of Money in Circulation	14
Figure 15: Ratio of Net Foreign Reserves to Issued Currency	15
Figure 16: Ratio of Net Foreign Reserves to Broad Money Supply M2	16
Figure 17: Import Coverage Indicator	16
Figure 18: Ratio of Total Domestic Public Debt to GDP at Current Prices	17
Figure 19: Ratio of Public Expenditure to GDP at Current Prices	18

Abstract:

Monetary stability represents one of the fundamental pillars of macroeconomics. The Central Bank of Iraq (CBI) plays a pivotal role in achieving this stability by managing monetary policy, controlling inflation rates, stabilizing the IQD exchange rate, and preserving the national currency's purchasing power. To achieve these goals, the CBI utilizes a mix of conventional and non-conventional monetary instruments, which it selects based on the prevailing economic and financial variables. Monetary stability is considered a fundamental factor to enhancing trust in the financial and banking system, which attracts foreign investments and supports sustainable economic growth.

This analysis is important in light of the challenges posed by fluctuating oil prices and continued expansion in public spending, which could potentially put pressure on monetary stability. This situation requires an accurate evaluation of the effectiveness of the monetary policy instruments being used .

In light of this vital role, this report aims to analyze the state of monetary stability in Iraq in Q3 of 2025. It will do so by reviewing key monetary indicators and evaluating the effectiveness of measures taken to control liquidity, as well as the effectiveness of monetary policy in achieving monetary and financial stability in the face of domestic and international economic developments.

The analysis of the developments of monetary stability indicators in Iraq in Q3 of 2025 shows that the CBI adopted a cautious and relatively tight monetary policy. This policy aimed to control cash liquidity levels and contain inflationary pressures in light of the decline in oil prices and the continued expansion of public spending .The intensification of cash sterilization operations and increased cash inflows helped absorb a significant portion of the circulating cash, reflected in a decline in the amount of issued currency and a decrease in the broad money supply (M2), supporting price stability. In Q3 of 2025, the CBI expanded the scope of liquidity management operations,

which contributed to an increase in cash receipts from IQD 20.09 trillion in Q3 of 2024 to IQD 21.67 trillion in the same quarter of 2025.

The CBI has primarily relied on foreign reserves as a key tool to maintain monetary stability, adopting a sterilization policy to mitigate the monetary impact of its interventions in the foreign exchange market. Net foreign reserves remained at safe levels, enabling the CBI to cover Iraq's imports for 14 months. Additionally, net foreign reserves covered 75.17% of the M2, reflecting the strength of the external position and the CBI's ability to support stable exchange rates.

Despite a 5.37% increase in public spending in Q3 of 2025 compared to the same quarter in 2024, the volume of issued currency decreased by 4.27% during the same period, reaching IQD 99.68 trillion in Q3 of 2025. This indicates the effectiveness of monetary policy instruments in mitigating the expansionary impact of fiscal policy by promoting monetary sterilization. It is noteworthy that cash receipts increased by 7.84%, contributing to a 5.2% decrease in M2.

Despite this disciplined monetary performance, the financial sector still faces structural challenges. In Q3 of 2025, the government's spending reached 49.49% of the GDP, indicating that financial activity is still expanding. In the absence of concurrent financial discipline measures, this could potentially lead to inflationary pressures in the future.

In light of the limited non-oil revenues, the domestic public debt increased from IQD 78.87 trillion to IQD 90.61 trillion over the same period, which suggests an increase in future financing costs. Therefore, to maintain this trend, a comprehensive review of spending policies is required, as well as the adoption of strict financial rules to ensure financial sustainability by reducing dependence on oil resources. This would help ease the pressure on the financial sector and strengthen the Iraqi economy's ability to withstand future 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 financial variables, which are in turn influenced by the outputs of the real and financial sectors. The degree of volatility in these variables reflects the effectiveness of monetary policy in achieving stability and controlling 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 are one of the Central Bank of Iraq's (CBI) most important instruments for supporting monetary stability. This is due to their direct link to the ability of monetary policy to maintain the value of the Iraqi dinar and strengthen the economy's external position. These reserves play a crucial role in absorbing external shocks, especially those related to oil price fluctuations. They also bolster confidence in Iraq's ability to fulfill its obligations to international financial institutions. However, these reserves remain sensitive to movements in oil revenues, which are the main source of foreign currency inflows. They are also affected by the CBI's monetary sterilization operations, which are used to withdraw excess liquidity from the market and rely in part on the utilization of foreign assets.

Figure 1: The Relationship of Oil Prices, Net Foreign Reserves, and Cash Receipts

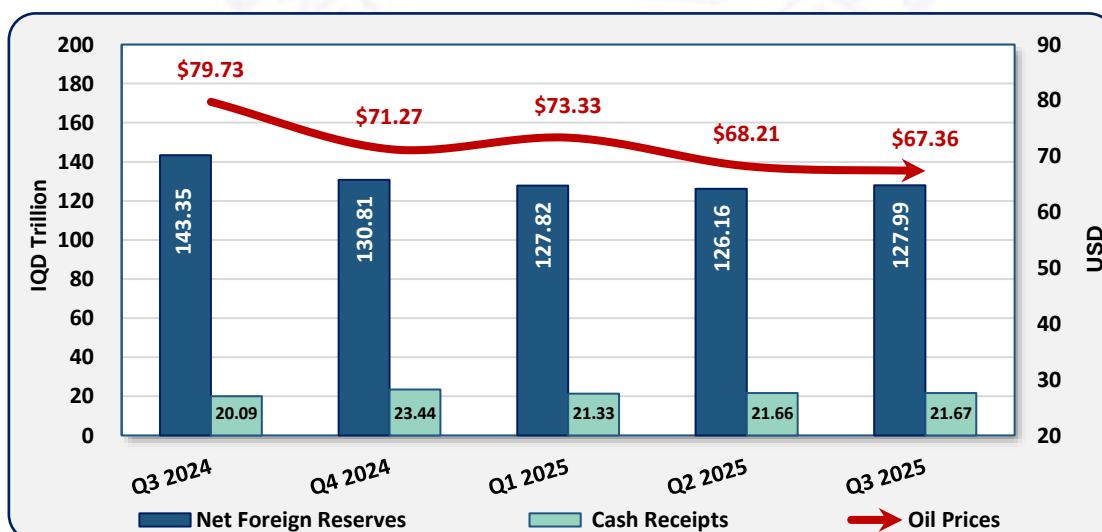


Figure 1 shows that oil prices fell from USD 79.73 in Q3 of 2024 to USD 67.36 in the same quarter of 2025, which had a direct impact on net foreign reserves that fell from IQD 143.35 trillion to IQD 127.99 trillion over the same period. This decline is attributed to the CBI's resorting to withdrawing cash liquidity from the market by

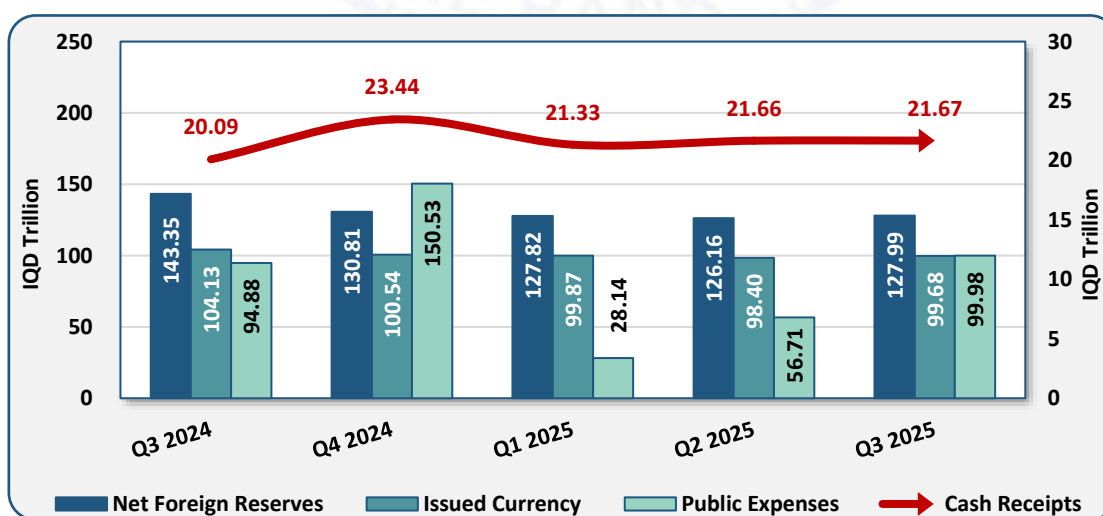
intensifying monetary sterilization operations with the aim of reducing inflationary pressures and maintaining monetary stability, which led to an increase in cash receipts by 7.84%, rising from IQD 20.09 trillion to IQD 21.67 trillion for the same period. Therefore, the 15.52% decline in oil prices, coupled with the 7.84% increase in cash receipts, directly contributed to a 10.71% decline in net foreign reserves for the same period. In addition to the impact of the budget deficit, which increases pressure on foreign reserves by expanding the need to finance government spending.

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

Cash receipts represent the total national currency obtained by the CBI from various sources, most notably from foreign currency sale operations. These receipts are one of the main channels through which monetary policy affects aggregate monetary variables. The volume of cash receipts directly impacts both net foreign reserves and the volume of issued currency, as well as the components of the money supply, as defined.

Higher cash receipts typically result in liquidity being absorbed from the market. This limits the growth of issued currency, including cash in circulation outside the banking system. This supports monetary stability and helps reduce inflationary pressures. However, this positive effect is offset by a decline in net foreign reserves because the CBI must pay more foreign currency for local dinars. This reflects the trade-off between promoting internal monetary stability and maintaining adequate levels of foreign reserves.

Figure 2¹: Relationship of the Volume of Cash Receipts, Net Foreign Reserves, and Volume of Issued Currency



1) The data shown in the figure is an accumulated balance and is measured by what appears at the end of the period, except for receipts, which are a flowing balance.

Figure 2 illustrates that public spending rose from IQD 94.88 trillion in Q3 of 2024 to IQD 99.98 trillion in the same quarter of 2025, representing a growth rate of 5.37%. Despite this increase, the issued currency decreased from IQD 104.13 trillion to IQD 99.68 trillion for the same period, with a rate of 4.27%. This decline is mainly attributed to the tightening of monetary policy through intensified monetary sterilization operations, which resulted in an increase in cash receipts from IQD 20.09 trillion to IQD 21.67 trillion, with a rate of 7.84%, over the same period, absorbing a significant portion of the liquidity circulating in the economy.

This indicates that the impact of monetary sterilization was greater than that of fiscal expansion. This limited the growth of the issued currency and supported monetary stability, albeit at the expense of a 10.71% decline in net foreign reserves during the same period.

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

Cash payments represent the amount of national currency payments made by the CBI to the Ministry of Finance to cover public expenditures. The CBI finances these payments by receiving foreign currency in return, which increases net foreign reserves. However, an increase in cash payments leads to an increase in the volume of issued currency, while a decrease in cash payments leads to a reduction in the money supply.

Figure 3: The Relationship of Cash Payments, Issued Currency, and Net Foreign Reserves

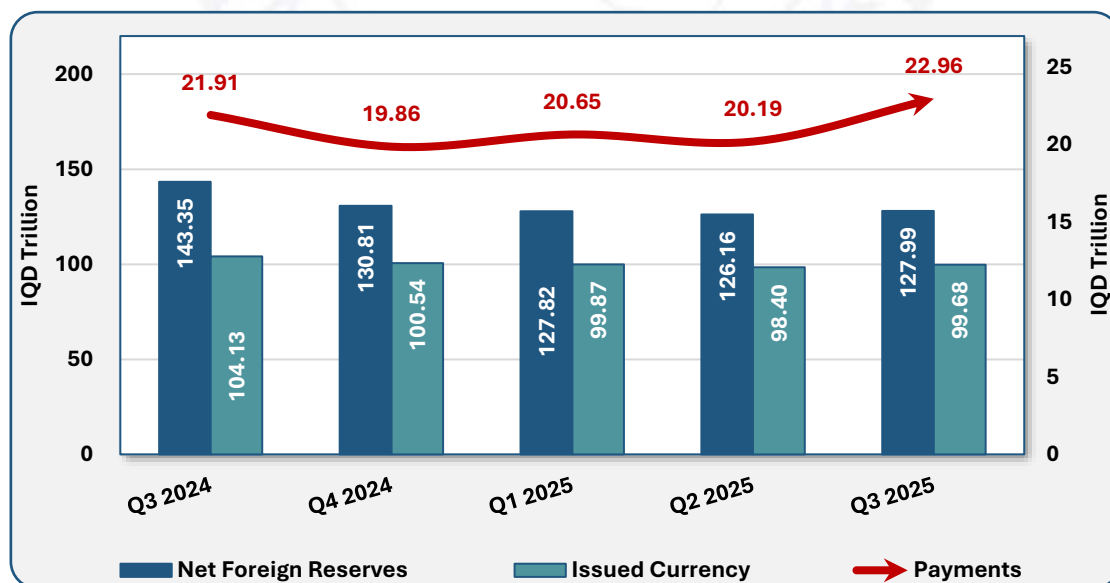


Figure 3 shows that the increase in cash payments from IQD 21.91 trillion in the Q3 of 2024 to IQD 22.96 trillion in the same quarter of 2025, at a rate of 4.78%, did not translate into an increase in issued currency. In fact, issued currency decreased from

IQD 104.13 trillion to IQD 99.68 trillion during the same period, a 4.27% decrease. This occurred due to the effectiveness of monetary policy instruments in containing the expansionary impact of fiscal policy. These instruments limited the growth of the money supply and supported monetary stability, despite the continued financing of public expenditures. This was reflected in a decrease in net foreign reserves from IQD 143.35 trillion to IQD 127.99 trillion, a decrease of 10.71%.

1.4 The Volume of the Monetary Impact Between Cash Payments and Receipts on Inflation and the Market Exchange Rate:

The monetary impact represents the difference between the cash payments and cash receipts of the CBI. When this impact 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 Volume of the Monetary Impact Between Cash Payments and Receipts on Inflation and the Market Exchange Rate

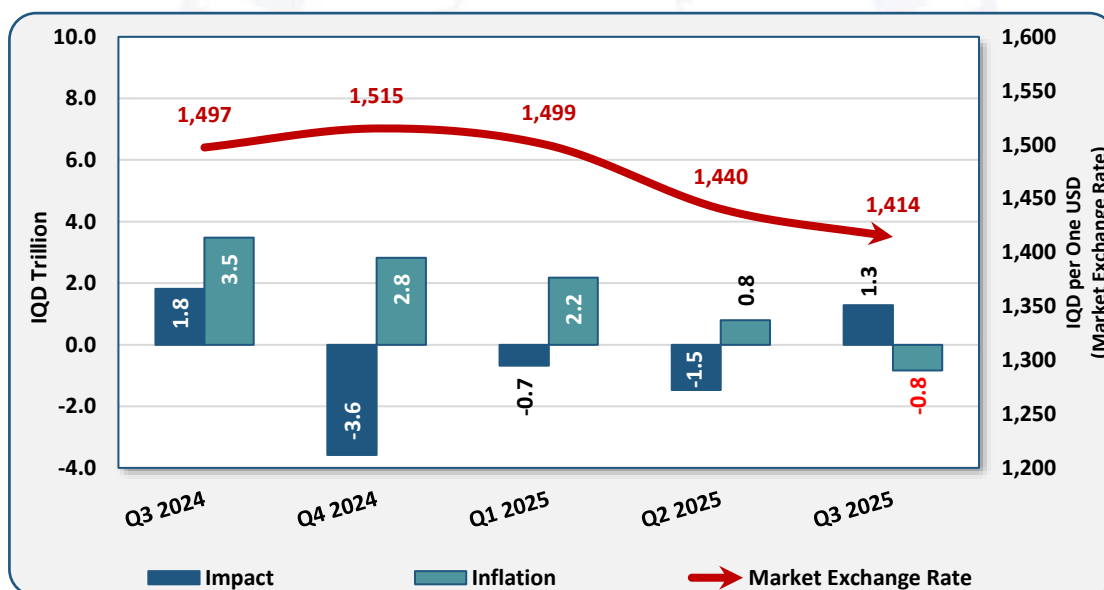


Figure 4 shows that the monetary impact decreased from IQD 1.8 trillion in Q3 of 2024 to IQD 1.3 trillion in Q3 of 2025, representing a decline of IQD 0.5 trillion. This indicates that while the difference between payments and receipts remained positive in both periods, net monetary expansion was less pronounced in 2025. During this time, the inflation rate dropped significantly, from 3.5% to -0.8%, reflecting a clear easing of price pressures despite cash payments continuing to exceed receipts. This coincided with a significant improvement in the market exchange rate, which decreased from IQD 1,497 per dollar to IQD 1,414 per dollar during the same period. This reduction indicates

less pressure on the exchange market. The decline in the monetary impact contributed to reducing the amount of net liquidity added to the economy, which was reflected by the decline in inflation. The improvement in the exchange rate reduced the cost of imports and curbed inflation.

1.5 Components of the Monetary Base:

The monetary base represents the mini balance sheet of the CBI and plays a crucial role in maintaining monetary stability. It is reflected in both the assets and liabilities of the CBI's balance sheet. This indicator is considered one of the CBI'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 by **CBI's net foreign reserves plus net domestic assets**. The net foreign assets of the CBI represent the largest portion on the assets side of the monetary base, which is directly related to the net foreign reserves and the net domestic credit provided by the Central Bank of Iraq to the central government. The latter is linked to the public finance situation, which moves the components of the monetary base on the liabilities side.

Figure 5: The Relationship of Monetary Base, Net Domestic Assets, and CBI's Net Foreign Reserves

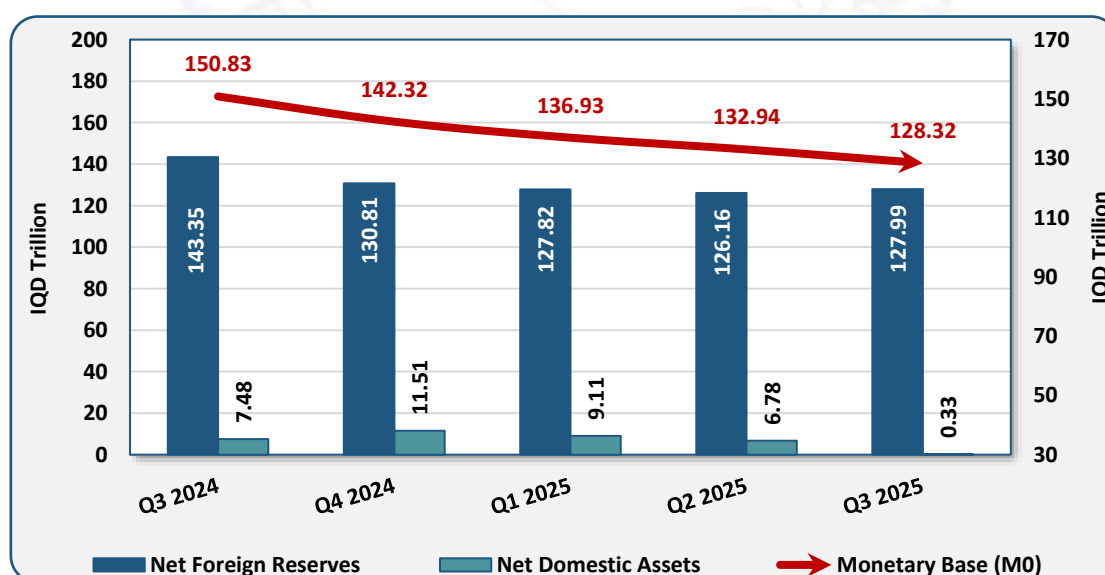


Figure 5 shows that the decline in the monetary base during Q3 of 2025 is a positive development, given the easing of inflationary pressures and the improved exchange rate. This decline reflects a cautious monetary stance aimed at controlling

liquidity and maintaining monetary stability. However, if this trend extends over a long period, it will negatively affect economic activity and bank liquidity. Net foreign reserves fell from IQD 143.35 trillion in Q3 of 2024 to IQD 127.99 trillion in the same quarter of 2025, marking a 10.71% decline. This led to a 14.92% decrease in the monetary base, from IQD 150.83 trillion to IQD 128.32 trillion, for the same period. Net domestic assets also declined from IQD 7.48 trillion to IQD 0.33 trillion during this period, reflecting deliberate monetary tightening in liquidity management that enhances monetary and financial stability.

1.5.2 Monetary Base from the Liabilities Side of 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 volume of currency in circulation and banks' reserves. Currency in circulation constitutes the largest portion of monetary base (M0) on the liabilities side, in addition to excess reserves and reserve requirement. Thus, the increase of currency in circulation leads to a rise in the monetary base.

Figure 6: The Relationship of the Monetary Base, Currency in Circulation, and Banks' Reserves

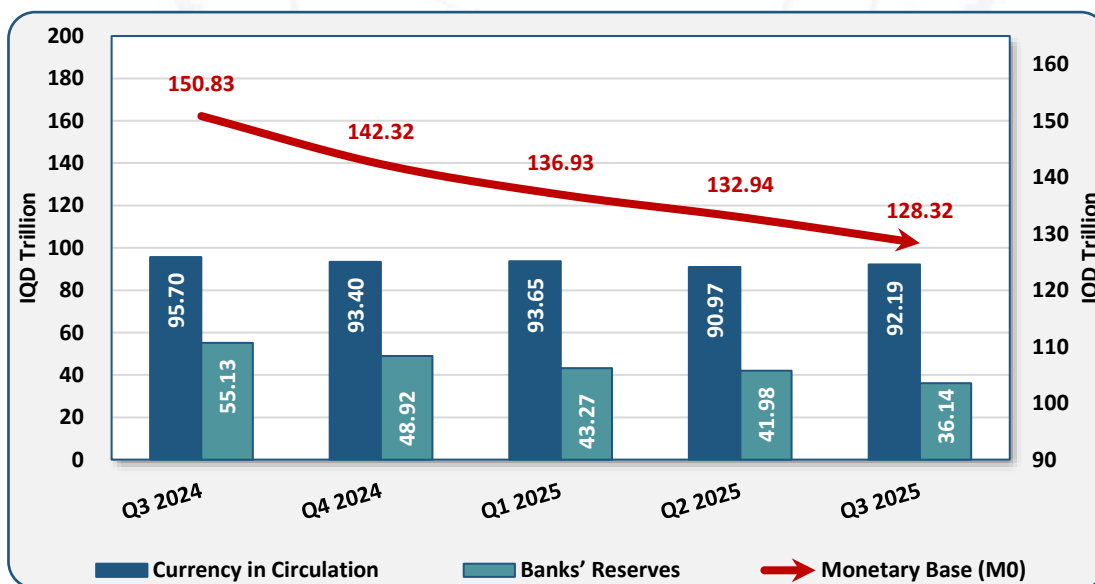


Figure 6 shows that the currency in circulation decreased from IQD 95.70 trillion for Q3 of 2024 to IQD 92.19 trillion for the same quarter of 2025. Banks' reserves decreased from IQD 55.13 trillion to IQD 36.14 trillion with a decrease rate of 34.44% for the same period. This clear decline in banks' reserves led to a decline in M0 from IQD 150.83 trillion to IQD 128.32 trillion with a decrease rate of 14.92% for the same

period. It is inferred that the decline of banks' reserves was the main factor in the decline of M0, while the decline of currency in circulation had a relatively limited impact. This development reflects a cautious monetary approach by CBI aimed at absorbing excess liquidity through monetary policy instruments, which would contribute to control money supply, reduce inflationary pressures, and enhance monetary stability, without causing a sharp deflation in circulating liquidity.

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

The volume of currency in circulation is one of the factors affecting monetary stability level. Its rise at a higher rate than real economic growth contributes to an increase in total demand, which is reflected in higher price levels and thus higher inflation rates.

Figure 7: The Relationship of Inflation and Currency in Circulation

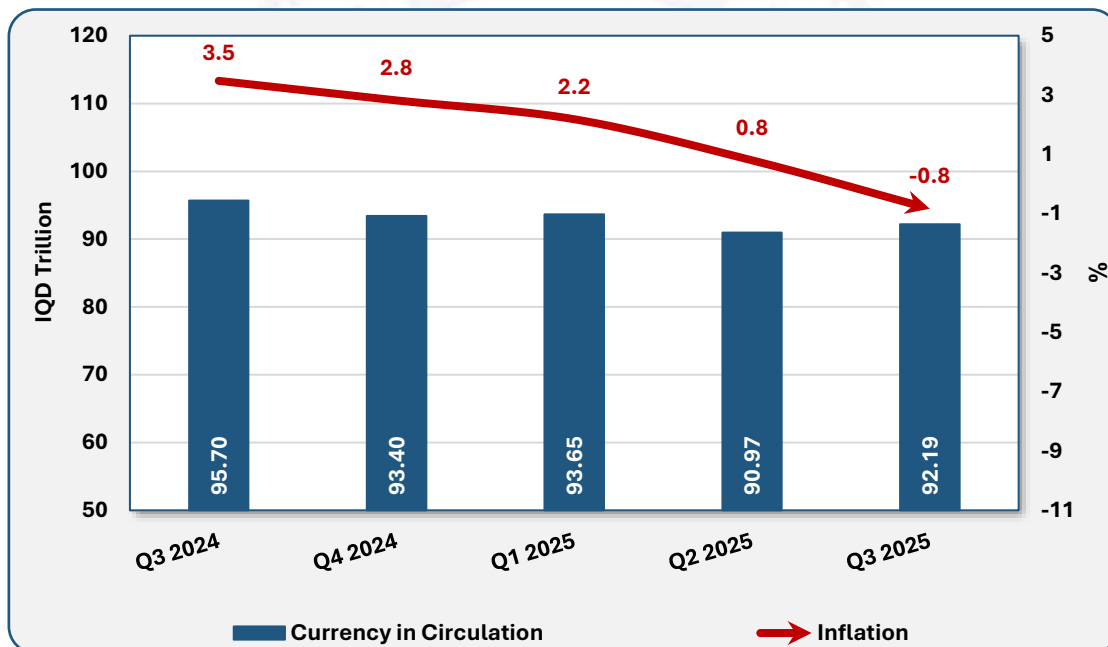
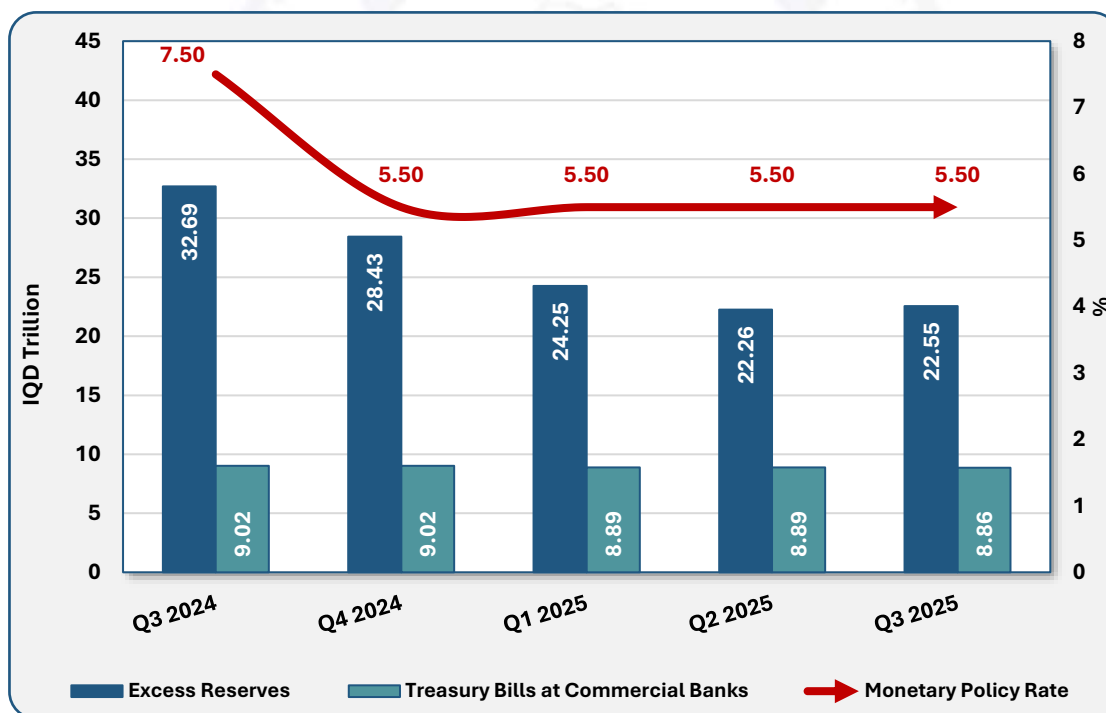


Figure 7 shows a significant decrease in the volume of currency in circulation from IQD 95.70 trillion for Q3 of 2024 to IQD 92.19 trillion for the same quarter of 2025, with a decrease rate of 3.68%. This decrease in the volume of currency in circulation is an indicator of improved efficiency of cash liquidity management and a decline in inflationary pressures, especially with the decline in inflation rate from 3.5% to -0.8% for the same period. This development reflects the success of CBI monetary policy to control liquidity levels, which contributed to achieving a more balanced and sustainable monetary environment.

1.7 Monetary Policy Rate:

Monetary policy rate is the reference interest rate set by CBI to influence the cost of borrowing within the economy, thereby controlling liquidity and inflation levels, and supporting economic growth. The policy rate was reduced from 7.5% to 5.5% in 2024. Figure 8 shows the impact of this reduction for Q3 of 2025, as excess reserves held by banks decreased from IQD 32.69 trillion for Q3 of 2024 to IQD 22.55 trillion for the same quarter of 2025. Despite the policy rate decline, banks still consider it as suitable for them. Therefore, there is an investment decline in government debt instruments, which is evident in the decline in the value of treasury bills held by commercial banks from IQD 9.02 trillion to IQD 8.86 trillion for the same period.

Figure 8: Monetary Policy Rate, Excess Reserves, and Treasury Bills at Commercial Banks

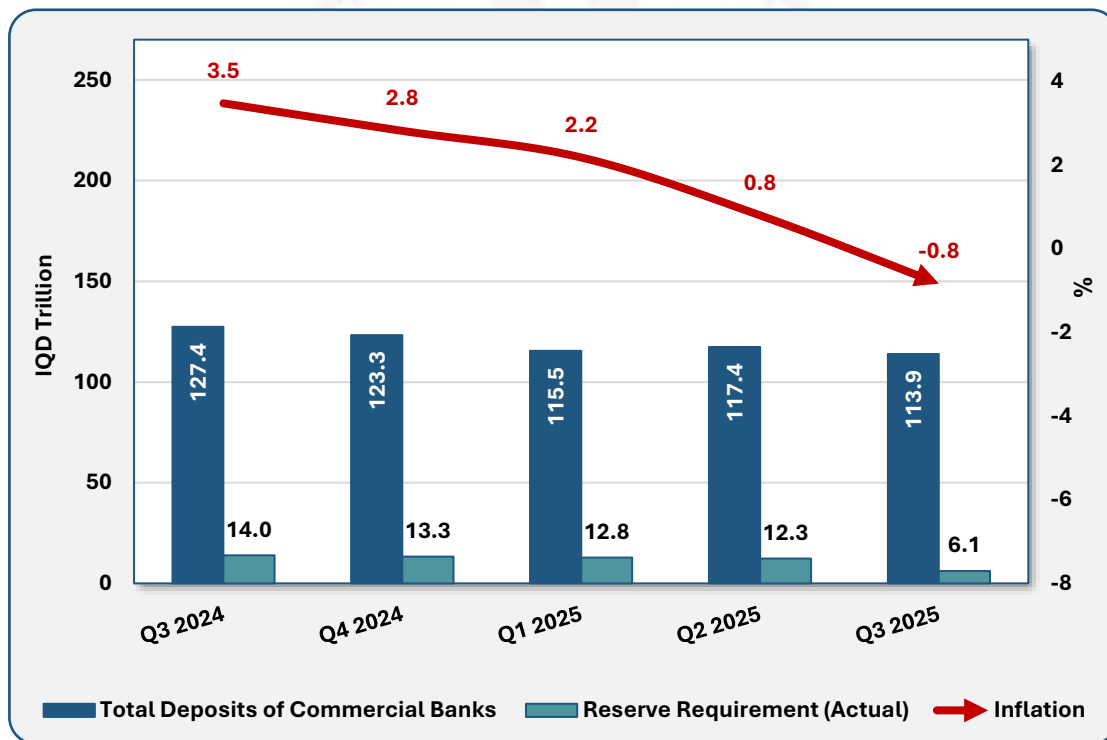


1.8 Reserve Requirement:

Reserve requirement is one of the basic instruments of monetary policy. It is identified as a percentage of customers' deposits that banks must keep with CBI. Its importance lies in enhancing banks' ability to meet cash withdrawal requests, as well as its role in controlling liquidity levels within the financial system. When the CBI aims to pursue an expansionary monetary policy, it lowers the reserve requirement ratio, thus allowing banks to lend more money, leading to increased economic activity and vice versa when a deflationary monetary policy is adopted.

In this context, CBI set the reserve requirement ratio at 18% on deposits in IQD and all other currencies, 20% on private deposits in US dollars, and 10% on government deposits with State-Owned Banks (SOBs). The volume of the reserve requirement decreased from IQD 14 trillion for Q3 of 2024 to IQD 6.1 trillion for the same quarter of 2025, due to the decline in total deposits with commercial banks from IQD 127.4 trillion to IQD 113.9 trillion for the same period. However, inflation decreased for the same period from 3.5% to -0.8%, which indicates an improvement in price environment and its stability, as shown in Figure 9.

Figure 9: The Relationship of Reserve Requirement and Broad Money Supply (M2)



Chapter Two

Analysis of Development in Monetary Stability Indicators

This chapter aims to provide a comprehensive view of the adopted key indicators that are used to assess monetary stability with emphasis on the main criteria including adequacy of foreign reserves, level of fiscal discipline, and their role in supporting monetary stability in the Iraqi economy.

2.1 Monetary Stability Criteria:

2.1.1 Monetary Stability Coefficient Based on the Elasticity of Money to Changes in GDP²:

Monetary stability coefficient expresses the relationship between the growth rate of the Broad Money Supply (M2) and the growth rate of real GDP (Gross Domestic Product) at constant prices. This indicator is an important analytical instrument for assessing the consistency between monetary liquidity growth and real growth in the economy. Therefore, diagnosing the possibility of inflationary or deflationary pressures.

Figure 10: Monetary Stability Coefficient

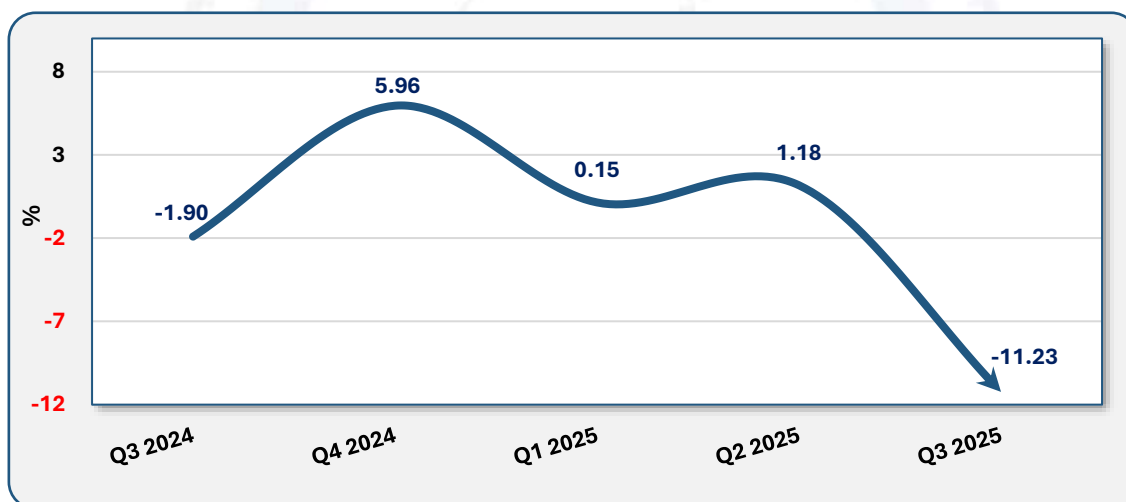


Figure 10 shows that the monetary stability coefficient decreased from -1.90 for Q3 of 2024 to -11.23 for the same quarter of 2025. This development indicates a decline in the rate of monetary liquidity growth at a time when real GDP achieved positive growth, reflecting an improvement in the efficiency of liquidity employment within the economy. It indicates that the economic growth achieved during the same period was driven by real factors rather than resulting from monetary expansion, which contributes to enhancing monetary stability, reducing inflationary pressures, and reflects a better consistency between monetary policy and real economic activity.

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

2.1.2 Money Supply Surplus³:

This criterion is used to measure the inflationary gap by calculating the difference between the change in Narrow Money Supply (M1) and the change in the demand for money over a specific period. A money supply surplus is an indicator of excess purchasing power that is not matched by a similar increase in the production of goods and services, which could push domestic prices upward.

Figure 11: Ratio of Money Supply Surplus

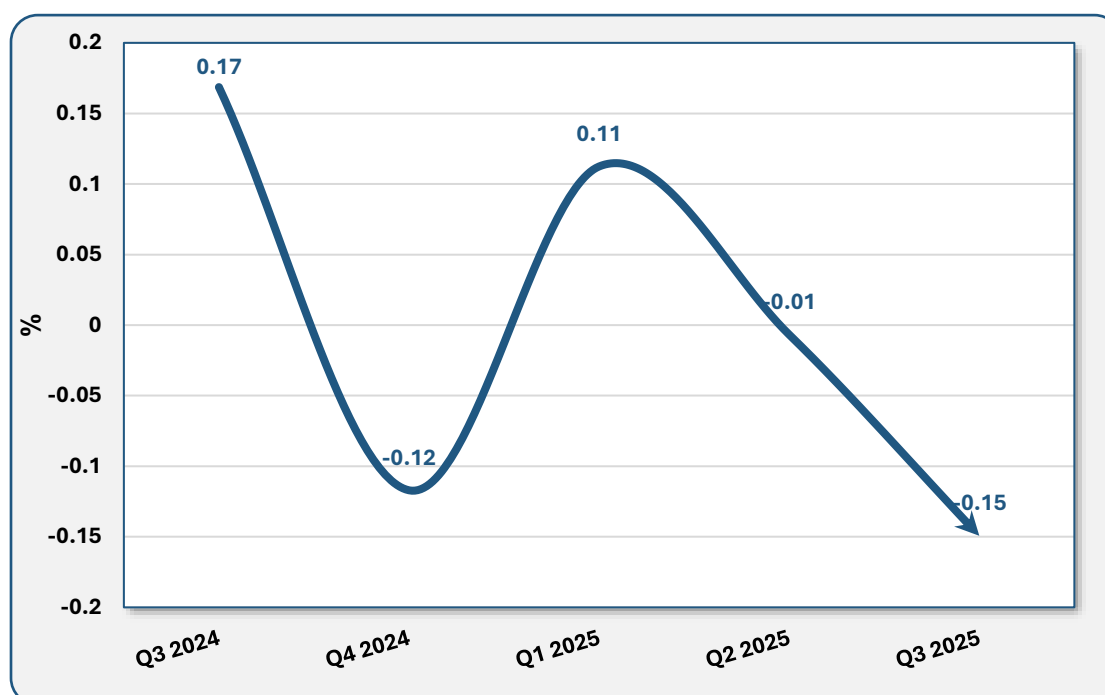


Figure 11 shows that the ratio of money supply surplus measured as the ratio of the inflationary gap to GDP decreased from 0.17% for Q3 of 2024 to -0.15% for the same quarter of 2025. When the indicator turns negative for Q3 of 2025, it indicates that the economy is moving towards a deflationary gap and improved balance between liquidity growth and real economic activity, reflecting the effectiveness of monetary policy in enhancing monetary stability.

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

2.1.3 Monetary Stability Coefficient Based on Elasticity of Money Supply to Price Changes⁴:

This coefficient is considered one of the important indicators that reflects the relative responsiveness of monetary liquidity to changes in the general level of prices within the economy. This indicator is measured by the ratio of the growth rate of the money supply to the rate of change in the price index. It reflects the effectiveness of monetary policy to control money supply and defend the value of national currency, which contributes to achieving stability of general price level by controlling the money supply.

Figure 12: Monetary Stability Coefficient Based on Elasticity of Money Supply to Price Changes

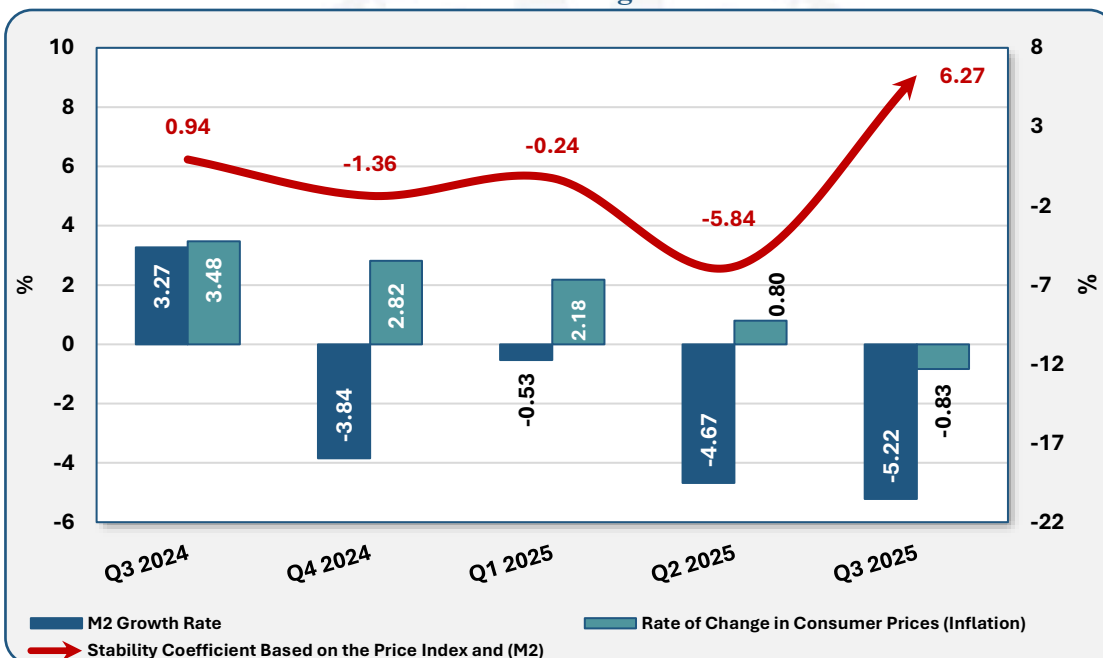


Figure 12 shows that the value of this indicator increased from 0.94% for Q3 of 2024 to 6.27% for the same quarter of 2025. This sharp rise reflects a shift in the relationship between M2 and price changes, especially in light of inflation rates decline and their transformation to negative values in 2025, which indicates that price changes are no longer the result of monetary expansion but rather came in the context of a slowdown in liquidity growth versus a relative improvement in monetary discipline. This development also demonstrates CBI success in reducing the inflationary impact of liquidity and defending the value of national currency, which has contributed to enhance monetary stability and achieve stability of overall price level.

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

2.1.4 The Money Multiplier⁵:

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 and re-employing it in granting credit.

Figure 13: Money Multiplier

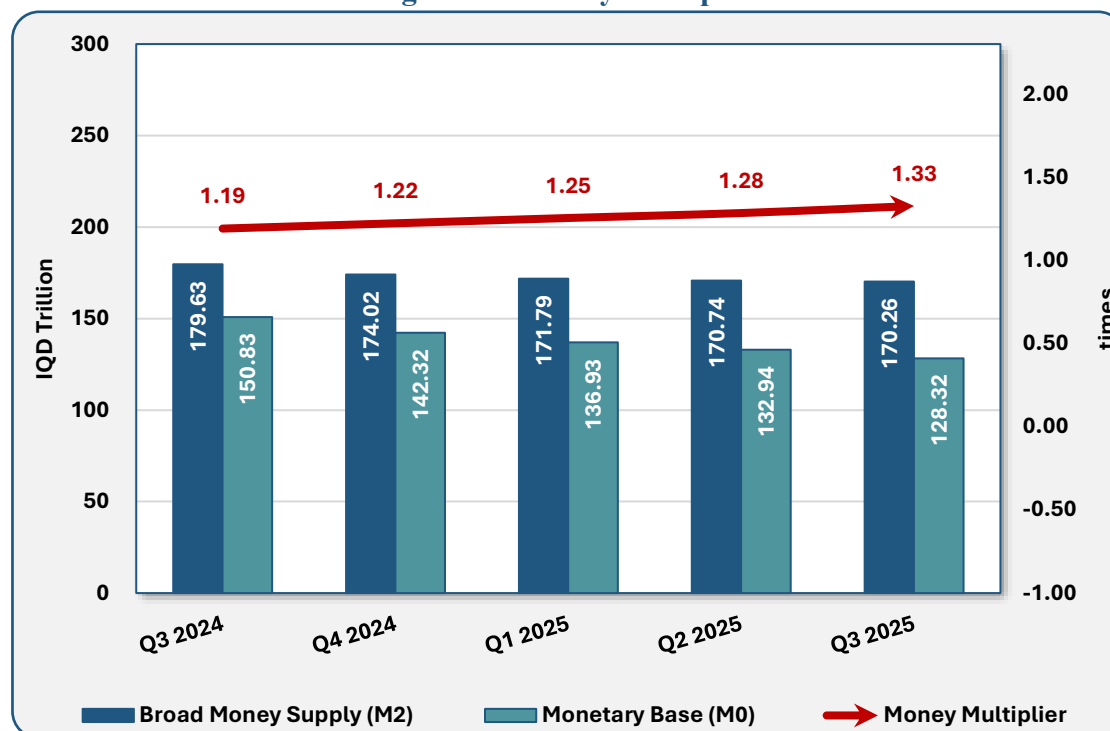


Figure 13 shows that the Money Multiplier recorded a slight increase from 1.19 times in Q3 of 2024 to 1.33 times in the same quarter of 2025. This rise indicates a strengthened role for the banking sector in creating liquidity, which reflects a relative improvement in its operational efficiency in the allocation of financial resources. This improvement in the multiplier's value is attributed to a decrease in the monetary base that was greater than the decrease in the money supply. Specifically, the monetary base decreased by 14.92%, from IQD 150.83 trillion to IQD 128.32 trillion during the same period. While the decline in M2 was relatively smaller, 5.22%, during the same period. This reflects the success of the CBI's monetary policy in rationalizing the monetary base without harming the overall level of liquidity in the economy, which has contributed to improving the efficiency of the banking sector in creating money and supporting economic activity.

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

2.1.5 The Velocity of Money ⁶:

Velocity of money refers to the average number of times that each dinar in the money supply is used to facilitate economic transactions (purchasing goods and services) that included in the GDP. It shares an inverse relationship with the money in circulation; as the available quantity of money increases, the velocity of each monetary unit tends to decrease, and vice versa.

Figure 14: Velocity of Money in Circulation

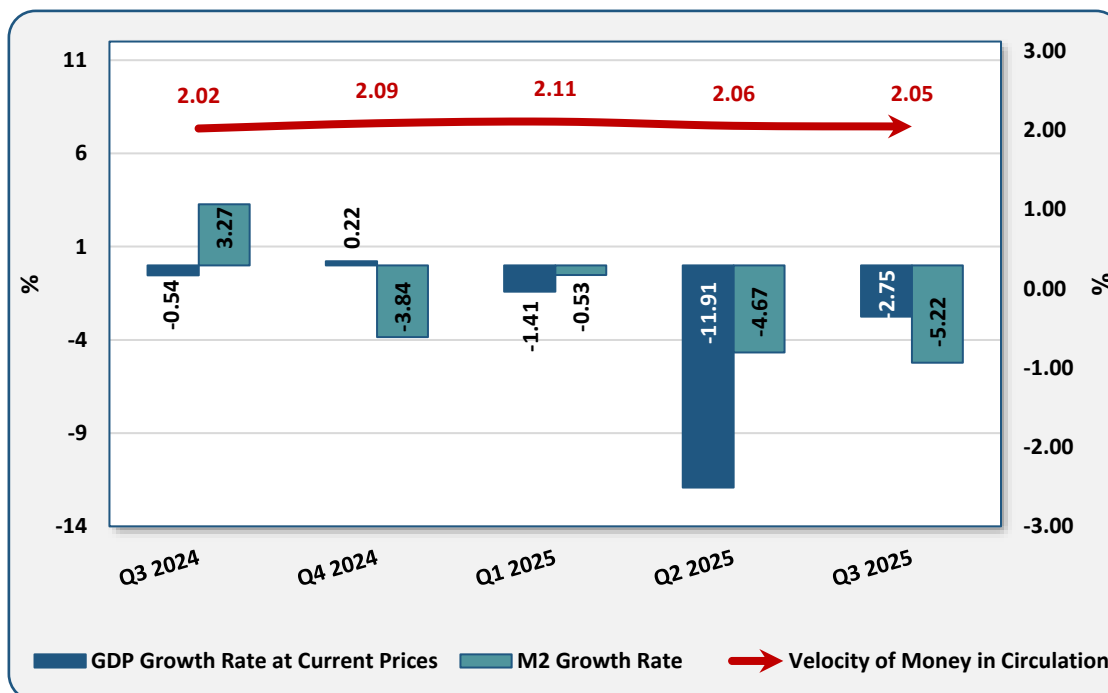


Figure 14 shows that money circulated faster in the economy during Q3 2025; each dinar was utilized 2.05 times to buy goods or services during Q3 2025, compared to 2.02 times in the same quarter of 2024. Generally, an increase in the velocity of money is usually an indicator of increased economic activity, as it suggests that households and businesses are spending their money more rapidly.

2.2 Foreign Reserves Adequacy Criteria:

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 protecting 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 CBI's capacity

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

for monetary sterilization, which in turn strengthens its influence on the exchange market to protect its national currency from sharp fluctuations. The standard ratio for this should preferably not be less than 100%.

Figure 15: Ratio of Net Foreign Reserves to Issued Currency

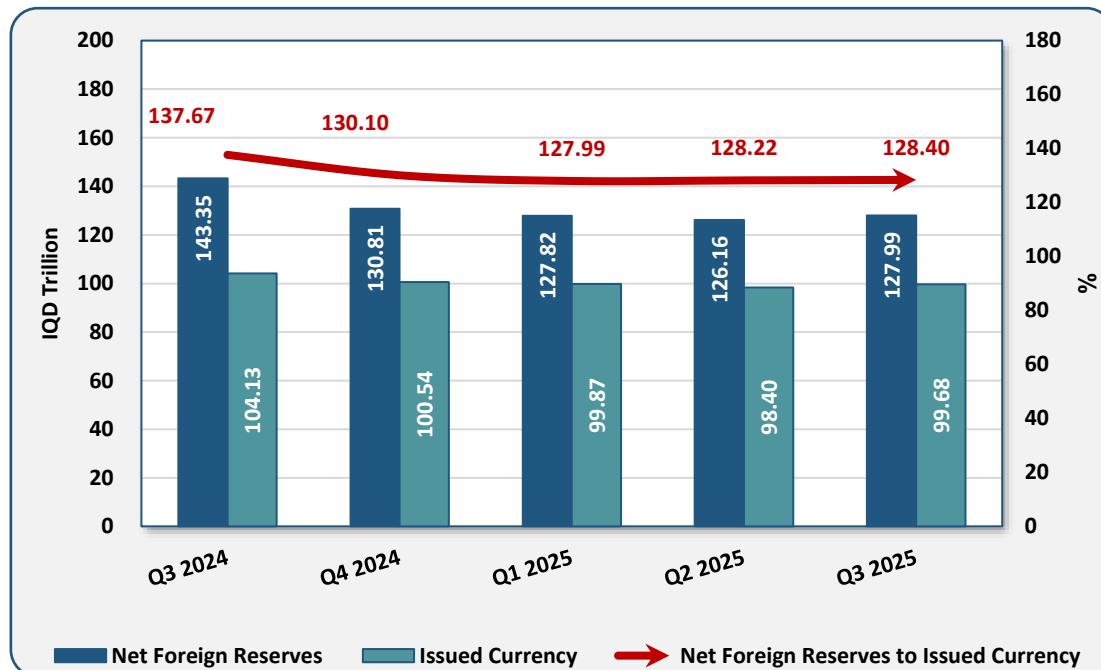


Figure 15 shows a decrease in the ratio of net foreign reserves to issued currency from 137.67% in Q3 of 2024 to 128.40% in the same quarter of 2025. Despite this decline, the ratio remains above the standard ratio of 100%. This indicates that the Central Bank of Iraq maintains net foreign reserves that exceed the value of the issued national currency, reflecting the continued strength of monetary coverage and supporting the stability of the issued currency's value. Thus, this decline is not considered a negative indicator, rather, it remains within a safe range and is consistent with monetary stability requirements.

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

The ratio of net foreign reserves to M2 is a key indicator used to measure the CBI'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. Notably, the more a fixed exchange rate is relied upon, the higher the ratio of net foreign reserves held by the CBI should be to defend the value of the national currency.

Figure 16: Ratio of Net Foreign Reserves to Broad Money Supply (M2)

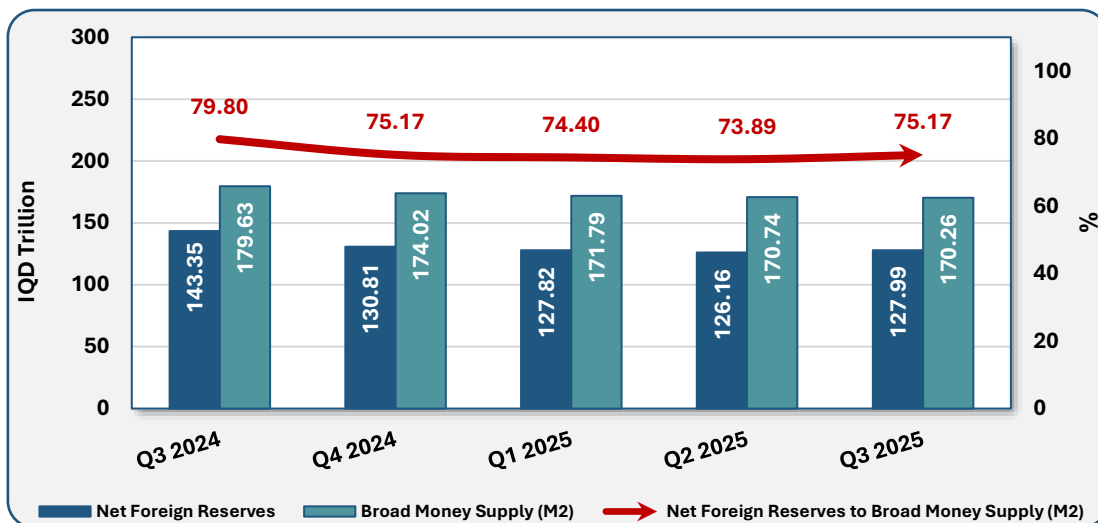


Figure 16 shows a decline in the ratio of net foreign reserves to M2 from 79.80% in Q3 2024 to 75.17% in the same quarter of 2025. Despite this decrease, the ratio remains at a relatively safe level compared to the standard ratio of 20%. This implies that the level of net foreign reserves remains sufficient 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 17: Import Coverage Indicator

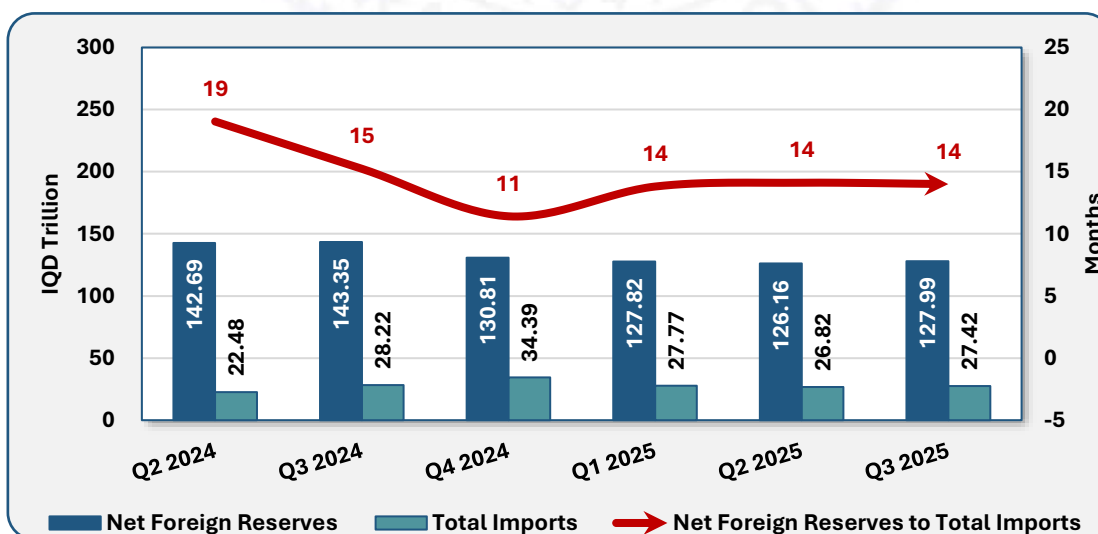


Figure 17 shows a decrease in the ratio of net foreign reserves to imports from 15 months in Q3 of 2024 to 14 months in the same quarter of 2025. Despite this slight

decrease, this ratio still reflects a comfortable level of external security, as it can still signifies Iraq's ability to cover 14 months of imports even if no foreign currency revenues were received starting from Q3 of 2025. This level is significantly higher than the common international standards for foreign reserves adequacy. This reflects the robustness of the Iraqi economy's external position and provides a vital safety margin in facing external shocks and global market fluctuations.

2.3 Fiscal Discipline Indicators:

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

The ratio of public debt to GDP at current prices is one of the fundamental metrics 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 18: Ratio of Total Domestic Public Debt to GDP at Current Prices⁸

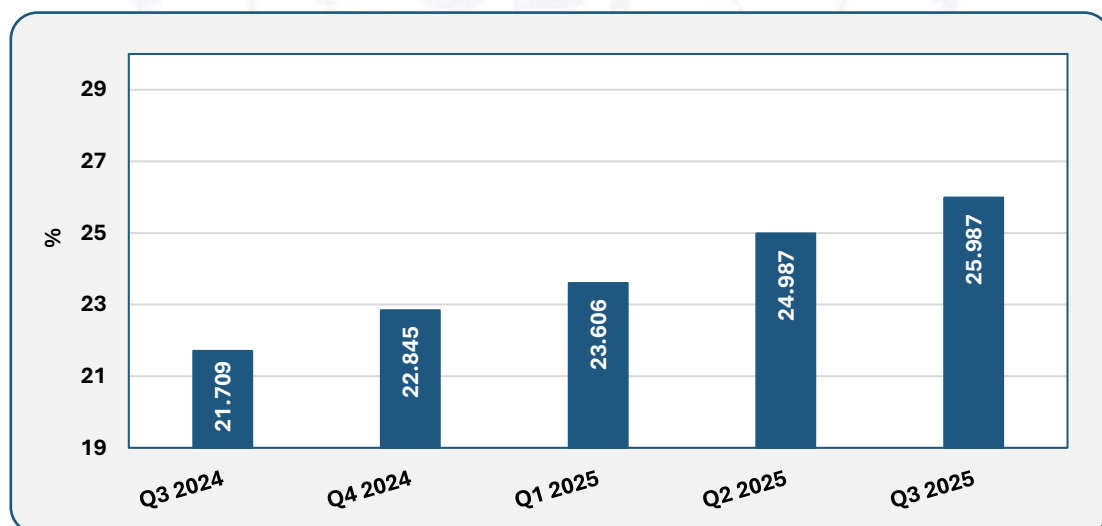


Figure 18 shows that the ratio of total domestic public debt to GDP at current prices increased from 21.71% in Q3 of 2024 to 25.99% in the same quarter of 2025. This rise is attributed to an increase in total domestic public debt from IQD 78.87 trillion

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

8) This indicator was calculated by dividing the total domestic public debt / GDP of the current quarter, plus the GDP of the three preceding quarters.

to IQD 90.61 trillion during the same period. This upward trend indicates the growing role of debt as a deficit-financing tool. This may entail additional future financial burdens, particularly regarding debt service and accrued interest, which could limit fiscal policy flexibility and constrain the ability to direct resources toward productive investment spending, ultimately leading to a continuous rise in the debt-to-GDP ratio.

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 metric for measuring the scale of government intervention in the economy and its potential effect on monetary stability. Policymakers must approach this ratio with care, as a substantial increase in public spending that isn't matched by a rise in production can boost aggregate demand for goods and services, potentially leading to inflationary pressures.

Figure 19: Ratio of Public Expenditure⁹ to GDP at Current Prices

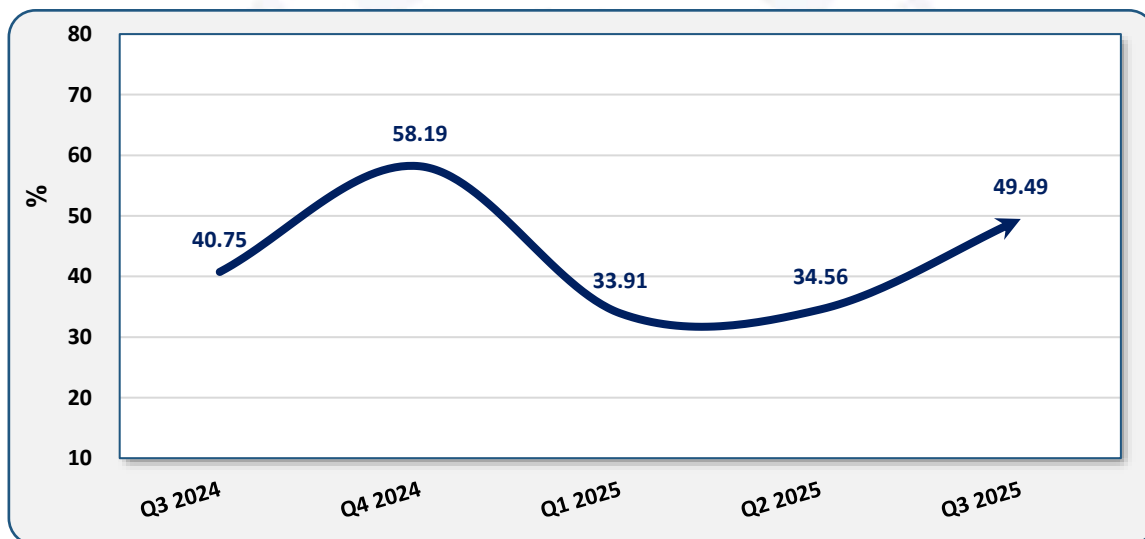


Figure 19 illustrates that the ratio of public expenditure to GDP rose from 40.75% in Q3 of 2024 to 49.49% in the same quarter of 2025. This indicates that government spending reached nearly half of the GDP at current prices during Q3 2025. This increase reflects a clear expansion in fiscal policy, whether to fund current expenditure requirements or to support various government programs. Nevertheless, the CBI has played a pivotal role in maintaining monetary stability and defending the value of the national currency through monetary policy instruments. This has helped mitigate the transmission of this fiscal expansion into inflationary pressures or aggregate demand imbalances, thereby enhancing the economy's capacity to absorb the increase in spending without compromising price stability.

⁹) Public Expenditure was relied upon as a flow-through amount.



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