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THE ROLE OF MONETARY POLICY IN STABILIZING THE EXCHANGE RATE IN IRAQ FOR THE PERIOD (2004-2020)

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Abstract

Monetary policy is an important part of the general economic policy followed by the state to achieve its set goals. Monetary policy has gone through several stages because of its influence on economic activity. Therefore, its importance differs according to the objectives of the macroeconomic policy.

Introduction

The problem statement of the present study revolves around the correlation and mutual influence between the two basic elements, namely the exchange rate of the Iraqi dinar and its relationship to the general level of prices. Commodity prices are determined through the reciprocal relationship between the exchange rate of the dinar and the general level of prices locally.

The Hypothesis

The hypothesis stems from the adoption of maintaining the stability of the exchange rate after the Central Bank of Iraq Law No. (56) of 2004 as an intermediate (operational) goal, through the use of currency auctions to achieve a vital final goal, which is to reduce inflationary pressures and maintain the stability of the general level of prices by achieving stability in the value of the Iraqi dinar.

The Objectives

The present study aims to highlight the effective role of the current monetary policy in achieving stability in the exchange rate of the Iraqi dinar and the stability of the general level of prices.

Section One

Theoretical framework of monetary policy

First; The concept of monetary policy and its importance

Concepts of contemporary monetary policy can be clarified through several definitions. Monetary policy is defined as a set of measures taken by the monetary authority with the aim of influencing the money supply in circulation, the volume of credit, and the volume of national spending, whether for investment or consumption purposes (1). It is also defined as a set of approved procedures for the government or the monetary authorities to manage the money supply, the interest rate, with the aim of bringing the national economy to the stage of full operation and maintaining it from inflation to monitor the money supply in order to achieve certain economic goals. As for the second meaning of monetary policy, which is the broad meaning that includes all measures taken by the government, the central bank, and the treasury, it is intended to influence the amount, provision, and use of cash and credit (3).

Second; Objectives of Monetary Policy

Monetary policy seeks to achieve a set of objectives as follows:

1. Stabilizing prices

This is one of the most important objectives of monetary policy. Hence, every country seeks to reduce and combat inflation. Aany rise in price levels will negatively affect the value of money, which will result in a decrease in its purchasing power. In return, this will have harmful effects on the level of income, wealth, and the allocation of economic resources. Thus, the effect will also be on economic performance.

2. Encouraging economic growth

For an advanced industrial country or a developing country, monetary policy seeks to encourage economic growth through its influence on investment as one of its most important determinants. The changes caused by the monetary policy in the cash reserves of commercial banks and thus in the money supply are reflected in the form of corresponding changes in the interest rate, which is determined by the volume of private investment (2). In addition, economic growth aims to achieve full employment, which may conflict with the first objective of achieving price stability, as increased employment leads to an increase in prices, so monetary policy tries to remove the conflict between its objectives. Since economic growth in the country requires a continuous increase in the amount of money in circulation with the increase in production and income, reducing the amount of money by selling bonds may lead to negative results in economic growth (1).

3. Contributing to achieving a balance between payments and improving the currency value

Preserving the stability and value of the currency is an issue that has significant effects on the balance of payments, the volume of its external indebtedness, the volume of its exports, as well as the volume of investment and production in it. The stability of the value of money is considered one of the most important conditions for the prosperity of trade exchange, the revitalization of international trade movement, and the maximization of its competitiveness (2). Monetary policy can contribute to repairing or reducing the deficit in the balance of payments through the central bank raising the rediscount rate and then raising the interest rate on loans by commercial banks, which leads to reducing the volume of credit and domestic demand for goods and services and Then lowering the general level of prices in the country. The decrease in the prices of domestic commodities will encourage the state’s exports and reduce the citizens’ desire to buy foreign commodities. This means that reducing the amount of money by the monetary authority can contribute to reducing the deficit in the balance of payments (3).

4. Achieving a high level of utilization

The monetary authority tries to stimulate the operating factors of economic resources, which results in stabilizing the economic activity at the highest possible level of employment of natural and human resources. It also tries to combat the rise in the general level of prices and inflationary pressures, which represent the greatest danger, especially in the last three decades of the last century (2). Thus, the monetary authority must take measures that are sufficient to avoid the state of unemployment in the economy and the accompanying deflationary factors in production, income, etc. These measures include the setting of aggregate demand to the operating level of unexploited productive resources (3).

Although monetary policy tries to achieve the four abovementioned objectives, this does not negate the occurrence of contradiction between these objectives. For example, seeking to eliminate unemployment leads to high prices and instability. In further stages, attempts to eliminate unemployment lead to a higher rise in price and not to an additional reduction in unemployment rate. Therefore, in formulating monetary policy, the central bank must practice caution and take into account the prevailing economic situation in the country and the importance of those desired objectives of following a specific monetary policy in both cases of expansion or contraction.

Third; Monetary Policy Tools

1. Quantitative Tools

They are also called indirect tools. They affect the volume of money in general and bank credit in particular. Thus, they influence the total money supply in order to maintain economic stability. The quantitative tools of monetary policy can be analysed as follows (1):

A. Open Market Operations

They mean the sale and purchase of government bonds carried out by the Central Bank through the financial markets, so the Central Bank enters the bond market either as a seller or buyer of bonds with the aim of reducing or increasing the ability of commercial banks to grant bank credit (2). If the Central Bank finds that there are significant inflationary pressures in the national economy, it will resort to selling government securities. In this case, buyers are supposed to pay checks drawn on commercial banks in favour of the Central Bank. Thus, the indebtedness of commercial banks to the Central Bank will increase. Therefore, reserves will decrease. Commercial banks lack liquid money and their ability to create credit decreases. Then, the money supply or the amount of money in circulation decreases. This policy is a contractionary or strict monetary policy that the state resorts to in cases of large inflation. Yet, if the economy suffers from recession, the desire of the central bank is to revitalize the economy and expand credit by purchasing securities with the aim of applying an expansionary policy to address the state of contraction or economic stagnation, which will increase the ability of commercial banks to create credit and create money from deposits. Then, the money supply increases in double quantities.

However, open market operations may have specific and ineffective effects in some cases, including (1):

1. If commercial banks have large cash reserves.

2. If the offer of the monetary authority (the central bank) from open market operations is to help the treasury to buy and sell securities, it may lead to fluctuations in the prices of these securities and thus in the prevailing interest rates, which may lead the monetary authority to follow a defensive policy to limit other effects. It may contradict the objectives of the Central Bank at that time, and it can be said that open market operations are among the good tools that the Central Bank can use to influence the volume of cash reserves in light of the economic conditions that any economy is going through, but they are restricted to the presence of a developed financial market, which many developing and Arab countries lack (1).

B. Re-Discount Policy

The rediscount rate refers to the rate or interest charged by the Central Bank to commercial banks for rediscounting securities and bonds and providing short-term loans. Commercial banks cannot provide loans to enterprises and individuals without the availability of the necessary liquidity for that. They are forced to resort to the Central Bank to re-discount their commercial securities and bonds (2).

The rediscount rate depends on the supply and demand for liquidity within the money market, which means that it is not automatically determined by the central bank, but it is determined according to the general economic interest by the influence of the money market on the ability of commercial banks to create credit and thus the money supply. The re-discount policy influences the volume of bank credit according to a specific mechanism. When the central bank raises the rediscount rate on commercial banks if there is an excess in the money supply, then it follows a deflationary monetary policy that aims at reducing inflation. Thus, commercial banks will reduce their demand for loans and reduce the effectiveness of the lending policy. Then, the growth rate will decrease and money supply and thus borrowing costs will be higher than in the past.

However, if the central bank finds that the economy suffers from a state of contraction, it may follow an expansionary monetary policy that aims at increasing the money supply in circulation, so it resorts to reducing the rediscount rate, that is, it reduces the cost of loans granted to commercial banks, which encourages them to borrow from the central bank. In return, this increases The effectiveness of the work of the credit multiplier by increasing its ability to create credit. On the other hand, it reduces the interest rate due to the abundance of cash reserves. Thus, it generates a feeling among businessmen that the expected return from investing the amount borrowed from commercial banks will give a higher return than the cost they would like in The commercial bank (1). The effectiveness of the re-discount rate policy depends on the presence of a relatively large money market in which commercial securities, treasury bills, and other short-term credit instruments are dealt with (2).

3. Changing the required reserve ratio

Compulsory reserve ratio can be defined as that percentage of money that commercial banks must keep with the central bank out of the volume of deposits that flow into those banks (1). The central bank maintains these reserves without interest. Based upon, the more the central bank raises the mandatory reserve ratio for deposits, the less the amounts that commercial banks can dispose of, so the ability of commercial banks to grant credit decreases, and thus the ability to create deposits decreases. Hence, by increasing the compulsory reserve ratio, the central bank reduces the money supply and vice versa. The central bank reduces the legal reserve ratio to increase the ability of commercial banks to create money or create deposits, so the ability of commercial banks to grant credit and create money increases. Thus, the money supply increases (2). It can be said that Changing the compulsory reserve ratio is an expansionary or contractionary measure that affects the ability of commercial banks to create credit.

4. Its effect on the amount of money in circulation is not related to the decision of commercial banks, as is the case with the discount rate.

5. Its use is not linked to the existence of developed financial markets or the desire of the public to buy and sell bonds and other securities, as is the case with open market operations.

Despite the abovementioned advantages, the tool of changing the compulsory reserve ratio is subject to some criticism. For example, it does not distinguish between large commercial banks and small banks in terms of their cash liquidity. It treats all banks equally, that is, it does not discriminate Between banks that have surpluses of cash reserves and between banks that suffer from a shortage in their cash reserves.

2. Qualitative Tools

They are also called selective or special tools. These tools include a set of measures taken by the monetary authorities with the aim of encouraging certain types of spending or productive investments, directing the flow of credit, and bringing about the desired expansion or according to the exaggerated expansion through direct effects on bank credit. The use of qualitative tools is to bring about structural changes in the credit structure and thus in the money supply to serve a specific sector. For example, the export sector seeks to develop and encourage exports, in particular commodity exports, or its purpose is to limit credit in a specific sector and to provide credit for speculation purposes. The following are the most important methods of qualitative tools of monetary policy:

A. Literary persuasion

The central bank possesses a compulsory authority and non-compulsory authority towards the banking system in general and commercial banks in particular. The compulsory authorities are represented in that it is the head of banks and that it is responsible for implementing monetary policy tasks according to the law. The Central Bank tries to persuade commercial banks to raise the value of property rights, increase the undistributed profits with it, increase new loans using their surplus reserves to stimulate the economic movement, or persuade them not to raise the interest rate to the permissible limit (1).

B. Consumer credit control

Credit is controlled for the purpose of consumption through control of instalment sales systems for consumer and durable goods. In this way, the state can influence economic policy in two ways:

1. Adjusting the value of the first instalment; If the economic authorities want to combat inflation, they raise the value of the first instalment and reduce the payment period, but if they want to encourage prosperity and get out of recession, they reduce the value of the first instalment.

2. Adjusting the maximum recovery period; The payment times for instalments are modified, in addition to determining the number of instalments and the payment period for the remaining price (1).

C. Borrowing against the security of bonds with specifying the guarantee margin

In particular, individuals and speculators are allowed to borrow from banks to guarantee the purchased bonds. These allowances are called marginal requirements. They represent the difference between the market value of the bonds and the minimum loan granted. On this basis, the value of the loan is equivalent to the difference between the market value of the bonds and the marginal requirements or margin of guarantee (2). These requirements impose a certain percentage of the value of the bonds at times when the phenomenon of speculation in buying and selling of bonds spreads. This percentage also ensures that buyers pay a principal amount in cash in exchange for the purchased bonds (3).

D. Discrimination in interest rates on loans granted to different economic sectors. For example, if there are expansionary differences between the productive sectors, there will be a rapid expansion in the construction sector, which leads to a rise in the general level of prices for this sector due to the continuous increase in demand for it. Therefore, the Central Bank resorts to imposing selective restrictions on this sector by setting an upper limit on loans granted for construction purposes, raising interest rates on loans granted to this sector, or linking loan grants to the central bank (4).

Section Two

The conceptual framework of the exchange rate

First; The concept of the exchange rate

The exchange rate is the ratio on the basis of which a number of local monetary units are exchanged for foreign monetary units (1). It is also the number of units of a particular currency that can be purchased or exchanged for one unit of other currencies (2). Although there are many definitions of the concept of the exchange rate, they share several characteristics, namely:

1. It is the process of exchanging the national currency for a foreign currency and vice versa.
2. The exchange process takes place in the exchange market at a specific price.
3. The exchange rate is a linking tool between an open economy and the rest of the world's economies through knowledge of international costs and prices. Thus, it leads to facilitating and settling various international transactions (1).

Second; Types of exchange rates

Exchange rates can be divided into several types, namely:

1. Nominal and real effective exchange rates

These prices depend in their calculations on inflation as follows:

A. Nominal effective exchange rates

Nominal exchange rates represent the price of a particular currency in relation to another foreign currency. It is also the exchange rate of a particular currency for another foreign currency (2).

B. Real effective exchange rates

It is a nominal exchange rate modified by the index of consumer prices. Accordingly, this price is concerned with the effect of inflation on the foreign exchange rate of a country through the formula that combines the index of price levels in the concerned country and the index of price levels in the comparative country (1). The real exchange rate is adversely affected by the nominal exchange rate. The higher the nominal exchange rate, the lower the real exchange rate, which will affect the international competitiveness with the outside world. This increases at the same time. Conversely, in the case of a decrease in the nominal exchange rate, the real exchange rate will rise. Thus, The ability of the local commodity to compete decreases (2).

2. Current and Future Exchange Rates

The current exchange rate can be defined as the exchange rate through which currencies are traded with present delivery. The exchange process takes place and it is agreed to deliver the currency at the date of purchase (1). As for the future exchange rate: It represents specifying an agreement and a date of receipt in the future, regardless of changes in the exchange rates. It remains constant even if the daily exchange rate changes according to the terms of the agreed contract. The future contract is usually done to protect buyers from Conditions of uncertainty and future risk (2). Payment terms are set between (30, 60, 90, 180) days. The cost of future transactions is higher than current transactions (3).

3. The modified exchange rate; This price is linked to the balance of payments motive, that is, it is linked to exports (4).

4. Cross exchange rate; It is defined as the price of one currency against another through the relationship of these two currencies with a common third currency. There are certain conditions to be available, such as which bank calculates the price and type of bought or sold currency and the required price (1).

Section Three

The effectiveness of monetary policy in stabilizing the exchange rate of the Iraqi dinar

Through this section, the monetary policy mechanism will be clarified in accordance with the new Law No. (56) of 2004. Moreover, conditions of the exchange rate in Iraq for the period (2004-2020) will be analysed.

First; The monetary policy mechanism in accordance with the new Law No. (56) of 2004

The monetary policy of the Central Bank of Iraq tended to address the phenomenon of inflation through its objectives of reducing inflation and addressing its trends and causes in a way that provides broader monetary stability and acceleration in economic growth rates and ensuring its signal through two main signals adopted by the current monetary policy, which are the signal of the real interest rate and the exchange rate of the dinar. This contributed to achieving the overall stability of the country, so reducing inflation is the primary objective pursued by monetary policy. Reducing inflation mainly depends on the interest rate and exchange rate signals to stabilize inflationary expectations and reduce inflation by reducing the speed of money circulation, increasing demand for it, and enhancing the attractiveness of retention in Iraqi dinars to provide opportunities that help stability, stimulate growth, and achieve development objectives. Based on that, many means are determined by the monetary policy implementers to control levels of liquidity and sources of monetary growth, including managing excess reserves with banks through various existing investment means at the Central Bank of Iraq, deposit accounts in existing facilities, central bank and treasury transfers in addition to The use of the nominal stabilizer as a tool to counter inflationary expectations according to the exchange rate and interest rate signals. The following are the most important monetary policy tools in controlling the monetary base.

1. Monetary policy tools to control the monetary base

The monetary policy aims at reducing the phenomenon of inflation. It has several tools used under the new law. It was found that confronting the inflationary phenomenon comes by influencing the desire for trends in demand for real cash balances, which are less than the available storage of those balances in order to achieve balance between supply and demand, which achieves balance in the money market. Therefore, the Central Bank has adopted in implementing its policy to curb inflation and strengthen its exchange rate significantly on the exchange rate signal, represented by raising the external value of the Iraqi dinar in a manner that is commensurate with its real exchange rate through the foreign reserves available at the bank In addition to relying on the interest rate signal modified by the Central Bank in a way that gives the financial market strong signals for commensurate and desirable changes with the development of the temporal structure of interest rates. The monetary policy tools are as follows:

A. Foreign currency auctions

The foreign currency auction is one of the indirect monetary instruments of open market operations affecting the monetary basis.

It began to work on 4/10/2003 until now. The aim of these auctions is to achieve the following:

1. Achieving stability in the value of the Iraqi dinar by defending an equilibrium exchange rate, which is positively reflected on the general level of prices, which is directly reflected in the final imported goods and production inputs?
2. It is a means of applying the indirect tools of monetary policy in managing the liquidity of the economy and controlling its levels. It is also a case of applying open market operations that are continuously required to achieve balance in the money market and strengthen chances of financial stability.
3. It is a main source for financing the private sector trade in goods and services needed by the Iraqi market and a main financier for it. The annual needs of the private sector are estimated at (8-12) billion dollars. Thus, the auction could unify the exchange rates against the Iraqi dinar in the market and maintain a continuous competitive financial system.
4. Forming important foreign currency reserves that exceed the basis set by the International Monetary Fund of (10) billion dollars to ensure stability for the foreign transactions sector, which recorded an important success in achieving stability in the exchange rate of the Iraqi dinar and building sufficient reserves of foreign currency that are capable of covering the country needs of imports for a period of more than three months, in addition to its ability to cover the exported currency estimated at (100%) (1).
5. The foreign currency auction is the central market for exchange through which the exchange rate signal desired by the monetary policy is used and adopted as a nominal anchor for the inflationary expectations of the public within the policy that the central bank has followed in the exchange market for the purpose of stability (2).
6. The foreign currency auction is a tool to achieve balance between the money supply of the local currency and the money supply of the foreign currency, which helps to control the liquidity levels of the currency through the practice of the sterilization process and the continued stability of the exchange rate of the dinar towards the dollar and providing what is known as stability investment climate (3).

Second; Analysing the development of the exchange rate in Iraq for the period from 2004-2020 and indicating the role of monetary policy in its stability

The exchange rate is of great importance in the Iraqi economy because of the development of international economic relations and the integration of Iraq into global economies. Most countries seek to stabilize the exchange rate of their currency, so it reflects the economic conditions of the state and has an influence on the prices of domestic and foreign commodities. The increase in the value of the local currency leads to a decrease in the price of foreign commodities at home. When the value of the local currency decreases, the cost of local commodities abroad decreases and the cost of foreign commodities rises in the local markets. The escalating price trends during the economic sanctions phase before 2003 produced serious repercussions on the purchasing power of the national currency and the imbalance between the powers entrusted with demand. The imbalance between supply of the national currency and foreign currency led to cases of instability of the exchange rate of the Iraqi dinar against the US dollar and the occurrence of a significant and dangerous deterioration of this price in the parallel market. This has shown the discrepancy between the official exchange rate and the parallel exchange rate.

However, after 2003, the monetary policy represented by the Central Bank and through the mechanism of daily auctions for the sale and purchase of foreign currencies, worked to standardize the exchange rates for the Iraqi dinar as well as achieving homogeneity in the exchange market mechanism for that dinar throughout the country by satisfying the market's desire for foreign currency and filling the needs of the private sector to finance all its imports within real exchange rates. Thus, the auction method has relatively put an end to the deviation and fluctuation of price signals leading to the weakening of both financial and real investment activity (1). The measures used by monetary policy to limit the rise in inflation rates include the use of the exchange rate as a nominal stabilizer because Iraq's imports of imported goods are high in relation to the consumer price index, so the increase in the purchasing power of the Iraqi dinar will therefore be positively reflected on the prices of imported goods and services and decrease inflation. Table (1) shows the gradual decline in the nominal Iraqi dinar exchange rate. The reason for this decline is the Central Bank's endeavour to raise the value of the Iraqi dinar in 2004 through a foreign currency auction and providing an appropriate supply of foreign currency for the purpose of maintaining Economic stability. The exchange rate of the Iraqi dinar against the US dollar reached (1469) in the currency auctions in 2005, which witnessed a great fluctuation in the exchange rates of the dollar against the Iraqi dinar in the local market, which affected the required and sold amounts in the currency auction, up and down.

It is worth noting that the nominal and real exchange rate achieved consistency during the period from (2006-2008) ((()). This is the result of the measures taken by the Central Bank to intervene in the exchange market and its regularity and create a positive and stable character for those participating in the market about the ability of the Central Bank to finance the market with foreign exchange easily and according to the demand for it. The window for selling foreign currency in the Central Bank of Iraq is one of the most important tools of monetary policy in Iraq. It began its work at the end of 2004 to sterilize the surplus liquidity in the Iraqi dinar and feed the financing needs of the balance of payments in order to maintain the stability of the local currency exchange rate followed by the stability of the general level of prices. For the period (2004-2008), the Iraqi Central Bank followed the crawling peg system, while the hard peg system was followed by de facto. The US dollar is a nominal anchor for monetary policy, but in 2009 and 2011, the exchange rate remained unchanged. The nominal rate is constant. It reached (1170) Iraqi dinars per US dollar, while the parallel exchange rate reached (1182, 1185, 1196). The exchange rate gap was (26,15,12) for those years. In 2012, the official exchange rate decreased to The level of (1166), while it is offset by the parallel price, which rose to (1233), which means that the demand for foreign currency became greater than the supplied amounts due to the increased use of the dollar for speculative purposes. In 2013 and 2014, the nominal and parallel exchange rate stabilized at (1166) dinars per dollar due to the central bank's endeavour to reduce the gap between the two rates by following new instructions in the purchase and sale of foreign currencies. In 2015, the official exchange rate reached (1167) while the parallel rate reached (1247). The gap between the two prices resulted from the drop in the price of an oil barrel in global markets. In 2016, the parallel exchange rate increased to (1275) due to the drop in the price of a barrel of oil to (36%). The period from (2018-2020) was characterized by the stability of the nominal exchange rate of the dinar at (1190) Iraqi dinars per US dollar. As for the parallel exchange rate, it was characterized by lack of stability. It witnessed ups and downs during this period. In 2018 and 2019, it reached about (1209, 1196) dinars per dollar, respectively. In (2020), it reached (1227). The reason for this is due to the drop in oil prices and the repercussions of the spread of Covid-19, which prompted the Iraqi government to re-fix the exchange rate to reduce the budget deficit.

Table (1) Evolution of dinar-dollar exchange rate for the period from (2020-2004)

Year	Percentage of exchange rate	Growth average	Parallel exchange rate	Growth average	Exchange rate gap
2004	1453	-	1453	-	0
2005	1469	1.10	1472	1.3	3
2006	1467	-0.14	1476	0.2	11
2007	1255	-14.45	1266	-14.2	8
2008	1193	-4.94	1203	-5.0	10
2009	1170	-1.93	1182	-1.7	12
2010	1170	0.00	1185	0.3	15
2011	1170	0.00	1196	0.9	26
2012	1166	-0.34	1233	3.1	67
2013	1166	0.00	1232	-0.1	66
2014	1166	0.00	1214	-1.5	48
2015	1167	0.09	1247	2.7	80
2016	1182	1.29	1275	2.2	93
2017	1184	0.17	1258	-1.3	74
2018	1190	0.51	1209	-3.9	19
2019	1190	0.0	1196	-1.1	6
2020	1190	0.0	1227	2.6	37

Source; The researcher based on data of Central Bank of Iraq, Annual reports of (2020-2004).

Columns 1,2, and 3 are done by the researcher.

The financial crisis that Iraq was exposed to due to the Covid-19 pandemic, the resulting deterioration in oil prices, and the decline in oil revenues led to a large deficit in the general budget and the Ministry of Finance was forced to borrow from banks and rediscount them at the Central Bank in large amounts for the purpose of paying salaries And meeting other spending needs related to services provided to citizens and the continuation of the current exchange rate, which is not commensurate in all cases with the rates of exchange rates in other countries, which has become a major obstacle to conducting real development and enhancing the competitiveness of local production. This prompted the Central Bank to think seriously about responding to financing requirements of the budget at the exchange rate that allows for the provision of sufficient resources to cover these needs and ensure the smoothness of payment of salaries and critical requirements for government spending. The bank is keen to avoid depletion of its foreign reserves, which represent the main financial lever for monetary stability in Iraq. It is also keen to support public finance, as the government advisor and responsible for keeping its accounts.

Based upon, the Central Bank of Iraq decided to adjust the foreign currency exchange rate to (1450) dinars per dollar, the purchase price of foreign currency from the Ministry of Finance (1460) dinars per dollar, the selling price of foreign currency to banks (1470 dinars per dollar, the selling price of foreign currency to public.

Conclusions and recommendations

First; Conclusions

1. Monetary policy depends on the nature of its work, the efficiency of its activity, the pattern of its policy and its means, the nature of the economic system under and through which it operates, and the stages of economic development.
2. The importance of the exchange rate revolves around linking the local economy to the global economy because the exchange rate represents the exchange rate of one currency for another at a specific time, and the exchange rate is considered the mirror on which the country's commercial position with the outside world is reflected through the relationship between imports and exports.
3. The increase in the money supply is one of the reasons that led to the decline in the exchange rate of the Iraqi dinar, as the excess cash was caused by the financing of war expenditures through the new cash issuance.
4. Raising the value of the Iraqi dinar has contributed to strengthening the confidence of individuals in their local currency. Hence, the Iraqi dinar has become a means of storing value after individuals preferred to keep foreign currency, such as gold and durable goods instead of the local currency.
5. The independence of the Central Bank activated monetary policy tools, especially indirect tools, and controlled the money supply.
6. The use of monetary policy as a modern method in order to maintain the stability of the exchange rate, which is the method of currency auctions as one of the central bank’s indirect tools known as open market operations to buy and sell currency on a daily basis since the end of 2003.

Second; Recommendations

1. Continuing to raise the value of the exchange rate of the Iraqi dinar towards foreign currencies through currency auctions, at least in the current period until the productive sectors are strengthened.
2. Monetary policy must control the monetary mass by achieving proportionality between the money supply and the gross domestic product in order to reach the balance of the real and monetary sectors.
3. Improving the ability of financial and banking institutions to mobilize savings and strengthen competition among commercial banks in order to increase their deposits so that they can control liquidity levels.
4. The exchange rate policy in Iraq alone cannot achieve stability in the exchange market without there being continuous cooperation between the fiscal and monetary policies and coordination between them in a way that achieves interdependence between the goals and means of the applicable exchange systems.
5. Diversifying sources of public revenues and reducing dependence on oil exports as a major source of public revenues by encouraging other agricultural and industrial sectors. Monetary policy should direct banks to give the necessary facilities for these sectors to support the production process.
6. The government should not interfere in the work of the Central Bank of Iraq and not lend to the government to finance its expenditures. Rather, the government resorts to lending through public

debt tools from commercial banks and offering these tools to the public to control excess liquidity and activate open market operations, thus achieving independence for the central bank and control over monetary supply, in addition to activating monetary policy tools.

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