Mechanisms of Coordination Between Fiscal and Monetary Policy and Its Impact on Economic Stability in Iraq for The Period (2004-2017)

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Abstract

Coordination is defined as the necessary arrangements that ensure that decisions taken by monetary and financial authorities to achieve economic objectives are contradictory, and the need for effective policy coordination becomes urgent as both authorities become more independent to implement their objectives. The results confirm that policy coordination was absent or weak during the 1980s and 1990s, while it has improved slightly since 2003. However, there is opportunity to improve policy coordination, especially after the issuance of the Central Bank Law No. 56 of 2004, which ensures the independence of the Central Bank in the management of monetary policy to maintain price stability and reduce inflation levels and maintain the value of the Iraqi dinar, the research assesses the current institutional arrangements that distinguish policy coordination Monetary and financial in Iraq.

Keywords: monetary policy, fiscal policy, policy coordination

INTRODUCTION

Effective pursuit of macroeconomic policy objectives through coordination between fiscal and monetary policies requires analysis of the interaction between monetary and fiscal policies, emphasizing the need for policy coordination at two different levels: achieving policy objectives (including financial sector development), and the financial authority procedures of preparing and executing the general budget and the monetary authority represented by the Central Bank.

In many countries, monetary policy was subject to fiscal policy, and central banks were often asked to finance public deficits. The dependence of monetary policy on meeting fiscal needs has generated an inflationary impact. There was a global trend in connection with modernizing financial markets, to create institutions that would ensure the making and implementation of more efficient policies, including the adoption of market-based cash and debt management tools, as well as steps to increase the independence of the central bank and, in some cases, making strict rules-based monetary arrangements such as currency boards.

Iraq needs to coordinate between the monetary and financial authorities and institutional arrangements for this coordination more than others, especially after the recent trends followed by monetary and fiscal policies after 2003, and that both policies have taken opposite directions, monetary policy has taken a different approach from fiscal policy as monetary policy took a deflationary policy as for fiscal policy, it has taken an expansionary policy and vice versa. If the fiscal policy follows deflationary approach, monetary policy follows an expansionary approach to maintain or to increase economic growth, which reduced the success rates of the expansionary policy and cost the monetary policy more financial costs, as well as Iraq needs to achieve multiple needs require him to achieve many objectives and conflicting, therefore, taking a certain measure of fiscal policy will have a reaction to monetary policy, especially since the supply of money, which is one of the most important tools of monetary policy, determined by financial power through public spending in addition to the fact that the state rent is a pressure on the general level of prices.

Research importance

The importance of this research follows the fact that the coordination between fiscal and monetary policy will achieve the implementation of common economic objectives that mitigate or eliminate the current and future differences between the central bank and the government, and thus that the effectiveness of the work of monetary and fiscal policies leads to increased economic stability.

Research problem

Weak coordination creates economic imbalance and instability, and both policies are unable to achieve their desired goals.

Research hypothesis

The coordination between monetary and fiscal policies achieves overall economic stability.

Research Goal

Clarifying the mechanism of coordination between monetary and financial policies and their impact on the economic stability in Iraq.

Research Methodology

The research relied on the descriptive and analytical approaches to study the Iraq case.

THE FIRST TOPIC
THE THEORETICAL FRAMEWORK OF MONETARY AND FISCAL POLICY

Monetary and fiscal policy is one of the most important areas of economic policy through their importance in influencing the overall economic activity in order to achieve stability and economic growth, which takes the monetary data as a subject of its intervention taking into account the relationship of money to economic activity on the one hand, and the stability of monetary stability favorable to the exercise of activity. On the other hand, in addition to the role of public expenditures in the development of the economy can be explained by the ratio of operating expenses to investment expenditures, and the application of these policies is a set of different tools that fall into one pot It is the banking system and the public budget.

The First Requirement: The Concept of Monetary Policy:

There are many definitions about the concept of monetary policy from school to school and how to determine its position in economic policy because it has an active role and the engine of the financial cycle and the organization of the monetary mass, and perhaps one of the most important pioneers who addressed this American economic thought Milton Friedman.

First: Definition of Monetary Policy

Monetary policy is the set of measures used by the central bank to influence the money supply in some way to achieve the set of economic objectives (), as well as the definition of monetary policy is the set of decisions and actions taken by the monetary authority to control the money supply in order to achieve a specific objective or set of economic objectives Using the available monetary instruments (), monetary policy can be defined in a narrow sense is the set of procedures used by the monetary authorities represented by the Central Bank to monitor money supply (), as well as monetary policy, reflects the set of texts and laws and wage Bodies taken by the monetary authority to influence the money supply expansion or contraction in order to achieve economic goals ().

Second: The Importance of Monetary Policy from The Economic Policy:

According to a number of economic theories, especially modern ones, the primary role of monetary policy is to contribute to economic stability, since the impact of monetary policy is mainly on domestic price levels, but with regard to the relationship of monetary policy to economic growth, many of the previous contributions emphasized The role of monetary policy in stimulating economic growth through increased money supply is confined to the short term only.

In the long run, these shocks are expected by economic actors, and therefore the increase in money supply will only lead to an increase in the general level of prices in the long term, so unlike fiscal policy, which is assigned a major role in driving economic growth, which has received much From the interest of the applied studies, the role of monetary policy in this framework is concentrated in achieving economic stability supporting the growth.

Monetary policy reforms are linked to all policies that will contribute to increasing the levels of monetary policy capacity to achieve its main objectives, the most important of which is to achieve price stability, since monetary policy should be concerned with providing a stimulating environment for long-term economic growth by providing Price stability, which contributes to increasing levels of confidence among economic actors and support levels of consumption and investment.

We note that there is a disciplined and inverse relationship between inflation rate and long-term growth, as high inflation adversely affects economic growth and leads to increased levels of uncertainty and weakens purchasing power levels and thus negatively affects consumption and savings, especially after the inflation rate exceeds certain levels. Inflation weakens price mechanisms and reduces productivity and economic growth. ()

Monetary policies, especially in underdeveloped countries, are one of the most important causes of internal and external economic imbalance, along with other economic variables. If the most important objectives of monetary policy are to achieve economic stability somewhat under balanced growth, this means that there is a close link between economic and monetary activity and shows This is through the association of economic problems, including unemployment, inflation and the decline of national labor with monetary solutions.

The second demand: monetary policy bases and objectives:

As long as monetary policy is a manifestation of economic policy, it seeks to realize the same objectives. Nevertheless, monetary policy has the objectives that distinguish it from other policies and are based on its foundations. ()

First: Fundamentals of Monetary Policy

The basis of monetary policy varies from country to country, depending on the levels of progress and development in the economic and social systems of different societies, for example in the advanced industrial capitalist countries these policies are primarily focused on maintaining the full operation of the economy for internal monetary stability in order to face the various economic fluctuations. Some countries have quantitative monetary policies such as open market, interest rate adjustment, or changing the reserve ratio of banks. This is because there are limits to the state in reducing interest rates or increasing the money supply.

The basis of monetary policy in the countries on the road to growth lies in the basic objectives of economic policies, including monetary policy, which is limited to serve development goals and provide the necessary funding, and reduces the role of monetary policies in providing financial resources to the imbalance of the productive structure of those countries, especially the work component and the backwardness of the system. Banking and its impact as well as the lack of non-banking financial institutions.

Second: Monetary Policy Objectives:

The aim of monetary policy is to influence the money supply to create expansion or contraction in the purchasing power of society, the aim of increasing purchasing power is to stimulate demand and investment and increase production and reduce unemployment, and vice versa reduce the purchasing power to reduce the expansion of production, (there are final goals and Intermediate objectives of monetary policy:

1- Final objectives:

The overall objective of monetary policy, such as economic policy, is to achieve real growth without inflation with a balance in the balance of external payments and with an optimal distribution of community resources. We find these objectives in the Arab countries as a result of the stability of legislation revolves around the following elements:

- Achieve monetary stability to fight inflation
- Ensure the currency exchange and maintain its external value.
- Encourage economic growth.
- Contribute to the establishment of developed financial and monetary markets.
- Supporting the economic policy of the State.
- Achieve internal and external balance.

2. Intermediate objectives:

These objectives reflect those monetary changes that can be achieved by monitoring and managing the achievement of some or all of the final objectives. Intermediate objectives are required to respond to:

- A relationship between them and their final goals.
- The possibility of monitoring the tools of the monetary authorities.

The third requirement: the concept of fiscal policy

The multiplicity and complexity of economic studies called for the existence of a professional definition of fiscal policy and what is appropriate and the development of the current economic conditions and determine the effectiveness of this policy in achieving economic growth.

First: Definition of Financial Policy:

Fiscal policy is defined as the policy of using fiscal instruments from public expenditure and revenue programs to trigger macroeconomic variables such as national output, employment, savings, and investment to achieve desired effects and avoid undesirable effects on both income and national output, employment level, and other variables. Fiscal policy also means how the government adopts the planning of public expenditure and measures to finance it as it appears in the state budget. Fiscal policy is also defined as the state policy in determining the different sources of public revenues of the state and to determine the relative importance of each of these sources and determine how they are derived by these revenues to finance public expenditure, to achieve economic and social objectives of the state ().

Second: Fiscal Policy Objectives:

Fiscal policy aims to achieve economic development. It also works to achieve a set of objectives that serves the objectives of economic policy. The following objectives can be mentioned:

Achieving Economic Stability

This means to exclude inflation or recession in the economy, where fiscal policy, along with other economic policies, stabilizes the general level of prices and the full operation of economic resources. Full employment is not necessarily meant to reach the unemployment rate to zero, but a relative disappearance of the phenomenon of unemployment is required.

Achieving justice in the distribution of national income:

Fiscal policy aims to reduce the disparity between the different levels of income of members of society, resulting from the different distribution of revenues and rewards of factors of production. This is based on fiscal policy instruments, the most important of which is fiscal policy and public expenditure policy. **Achieving economic efficiency in resource reduction:**

The fiscal policy seeks to optimize the allocation of resources between public and private uses by shifting resources from the private sector to the government to finance public spending programs for the production of public goods and services while ensuring good use.

In some cases, both countervailing policies can be used to increase expenditures and reduce taxes at the same time. The opposite is, of course, the necessity to reduce public spending or increase taxes or both, and the volume of private spending has increased and compensatory fiscal policy is based on achieving its objectives on two pillars. Two main factors () are the impact on consumption and the impact on investment.

Achieving Economic Development

Fiscal policy contributes positively to the process of achieving economic development and increasing the level of economic activity of society. The state uses all means and possibilities to provide the necessary funds to achieve this goal, avoiding inflationary means and relying on national savings. Using financial policy instruments, development can be achieved by stimulating domestic investment through local savings, as well as attracting foreign capital for investment within the state in the case of financing from abroad.

The second topic Mechanisms to achieve coordination between fiscal and monetary policies

The first requirement: the nature of the relationship between monetary and financial policies

Fiscal policy is designed to complement monetary policy in two ways:

First, if a cheap money policy does not tempt investments on its own, this goal may be achieved by creating a new society through budget deficits.

The second aspect is to emphasize the ability of the deficit agreement to encourage investment, and in the late form, it emphasizes the need to offset by overheads of chronic trends towards increased savings and underinvestment.

The relationship between the monetary and fiscal policy is close because financial and monetary operations are an effective means of achieving economic control. Therefore, coordination between them becomes a necessity because of the overlap between these two types, as they may conflict in a way that weakens them together, thus preventing government bonds from achieving their objectives. Government finances have direct monetary implications, so financing the deficit or disposing of surpluses are processes that affect the liquidity of the economy.

As well as government operations such as treasury bills or financing the deficit through public bonds, which have an effective impact on the interest rate and the bond market (), although the nature of the relationship between the financial and monetary policies, but coordination between them in terms of direction and timing has become necessary The financial and monetary authorities can overlook it, because condoning it means that they are not given the opportunity to achieve their objectives.

Second requirement: the importance of coordination between monetary and fiscal policy

In this regard, we are interested in clarifying the importance of coordinating fiscal and monetary policies in their effective ability to address economic imbalances. For example, to know the presence of inflation in a country as a result of the increase in aggregate demand for aggregate supply because the economy has reached the level of full operation of materials so that the volume of production can not increase. Situation The general economic policy, through monetary and fiscal policies, takes measures to balance the aggregate supply and aggregate demand. These measures include, but are not limited to the following:

1. Reducing liquidity and money supply through credit control, which requires the use of monetary policy instruments to reduce the volume of credit prohibited by banks to the sectors of the national economy.
2. Reducing the volume of government loans to individuals and banks or the government borrowing from individuals to reduce the volume of local liquidity or money supply, which leads to a reduction in the volume of consumer and investment spending (aggregate demand).
3. Reducing the levels of government expenditure, both current and investment, to reduce the volume of income and thus reduce the volume of expenditure.
4. Increasing the volume of government revenues by increasing the amount of taxes, both direct and indirect, and reducing the volume of government payments such as unemployment benefits.
5. It is noted from the previous actions that the first and second side is directly related to monetary policy and the third and fourth part is related to fiscal policy, so it is necessary to integrate and coordinate between the above-mentioned measures to reach the main objective of the general economic policy of the State, namely economic stability by achieving balance between supply. The aggregate of goods and services and aggregate demand.

Third requirement: - Mechanisms necessary to achieve coordination between monetary and financial policies.

First: The Independence of the Central Bank

Means complete independence of central banks from the government in terms of managing the monetary and credit policy or organizational structure, to achieve the objectives of this policy and above all to achieve price stability, and that monetary policy is largely consistent with the general economic policy of the State.

The independence of the Central Bank contributes to the coordination of fiscal and monetary policies, based on the direct relationship between the independence of the Central Bank and economic performance, Borrero explained the positive impact of the independence of the Central Bank on fiscal discipline, which leads to lower inflation rates and growth rates in the short term, but in the long term The positive impact of central bank independence will remain on both fiscal discipline and inflation rates, extending to economic growth rates. Contrary to Alesina and Summers 1993, they asserted that the independence of the central bank contributes to reducing inflation, while It does not entail benefits or costs that can be incurred in real macroeconomic performance (such as real output, real interest rate, real wage levels, etc.), which means supporting their study of money neutrality.

Second: Establishing controls on lending to the Central Bank of the Government to finance the fiscal deficit:

One of the most important institutional arrangements for coordinating fiscal and monetary policies is the establishment of controls on the central bank's lending to the government for financing the fiscal deficit. This importance lies in the difficulty of achieving coordination between monetary policy and the management of public debt in the case of curbing the financial system, especially when the limited financing options available Before the government, which requires restricting the independence of the central bank, whether in the form of a draw on the statements, or the purchase of the Central Bank of government securities, which works to create money, including the emergence of inflationary pressures.

Therefore, the legislation governing the work of many central banks has included controls on lending to governments for the purpose of financing the fiscal deficit, and this limit or restrict the direct cash facilities [while there are countries allow this subject to the approval of Parliament], where ceilings for these facilities are either in the form of the Central Bank's liabilities, or a percentage of the total expenditure, or a percentage of the state's revenues, which may be in a certain amount not be exceeded, and there are countries that allow the Central Bank to hold public debt securities in the framework of open market operations, as not only a means of financing It is one of the monetary instruments Effect on liquidity ().

Third: Reducing inconsistencies between fiscal and monetary policies:

The conflict between fiscal and monetary policies means that the government wants to provide low-cost sources of financing the fiscal deficit, while the central bank wants to raise interest rates to compensate for the expansionary effect of the fiscal deficit. The conflict between fiscal and monetary policies can be reduced by adopting an economic policy that seeks to achieve the goal of economic stability. The Central Bank enjoys effective independence to achieve price stability and economic growth, such as the announcement of an official document between the Government and the Central Bank setting out an inflation target that the Bank is committed to achieving while enjoying complete freedom of movement. If the actual inflation rate deviates above the target, the Governor of the Bank should explain the reasons for exceeding the target in a letter to the Minister of Finance, explaining the measures that the MPC will take to restore the target and the extent To achieve that goal.

Fourth: Measures to Achieve Financial Balance or Reduce the Budget Deficit:

These measures include:

Fiscal Policy Rules:

Financial rules are defined as permanent restrictions on fiscal policy by setting simple numerical constraints on the totals (paragraphs) of the general budget. Fiscal rules have spread internationally in the world. In 1990 there were only five countries with financial rules (Germany, Indonesia, Japan, Luxembourg, United States of America), but now many countries around the world have implemented these or several rules to reduce their crises and to achieve long-term fiscal discipline. These limitations are expressed as q The indicators are divided into three groups: the budget deficit rules, which aim to reduce the budget deficit to a certain level, then convert this deficit into surplus, and the borrowing rules and aim to achieve rationalization in the choice of public finance methods, and the debt rules and aims to define a safe limit for total public debt, One of the financial rules is to regulate the budget deficit, and to ensure the long-term financial sustainability of the state to ensure the government's ability to meet its financial obligations.

Limiting the practice of central banks of some quasi-financial activities:

Some countries may resort to this process because the financial authority is supposed to carry out these activities rather than the central bank. These activities include, in particular, the allocation of subsidized credit to certain sectors, deposit insurance, support to financial institutions (and sometimes non-financial) unable to fulfill their obligations, as well as provide foreign exchange at a price lower than the market price of external debt service requirements, and purchase basic imports.

Avoiding Semi-Financial Deficits

The quasi-fiscal deficit is a result of the losses that the central bank may achieve from its various activities, such as open-market operations, sterilization of the impact of foreign exchange flows, the costs it may incur from restructuring the financial sector, and practicing some quasi-financial activities. ()

Consequently, there is a need to take measures to ensure that these losses do not affect the central role of the Central Bank in controlling inflation. These measures include articles that define how to deal with these losses, as well as the Government's commitment to cover these losses by working to reorganize the bank. These losses pose a threat to the independence of the central bank in carrying out its monetary policies, maintaining the value of the local currency, and thus achieving the objective of price stability.

THE THIRD TOPIC MECHANISMS COORDINATION BETWEEN MONETARY AND FISCAL POLICY TO ACHIEVE ECONOMIC STABILITY IN IRAQ (2004-2017)

Iraq is characterized by the abundance of human and economic resources, but in spite of this abundance, the Iraqi economy suffers from real economic problems such as high levels of inflation and unemployment, as well as structural imbalance in the gross domestic product because of poor coordination between economic policies, especially monetary and financial policy and the exploitation of resources in addition to the almost complete dependence on crude oil as the only source of revenue, which strengthened the dominance of fiscal policy on economic activity, which affected the indicators of stability of the economy and make monetary policy meet the need of the state of the local currency b D convert oil revenues to finance ministries and procurement, as well as to maintain the monetary policy at the level of prices and to maintain the Iraqi dinar exchange rate.

The first requirement: - Analysis of indicators of economic stability in Iraq

Gross domestic product:

The decline in the GDP at current prices to (29585788.6) million in 2003 after (41022927.4) million dinars in 2002 and a negative growth rate (27.88%), and the reason is due to the third Gulf War, which ended the occupation resulting in a halt Temporary in the export of oil with the cessation of the remaining production projects as well as the process of political, administrative and security vacuum and sabotage and destruction that swept the country (), and output recorded at constant prices during the same year also decreased and negative growth rate of -36.77%.

The output at current prices increased in 2004 and 2005 with positive growth rates of 79.94% and 38.13% respectively, with the increase in the oil sector resulting from the rise in oil prices in the world market, but the contribution of this sector decreased in these two years. The contribution of services and transport sectors, while the output at constant prices achieved positive growth also (53.44%) and (1.70%), while the years 2006 and 2007 saw an increase in output at current prices and growth rates (29.99%) and (16.60%) as well The output at constant prices has positive growth rates of 5.60% and 1.90%, while oil revenues continue Rise as a result of the continuing rise in oil prices, but the proportion of the contribution of the oil sector remained in the output is going to decline.

The year 2008 witnessed an increase in output at current and fixed prices, where the annual growth rate of output at current prices (40.89%) and fixed prices (7.48%) was the result of the low inflation rate due to the success of the monetary policy adopted by the Central Bank to achieve stability. While the oil sector contributed to output as a result of the rise in oil prices as the price of the barrel reached more than (94) dollars, and the year 2009 saw the output decline at current prices at a negative growth rate. It reached (16.40%) while the output recorded the highest prices This is due to the increase in output at constant prices due to the reduction of inflation rates due to the monetary policy action through the Central Bank auction (), and this decline in output at current prices due to the global financial crisis and slowing economic activity and lower commodity prices (). In 2010 and 2011, there was an increase in output at current prices with growth rates of (23.45%) and (34.10%) respectively, with the increase of the contribution of the oil sector in output due to the return of oil prices rise again, while output at constant prices recorded Positive growth also reached (6.47%) and (7.51%) respectively.

Then, the gross domestic product (GDP) increased again in 2013 (7.62%) for current prices and (6.57%) for fixed prices as shown in Table (1). In 2014 and 2015, the gross domestic product (GDP) decreased at current prices with negative growth rates of (2.62%). And (25.4 -%), in 2014, the gross domestic product witnessed a significant decline, due to the decline in oil revenues resulting from the decline in oil prices to below $ 50 per barrel, which was the largest impact on the Iraqi economy and the general budget in particular, has led to a large deficit in Budget to restructure public spending to ensure the current budget and clarity This is due to the increase in oil production, which is due to the increase in oil production. Where achieved an increase (2.08%) compared to a growth rate of (-2.62%) in 2015 (), as well as GDP rose in 2017 to (225995179.1) as the Iraqi economy has witnessed a development in the rate of economic growth by (1%) at constant prices and the rate of (10.9%) at current prices, due to the high oil prices recorded a price A barrel of oil (49.3) dollars compared to 36 dollars in 2016 ().

Table (1) Development of Gross Domestic Product at Current and Fixed Prices for the Period (1990-2017) (Million Dinar)

Year	Gross Domestic Product at Current Prices	The growth rate	Gross Domestic Product at Fixed Prices	The growth rate
2003	29585788.6	-27.88	66335849	36.77-
2004	53235358.7	79.94	101788449	53.44

2005	73533598.6	38.13	103568449	1.74
2006	95587954.8	29.99	109368369	5.60
2007	111455813.4	16.60	111455813	1.90
2008	157026061.6	40.89	119802041	7.48
2009	131275592.6	-16.40	124659542	4.05
2010	162064565.5	23.45	132731012	6.47
2011	217327107.40	34.10	142700217	7.51
2012	254225490.70	16.98	162587533	13.93
2013	273587529.2	7.62	173273046	6.57
2014	266420384.5	-2.62	169602659	2.11-
2015	199715699.9	-25.4	182051372.3	7.33
2016	203869832.2	2.08	200469833.6	10.11
2017	225995179.1	10.85	202471876.8	0.99

Source: - the Republic of Iraq, Ministry of Planning and Development Cooperation, Central Organization for Statistics and Information Technology, Statistical Groups for Different Years.

Source: - The work of the researcher based on the evidence table (1).

Inflation

During 2003, the annual inflation rate reached 32.58% as shown in Table (2). The reason for the continuation of this increase in inflation rates is the increase in most paragraphs of the index, especially food commodities and fuel (). The inflation rate continued to increase gradually during the years 2004-2006. The annual inflation rate in 2006 to high rates not seen in Iraq since the first half of the nineties decade as it reached (53.23%) and that the inflationary wave resulted from two factors are ():

On the supply side, there was a shock in the supply, ie bottlenecks in the real sector, mainly the decrease in the ability to provide fuel and energy, which caused negative effects on the high costs of transport and communications, production and marketing costs, etc. and the lifting of government subsidies on oil derivatives.

On the demand side, there have been increases in the total demand for goods and services as a result of the increase in government expenditures of a consumer nature, represented by high salaries, transfer expenses, and others.

The rise in the general level of prices continued, as an extension of the previous period, and inflation reached (53.2%) the highest level in 2006 and the reason for the inflation of prices due to several factors have combined on the Iraqi economy, including increased government operating spending, especially the paragraph salaries and wages of government workers Also, fuel prices have increased due to the lifting of government subsidies, in implementation of financial reform and price correction, and due to sabotage in oil installations, the impact of the rise in fuel prices has shifted to the prices of electric power and high transport wages, which also increased Wade food, as well as the deteriorating security and political situation, which led to the cutting of some roads, which increased more in raising food prices ().

The year 2007 and 2008 witnessed growth in inflation rates, but at a decreasing rate (30.83%) and (2.67%). The reason for the decline in inflation rates was the success of the monetary policy adopted by the Central Bank in stabilizing the price levels as well as the improved security situation.

The price index declined in 2008 to a low level (2.67%), while the price index recorded a negative value in 2009 (-0.80%) due to the global financial crisis that hit the global economy led to a decline in prices of imported goods. Then the inflation rate declined, and in 2010 and 2011 saw an increase in the price index with rates of (2.46%) and (5.6%), respectively, due to the rise in the price index resulting from the decrease in domestic supply and dependence on imports to meet the local need. Imported high prices, which transmit the infection of external inflation to d Vinegar is known as (imported inflation) ().

The period (2012-2012) recorded a continuous decline in inflation rates to (6.1%) in 2012, and in 2014 inflation fell to (2.44%) The reason for the decline in growth rates of inflation is the adoption of Iraq monetary policies targeting inflation represented We note that the inflation rates fluctuated during the period between 1990 and 2017 with increases and decreases, ranging between 0.77% in 2017 and a maximum of 161.2% in 1990 (). .

Source prepared by the researcher based on the table (2)

Table (2) Development of Consumer Price Indices and Inflation Rate (2003-2017)

Year	Inflation rate	Consumer Price Index Base year 1988 = 100
2003	**33.6**	**181301.7**
2004	**27**	**230184.1**
2005	**37**	**315259**
2006	**53.2**	**483074.4**
2007	**19.3**	**632029.8**
2008	**13**	**648891.2**
2009	**18**	**630713.1**
2010	**7,26**	**646207.5**
2011	**6.54**	**682366**
2012	**6.1**	**723690.7**
2013	**3,14**	**737122.1**
2014	**2,44**	**753651.8**
2015	**1,65**	**764499.4**

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2016	**0,81**	
2017	**0,77**	

Source: Central Bank of Iraq, General Directorate of Statistics and Research, Statistical Bulletins for the years (2003-2017).

Money supply

The hypothesis that governed the monetary policy in Iraq until 2003, which followed the requirements of financing the deficit in the public budget through the mechanism of linking the expansion of money supply and the financing of the budget deficit, and a situation of unprecedented development in the history of the Iraqi economy, namely the possession of the bank. Central Bank of Iraq and the rest of the banking system on assets (assets) was represented by a huge accumulation of treasury transfers to become a source of expansion and issuance of cash and to confirm the dependence of the monetary authority to the effects of fiscal policy to create basic cash, in exchange for the acquisition of the Central Bank of Iraq (assets) accumulated from government debt instruments It has acquired most of its investment portfolio.

The year 2003 witnessed an increase in the money supply with an annual growth rate of 79.63% as the money supply reached 6953420 million dinars. This increase is due to the revaluation of the Iraqi dinar exchange rate after the third Gulf War, compared to a slower growth rate in 2005 (19.83%). This is due to the Central Bank's independence after the issuance of the Central Bank Law No. (56) for the year 2004 to cope with inflation ().

In 2012, there was a low growth in the money supply as the annual growth reached (-15.2%) compared to the previous year. The reason for the low growth is due to a state of monetary stability in the Iraqi economy due to the keenness of the Central Bank to obtain a balance in the growth of the monetary sectors. In 2013 and 2014, money supply achieved mixed growth rates (6.04%) and (28.2%). This discrepancy is due to the decline in oil revenues and the economic downturn caused by the terrorist acts by the terrorist groups (ISIS) in 2014 With the decline in net foreign assets (), 2015 saw a decline in oil prices, which we ar Z decline in the general budget of the state oil revenues as the main source of this revenue, it's revenue, which led to a decline in the Ministry of Finance sales from the dollar to the central bank, which reduced the impact on the money supply to (82 595), a negative growth rate of (8.9-) ().

In 2016, money supply expanded by 6.6% over 2015, due to the expansionary effect of net government debt, as a result of the government's tendency to internal borrowing to meet the financing needs of the public budget by issuing treasury and bond transfers to finance part of the budget deficit. External factors played a role in increasing the money supply in 2017 by (1.5%) compared to 2016. This increase was achieved by the increase in the average price of a barrel of oil during this year to reach (49.3) dollars per barrel compared to (36) dollars per barrel last year. ().

Source by the researcher based on data table 3.

Table (3) The development of money supply in the broad sense in Iraq for the period from 2003 to 2017 million dinars

Year	Broadly money supply	Annual change rate %
2003	695342	-
2004	122540	-82.4
2005	146840	19.8
2006	21080	-85.6
2007	26956	27.9
2008	34920	29.5
2009	45443	24.4
2010	60386	38.9
2011	72178	30.4
2012	75466	-15.2
2013	87707	6.04
2014	90728	28.2
2015	82595	-8.9
2016	88082	6.6
2017	89441	1.5

Source: Central Bank of Iraq, General Directorate of Statistics and Research, Annual Bulletin, sporadic years.

Exchange rate

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 (US dollar), to standardize the exchange rates of the Iraqi dinar as well as to achieve homogeneity in the exchange market mechanism for that dinar throughout the country, by satisfying the market desire of Foreign exchange and meet the needs of the private sector to finance all its imports within the rates of exchange or balanced real, and thus the auction method has relatively put an end to the deviation and volatility of price signals, which was weakening investment activity in both financial and real ().

The value of the Iraqi dinar during 2003 witnessed a significant deterioration as a result of the start of military operations on Iraq, and this led to the rise of the foreign exchange rate against the dinar due to the lack of commitment of the Central Bank of the fixedrate, while the parallel exchange rate has fallen and achieved negative growth of

(1.07%) The year 2004 witnessed a decline in both the official and parallel exchange rates with a growth rate of (60.5%). In 2005, the official and parallel price growth was positive (1.1%) and (1.31%) as shown in Table (4).

For the period 2006-2009, the official exchange rate decreased with negative growth rates of 0.14%, 14.45%, 4.94%, and 1.93%, respectively, while the parallel exchange achieved positive growth in 2006 and negative growth rates. Until 2009, it was (0.2%, -14.10%, 5.05-% and 1.75-%) respectively. This decline in exchange rates as a result of the intervention of the Central Bank to improve the value of the local currency through the auction of foreign currency through a system of managed float (). In 2010 and 2011 the official exchange rate did not change as it remained constant and reached (1170) dinars per dollar, while the parallel exchange rate achieved positive growth (0.25% and 0.93%), while in 2012 the official exchange rate fell to (The parallel exchange rate rose in 2012 as a result of increased demand for the dollar due to the Iran crisis and its exposure to economic sanctions that raised fears of smuggling the dollar from the Iraqi market to Iran as well as the expansion of money laundering operations in Iraq. Through the foreign currency auction (), the official exchange rate remained stable in 2013 and 2014 due to instructions imposed by coffee In 2015, the official exchange rate increased to ID (1190) per dollar, with an annual growth rate of 2.06%, while the parallel exchange rate grew by 2.72%, while the official exchange rate remained the same during the years. Figure 4 shows the evolution of exchange rates for the period (2003-2017).

Source of research work based on the data table (4).

Table 4 Development of exchange rates in Iraq for the period 2003-2017

Year	Official exchange rate	Annual change rate %	Paralleled exchange rat %	Annual change rate %
2003	1836	590633.6	1936	———
2004	1453	-60.5	1453	24.95-
2005	1469	1.10	1472	1.31
2006	1467	0.14-	1475	0.20
2007	1255	14.45-	1267	14.10-
2008	1193	4.94-	1203	5.05-
2009	1170	1.93-	1182	1.75-

2010	1170	0.00	1185	0.25
2011	1170	0.00	1196	0.93
2012	1166	0.34-	1233	3.09
2013	1166	0.00	1232	0.08-
2014	1166	0.00	1214	1.46-
2015	1190	2.06	1247	2.72
2016	1190	0	1275	2.24
2017	1190	0	1258	-1.33

Source: - Central Bank of Iraq, General Directorate of Statistics and Research, annual bulletin, for different years.

From the above, it is clear from the large area of influence of the Iraqi financial policy in the macroeconomic variables, and its ability to move these variables in the desired direction through continuous measures of fiscal policy, but the expansionary trend that this policy has taken during the study period has left a number of negative repercussions burdened The national economy represented the most important increase in the size of the monetary mass and a level that exceeds the productive capacity many times, which made the price level takes serious upward trends reflected on the devaluation of the local currency significantly, all under the pretext of stimulating economic growth through In the absence of investment vision and the prevalence of consumer vision, the facts proved invalid that pretext.

The second demand: - Analysis of the deficit and surplus of the public budget in Iraq

The Iraqi public budget has suffered from a continuous deficit for more than two decades, since 1990 the public budget has been in a state of deficit, which makes the state is looking for ways to fill this deficit, which was the source of funding was the issue of cash before 2003, which raised inflation rates to high levels, The state resorted to cash issuance as the least expensive source. There was no developed financial market that the state could rely on for funding. Besides, funding from abroad was not available to Iraq because of the conditions of the embargo during that period, but it was the highest economic cost because Caused by troubles Economic lasted for many years. After 2003, when the central bank gained independence, the government could not finance its budget deficit through cash issuance and should seek other sources of funding for the deficit. The disparity in the budget deficit is due to changes in world oil prices that affect state revenues.

Based on the assumption of financial dominance, we find that this hypothesis is reflected in the Iraqi economy and through data table (5) note during the period (20032017), which witnessed many political and social events in the Iraqi economy, which had a direct impact on the economic situation as these are the period is the period of political transition and the lifting of the embargo on Iraq, as the budget achieved a rising financial surplus during the period (2003-2017) and the highest surplus (30049726) million dinars in 2011, while achieving the lowest surplus in (2005) was by (4,521,722) (1) billion dinars, as a result of lifting economic sanctions on Iraq in (2003) and high Crown and export of crude oil and accompanied by an increase in oil prices in the global market, leading to higher oil revenues, especially for the years (2010, 2011 and 2012), which led to the achievement of fiscal surpluses in public budgets during that period.

However, in 2009, we find that the deficit increased by 106.4% due to the significant decline in oil prices for the year 2008. In 2013, the real deficit amounted to 5360605 million dinars due to the decline in oil prices from the previous year. The federal budget for Iraq for the year (2013) with a deficit of (19.12) trillion dinars and a growth rate of (30%), which is contrary to what was mentioned in the budget strategy prepared by the Ministry of Finance, which aims to reduce the deficit to (13) trillion dinars for (2013) And during the years (2014-2015-2016) the budget deficit increased both planned and actual due to the challenges faced by the Iraqi economy from the As the country suffers from unstable political and economic conditions, the budget deficit increased to (10267266) million dinars during 2015 due to the increase in spending, as well as the collapse of oil prices and the emergence of terrorist organizations (ISIS). Trade imbalances occur because they go to finance imports and do not encourage domestic demand.

In 2017, the planned deficit decreased to (21659709) million dinars due to the adoption of a relatively restrictive fiscal policy. However, the budget achieved a surplus of (1845840) million dinars. However, the planning of budgets is far from the practical reality, as well as the weakness of the implementation of the investment budget, especially at the level of the governorates (), and note that the deficit in the public budget is a structural deficit and not intended, because the proportion of this deficit of GDP is greater than the normal ratios reported In the Maastricht Treaty which defined the deficit in the Elm Talents as the highest proportion of GDP by only 3%, and therefore, this deficit will lead to increased demand for effective and generated inflationary pressures are reflected on the general level of prices that reflect the latter on economic () performance.

Table (5) Development of the Budget Deficit in Iraq for the Period (2003-2017)

Year	Thebudget deficit or surplus	GDP	The budget deficit or surplus to GDP %
2003	163798	29585788.6	553.6
2004	865248	53235358.7	1.6
2005	14127715	73533598.6	19.2
2006	10248866	95587954.8	10.7

2007	15568219	111455813.4	13.9
2008	20848807	157026061.6	13.3
2009	-10414474	131275592.6	7.9
2010	-13644777	162064565.5	8.4
2011	30049726	217327107.40	13.8
2012	14677648	254225490.70	5.8
2013	-5360605	273587529.2	1.9
2014	-10573461	266420384.5	3.9
2015	-10267266	199715699.9	5.1
2016	-20157557	203869832.2	9.9
2017	1845840	225995179.1	0.8

Source: Ministry of Finance, Budget Department.
Ministry of Planning, Central Statistical Organization, National Accounts Directorate.

First: Conclusions

- The coordination of monetary and fiscal policies exerts an effect on each other. Most monetary effects of fiscal policy are tied to the government's budget constraint, while monetary policy's fiscal implications are linked to the independence of the central bank and its ability to resist government pressures not to finance the budget deficit.
- The institutional arrangements for coordination and the degree of convergence between the monetary and financial authorities depend on the degree of development of the economy.
- The lack of coordination between the Central Bank and the government is due to the different objectives, economic models and future expectations of both authorities. - After 2003, significant economic and political changes took place in Iraq. The Central Bank of Iraq gained its independence under Law 56 in 2004, making it the appropriate monetary policy.
- Both monetary and fiscal policies take the opposite approach, and the central bank has maintained a deflationary monetary policy, despite expansionary measures in some monetary instruments, while the government has pursued an expansionary consumption approach since 2004, and the allocation of consumer operating expenditures has increased nearly threefold. Investment expenses.

Second: Recommendations

- Fiscal policy must play a major role in controlling the overall price level as well as monetary policy.
- Urging the government to use the public budget surplus to pay the external or internal debts of the government or to establish sovereign funds through which these surpluses can be invested.
- Increasing the effectiveness of both policies by fixing the imbalances in the preparation and implementation of the state budget, as well as increasing the flexibility of monetary policy.
- Increasing the transparency of the financial and monetary authorities by announcing the main and important indicators of the general budget of expenditures, revenues, profits and losses of the Central Bank.

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