



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



Monetary Stability Report

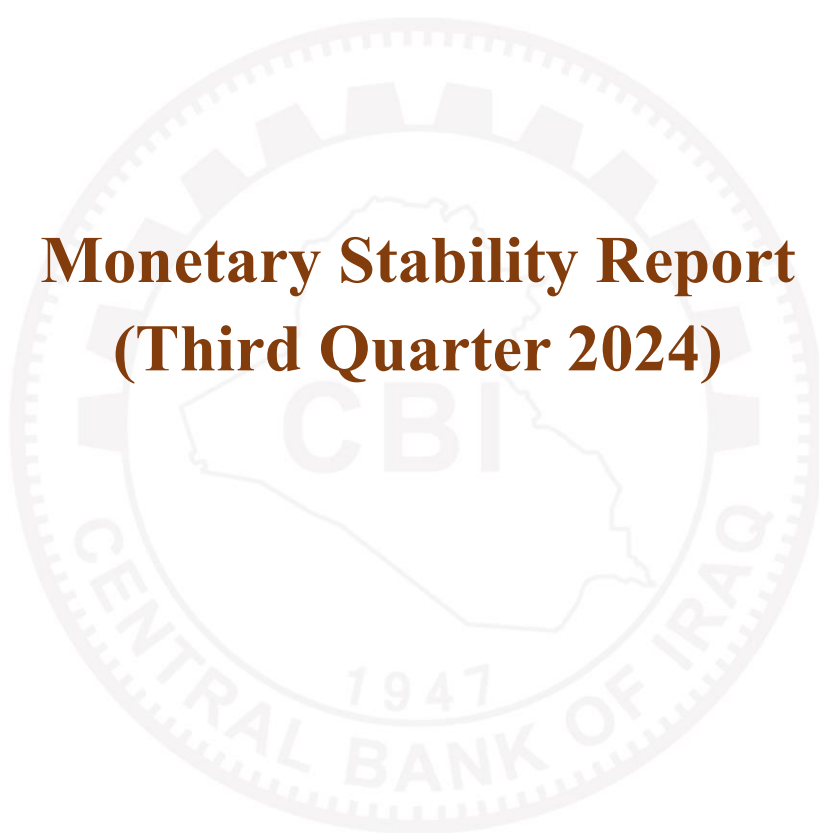
Third Quarter 2024

Central Bank of Iraq

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Monetary Stability Report (Third Quarter 2024)



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Introduction:

The Central Bank of Iraq is the authority responsible for monetary stability, which is a fundamental pillar in achieving sustainable economic growth and maintaining confidence in any country's financial system. Monetary stability highlights the Central Bank of Iraq's ability to control monetary policies to achieve its various objectives (maintaining the stability of the general price level and preserving the value of the local currency) through a set of tools it uses (required reserve, open market operations, and rediscount rate), in addition to unconventional tools it uses when needed. It is a key element in enhancing confidence in the local currency, which contributes to boosting domestic and foreign investment. Therefore, this report aims to analyze the monetary situation in Iraq by analyzing monetary indicators.

Abstract:

Within the scope of the Central Bank of Iraq's work to support monetary stability in the Iraqi economy, this bank expanded its scope of monetary sterilization activity during the previous quarter. Therefore, its cash receipts increased from IQD (18.46) trillion to (20.09) trillion in the third quarter of 2024 compared to the same quarter of 2023. Foreign reserves were the main tool used by the Central Bank of Iraq to achieve this purpose. Therefore, these reserves remained within the acceptable standard ratios, as they covered approximately (18) months of imports. They also covered approximately (137.3%) of the issued currency in the third quarter of 2024, despite the increase in the issued currency by (4.1%) to rise to IQD (104.13) trillion. As a result of the increase in public spending by (21.24%), which caused an increase in the broad money supply (M2) by (3.3%). Despite the increase in cash liquidity, inflation decreased from (3.6%) in the third



quarter of 2023 to (3.5%) for the same quarter of 2024. This indicates that the Central Bank of Iraq has succeeded in managing the money supply in an effective manner through the evaluation process it practiced, the reactivation of the policy rate, and the increase in reserve requirements. This decrease in inflation supports a more stable economic environment. As for the public finance aspect, there must be more financial discipline by the fiscal policy, and this requires setting strict financial rules that ensure the sustainability of public finances, as the growth of public spending must be linked to the growth of non-oil revenues. Financial discipline indicators indicate that the government spent (39.48%) of its GDP in the third quarter of 2024. This increase in public spending leads to an increase in demand, which is faced with the inflexibility of the production system, thus leading to an increase in the general price level. In addition, the increase in public expenditure leads to an increase in public debt if there are not sufficient revenues. To cover it, therefore, the total public debt rose from IQD (140.2) trillion in the third quarter of 2023 to IQD (150) trillion in the same quarter of 2024, and therefore, continuing with this financial approach will increase the debt burden, so the permanent deficit in the budget must be avoided and spending must be rationalized to reduce the size of the public debt and then positively affect all monetary aggregates.

Chapter One

Analysis of the Evolution of Monetary Stability Changes in Iraq

Monetary stability in Iraq is subject to a set of variables that constitute its levels, and the intensity of the fluctuations of these variables depends on the outputs of the real and financial sector in the economy. The following explains the development of these variables within third quarter of 2024.

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

Net foreign reserves are affected by the Central Bank of Iraq's decisions related to maintaining the value of the local currency, which makes it an important role in the stability of the monetary system and the ability to face shocks and fulfill obligations towards international financial institutions. Net reserves are also directly related to the volume of oil revenues, so fluctuations in global oil prices significantly affect net foreign reserves, and the volume of cash sterilization adversely affects net foreign reserves. Figure (1) shows cash receipts and oil prices fluctuations and their impact on net foreign reserves.

Figure (1) Cash Receipts and Oil Prices Fluctuations and their Impact on Net Foreign Reserves

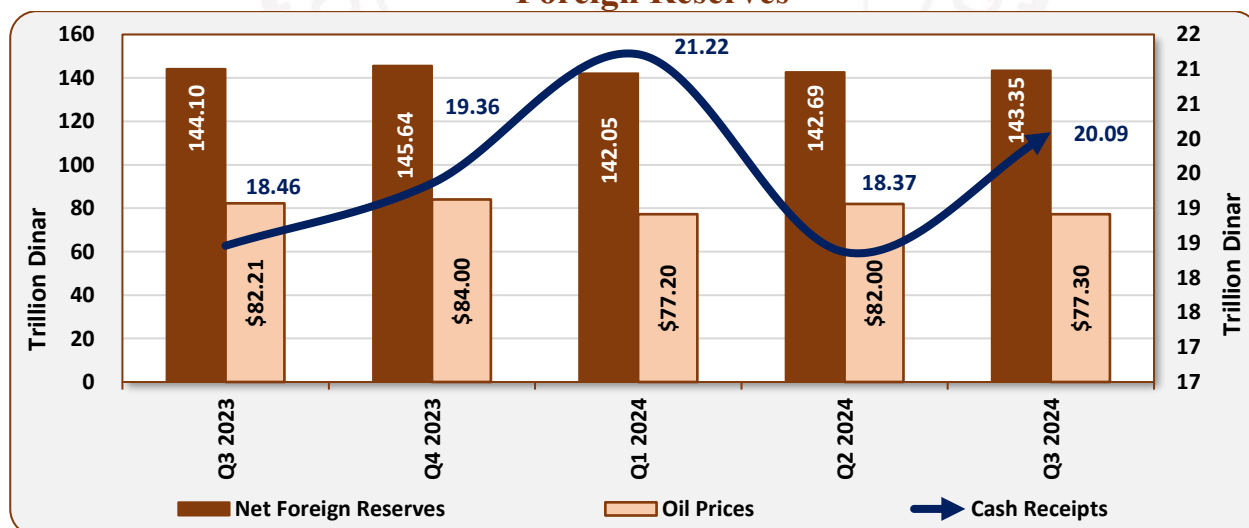


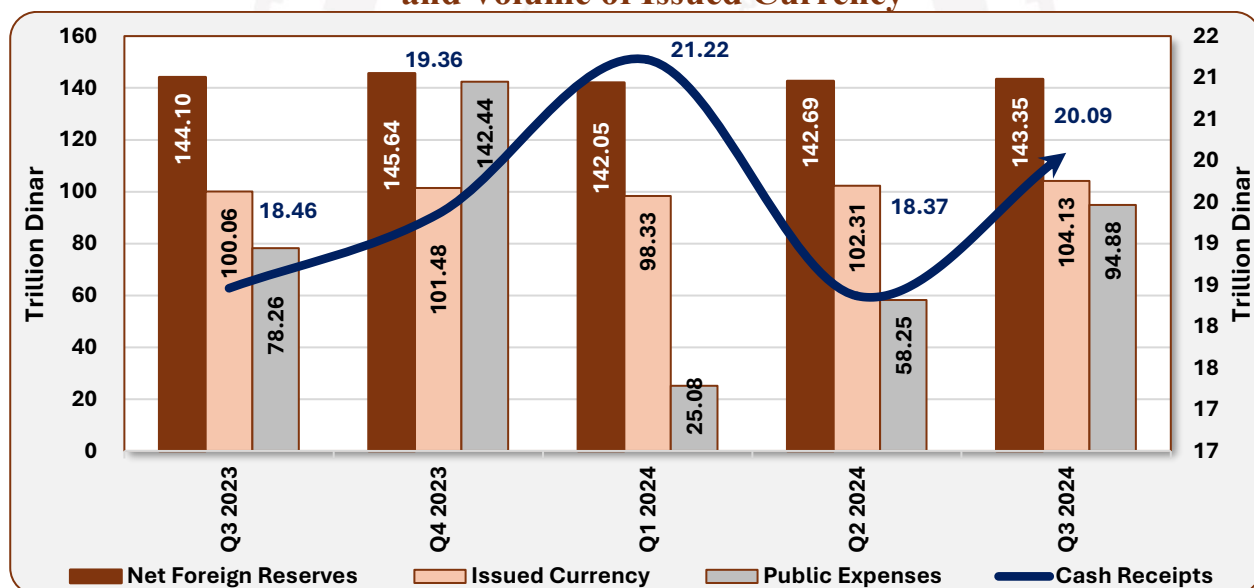
Figure (1) shows that net foreign reserves decreased by (0.52%) in the third quarter of 2024 compared to the same quarter of 2023, to reach IQD (143.35) trillion, and this indicates that the Central Bank of Iraq has resorted to withdrawing cash liquidity from the market by increasing monetary sterilization, in an attempt to maintain monetary stability, so cash receipts rose from IQD (18.46) trillion to IQD

(20.09) trillion for the same period. In addition to the decline in oil prices from USD (82.2) to USD (77.3), which led to a decrease in foreign reserves for the same period.

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

Cash receipts represent the total domestic currency obtained by the Central Bank of Iraq from various sources, most notably the sale of foreign currency, so the volume of cash receipts can affect both foreign reserves and the size of the issued currency, as the increase in cash receipts by the Central Bank of Iraq has a positive effect on the issued currency (towards its decline) and thus maintains monetary stability, as well as a negative impact represented in the decrease in the volume of foreign reserves, and Figure (2) illustrates the volume of cash receipts and their impact on foreign reserves and the volume of the issued currency.

Figure (2) Volume of Cash Receipts and Their Impact on Net Foreign Reserves and Volume of Issued Currency



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

Figure (2) shows that the increase in receipts from IQD (18.46) trillion to IQD (20.09) trillion in third quarter of 2024 compared to the same quarter of 2023, and this change caused the depletion of the net foreign reserves, which led to a decrease from IQD (144.10) trillion to IQD (143.35) trillion. The issued currency also increased from IQD (100.06) to IQD (104.13) trillion. The main reason for this situation is the increase in public spending by (21.24%) to increase public

spending from IQD (87.26) trillion to IQD (94.88) trillion for the same period, which led to an increase in internal debt.

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

Cash withdrawals represent the amount of cash payments in the domestic currency paid by the Central Bank of Iraq to cover public expenditures, for which it obtains foreign currency, and it works to increase net foreign reserves, so the high cash payments necessary to cover expenses leads to an increase in the volume of the issued currency and vice versa in the event of a decrease. Figure (3) shows the cash withdrawals needed to cover public expenditures and their impact on the volume of issued currency.

Figure (3) Cash Withdrawals Needed to Cover Public Expenditures and Their Impact on the Volume of Issued Currency

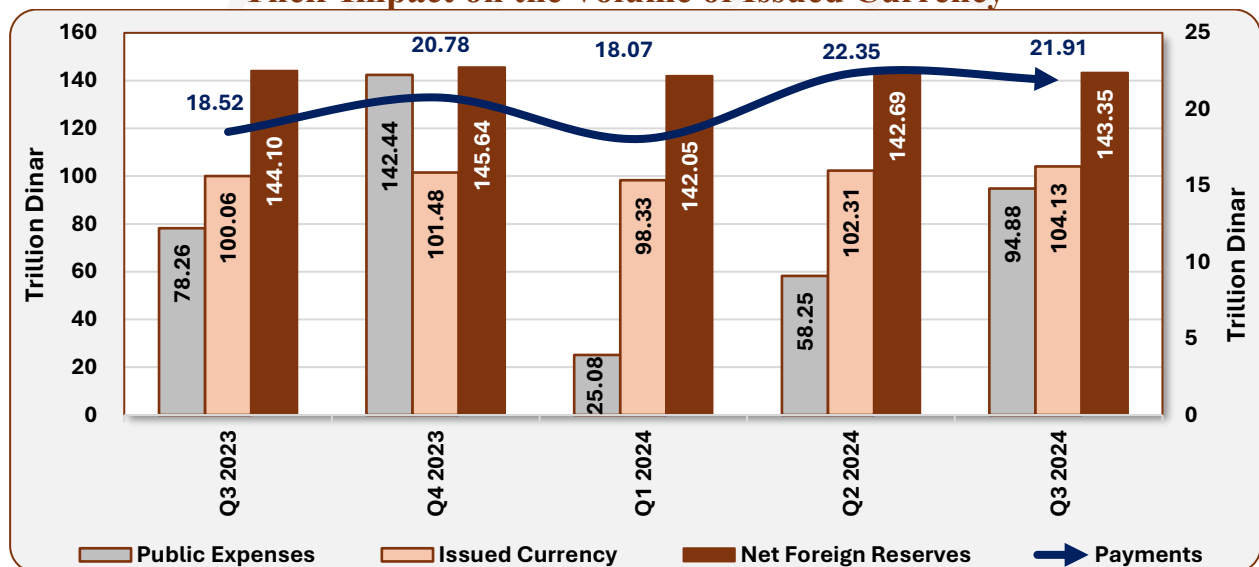


Figure (3) shows that cash payments increased from IQD (18.52) trillion for the third quarter of 2023 to IQD (21.91) trillion for the same quarter of 2024, as a result of the increase in public spending from IQD (78.26) trillion to IQD (94.88) trillion for the same period, causing an increase in the issued currency from IQD (100.06) trillion to IQD (104.13) trillion for the same period, and that this increase has a negative impact on monetary stability, because it requires more monetary sterilization operations.

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

The impact represents the cash payments made by the Central Bank of Iraq minus the cash receipts. If the effect between cash payments and cash receipts is negative, this indicates that cash receipts are greater than cash payments from the Central Bank of Iraq, which indicates a greater sterilization that has a positive impact on the market exchange rate and vice versa indicates low sterilization. Figure (4) illustrates the impact between cash payments and receipts and its impact on inflation and the market exchange rate.

Figure (4) Impact Between Cash Payments and Receipts and Its Impact on Inflation and Market Exchange Rate

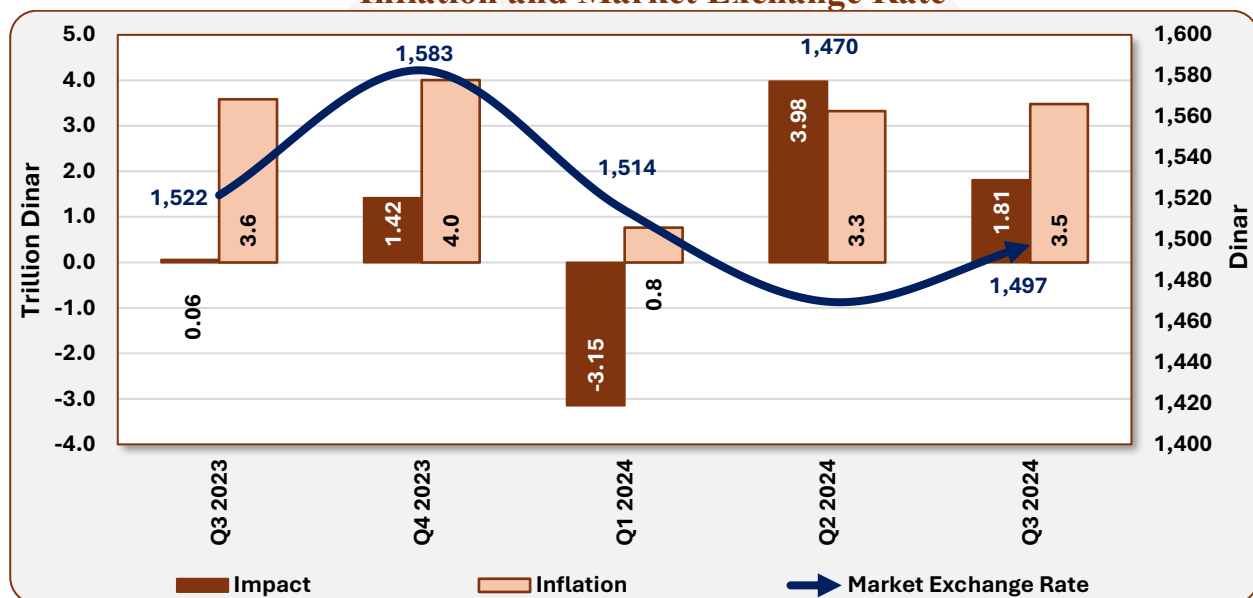


Figure (4) shows an increase in the impact between cash payments and cash receipts from IQD (0.06) trillion for the third quarter of 2023 to IQD (1.81) trillion for the same quarter of the previous year, meaning that cash payments exceed cash receipts. The inflation rate decreased from (3.6%) to (3.5%) for the same period, in addition to the decrease in the market exchange rate from IQD (1522) per US dollar in third quarter of 2023 to IQD (1497) per US dollar in the same quarter of 2024.

1.5 Components of the Cash Basis:

The monetary basis represents the mini budget of the Central Bank of Iraq and plays a crucial role in maintaining monetary stability, and it appears on both the assets and liabilities sides of the Central Bank of Iraq's budget, which are as follows:

1.5.1 Monetary Basis by Assets in the Balance Sheet of the Central Bank of Iraq:

It is represented in the **net foreign assets of the Central Bank of Iraq plus net domestic assets**, that the net foreign assets of the Central Bank of Iraq represents the largest part of the assets side of the cash basis. The direct relationship between the monetary basis and net foreign reserves governs the net domestic credit provided by the Central Bank of Iraq to the central government and the latter is linked to the public finance conditions, which move the components of the monetary basis on the liabilities side. Figure (5) illustrates the Central Bank's net foreign assets and their impact on the monetary basis.

Figure (5) Net Foreign and Domestic Reserves of the Central Bank of Iraq and their Impact on Monetary Basis

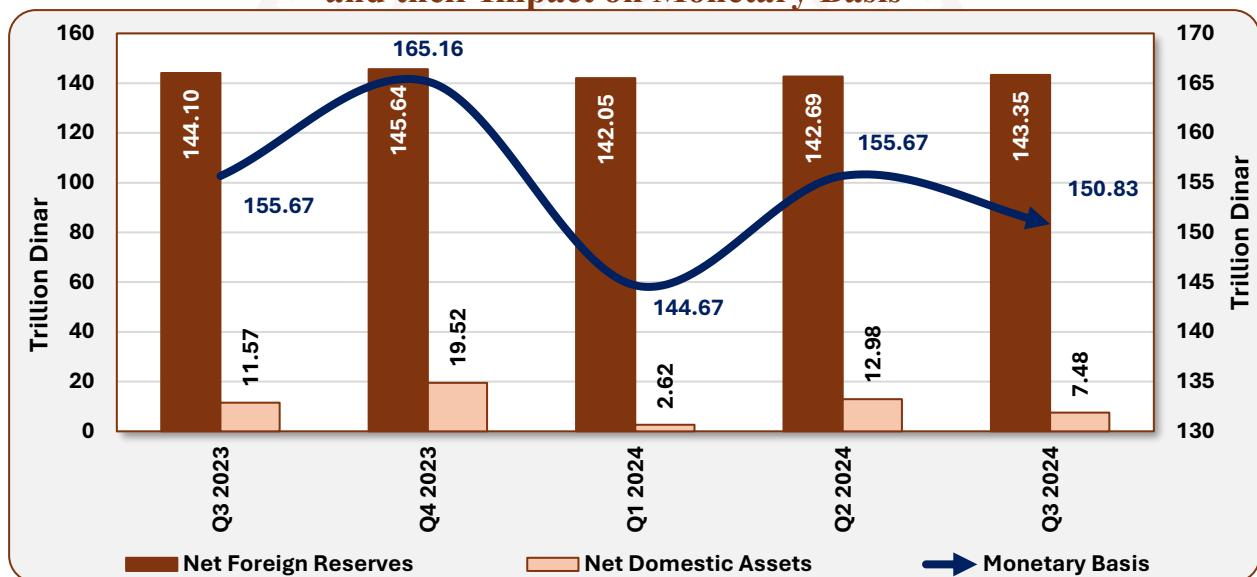


Figure (5) shows that net foreign assets decreased from IQD (144.10) trillion in third quarter of 2023 to IQD (143.35) trillion for the same quarter of 2024 with a decrease of (0.5%), which caused a decrease in the Monetary basis by (3.1%) to decrease from IQD (155.67) trillion to IQD (150.83) trillion for the same period. In addition to the decrease in net domestic assets from IQD (11.57) trillion to IQD (7.48) trillion.

1.5.2 Cash Basis at the Liabilities Side of Central Bank of Iraq Budget:

The cash basis at the liability side refers to reserves, which is so-called super-strong cash, represented in the volume of both: **the currency in circulation and**

banks' reserves (surplus and reserve requirement). Currency in circulation represents the bulk of cash basis liability side plus reserve surplus and reserve requirement. The increase of currency in circulation leads to higher cash basis. Figure (6) shows the currency in circulation and banks' reserves and their impact on the cash basis.

Figure (6) Currency in Circulation, Banks' Reserves, and their Impact on Cash Basis

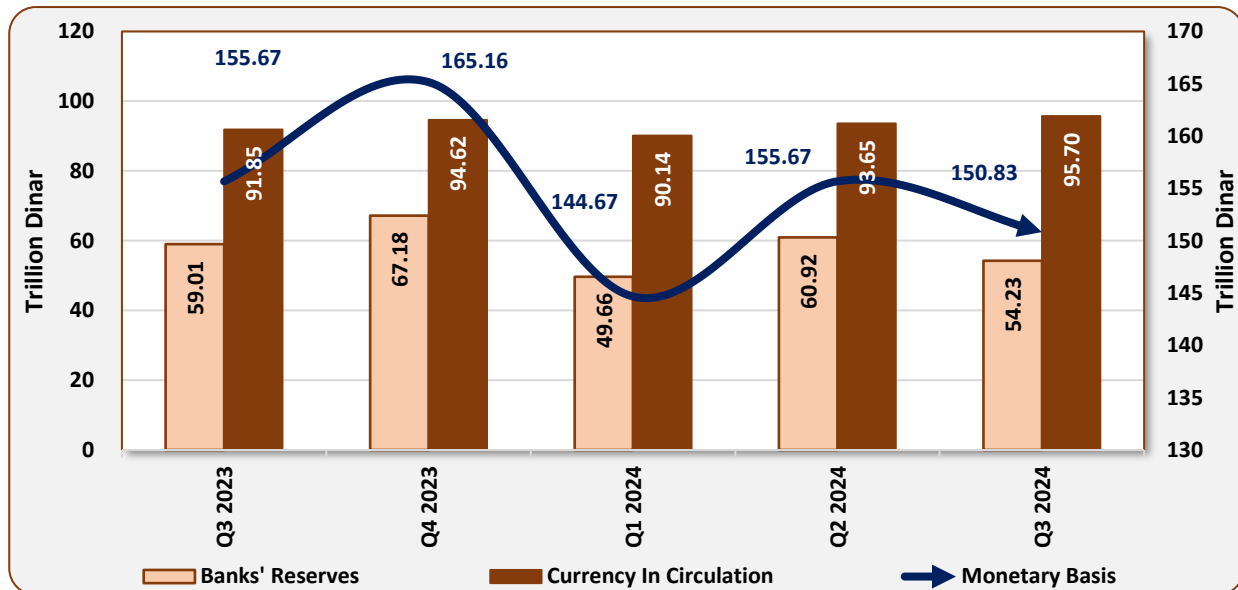


Figure (6) shows that the currency in circulation rose by (4.2%). Although it rose, the cash basis fell from IQD (155.67) trillion in third quarter of 2023 to IQD (150.83) trillion for the same quarter of 2024 as banks' reserves fell (surplus and reserve requirement) from IQD (59.01) trillion to IQD (54.23) trillion for the same period with a decrease of (8.1%), which is greater than the increase of currency in circulation, causing a lower cash basis due to Central Bank of Iraq 's policy of adjusting liquidity levels to influence the overall price level.

1.6 Volume of Money Supply and its Impact on Monetary Stability:

Monetary stability has been significantly affected by the volume of the money supply. When the money supply increases at a rate that exceeds real economic growth, it increases aggregate demand and leads to higher prices causing inflation. In contrast, if the money supply is less than the required to support economic activity, it may lead to a decline in overall demand, causing prices deflation and thus leading to an economic downturn and then an economic recession. Thus,

monetary stability is achieved when money supply is balanced with the demand for money in the economy, leading to price stability, then stabilizing the value of the currency, enhancing confidence in the financial system. Figure (7) shows the volume of money supply and its impact on monetary stability.

Figure (7) Money Supply Volume and Its Impact on Monetary Stability

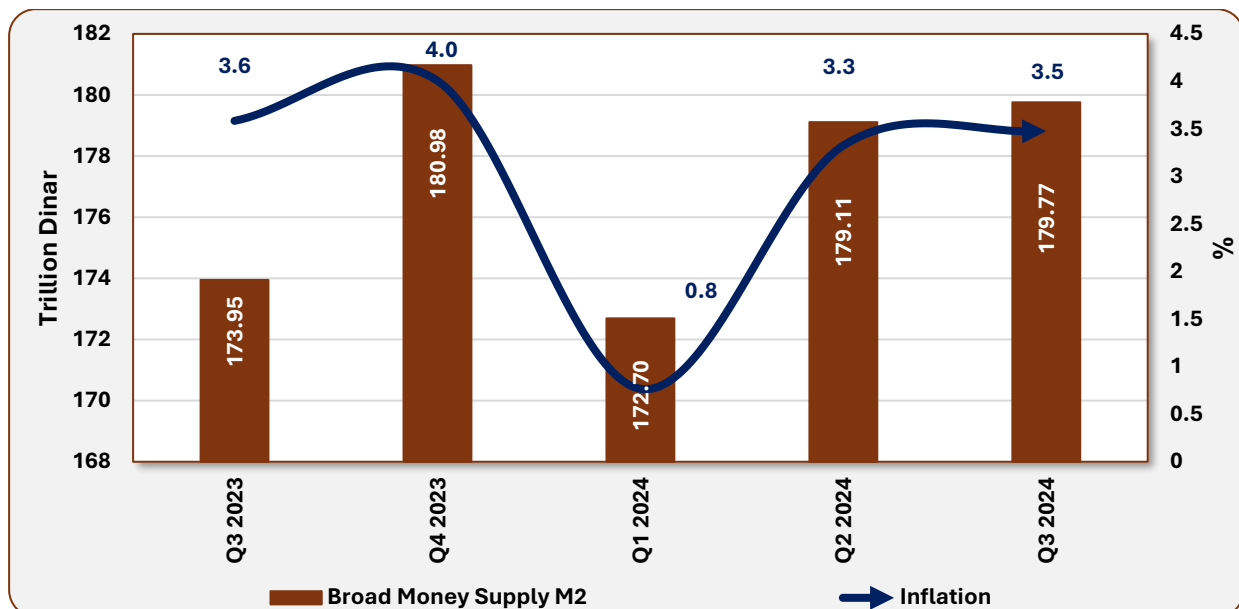


Figure (7) shows a marked increase in broad money supply M2 by (3.3%) for third quarter of 2024 compared to the same quarter of 2023. Despite the increase of monetary liquidity, inflation fell from (3.6%) for third quarter of 2023 to (3.5%) for the same quarter of 2024. It means that GDP growth rate is greater than that of broad money supply M2, indicating that Central Bank of Iraq has managed money supply in an effective manner.

1.7 Central Bank Monetary Policy Tools:

1.7.1 Monetary Policy Rate:

Monetary policy rate is the reference interest rate set by the Central Bank of Iraq to influence the cost of borrowing and lending in the economy, thereby controlling liquidity levels, inflation, and economic growth. The policy rate increased from (4%) to (7.5%) in June 2023. Its application was suspended from June to October 2024. Figure (8) illustrates the impact of monetary policy rate on inflation.

Figure (8) Monetary Policy Rate and Inflation

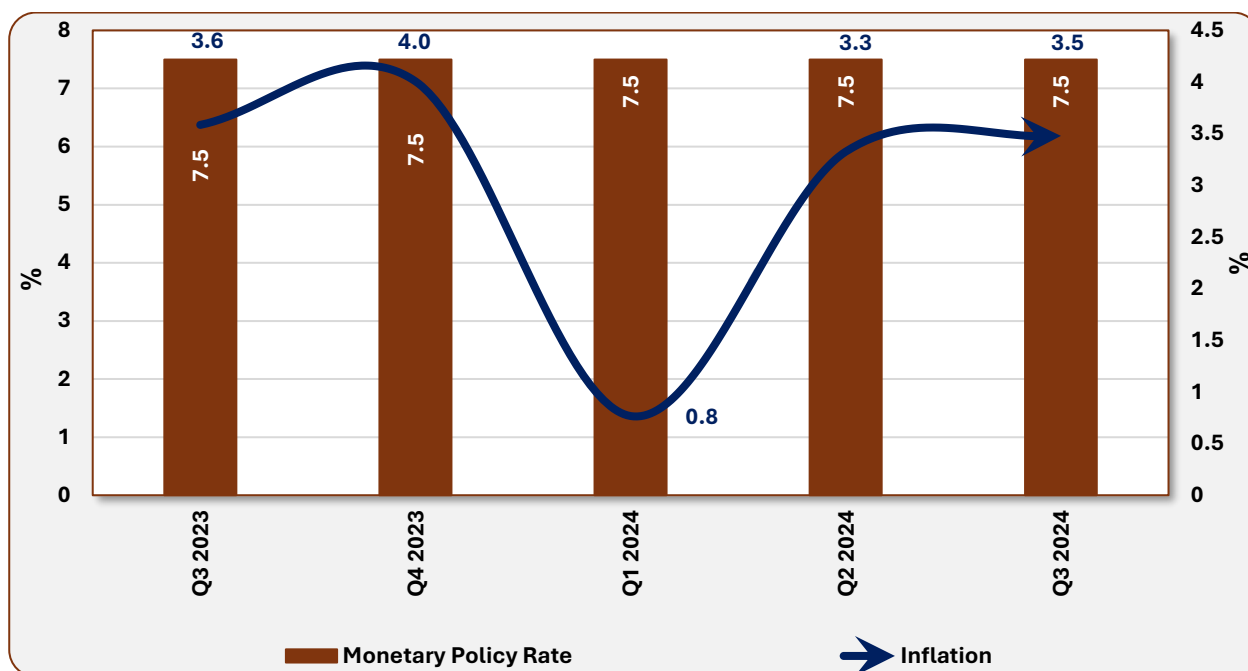
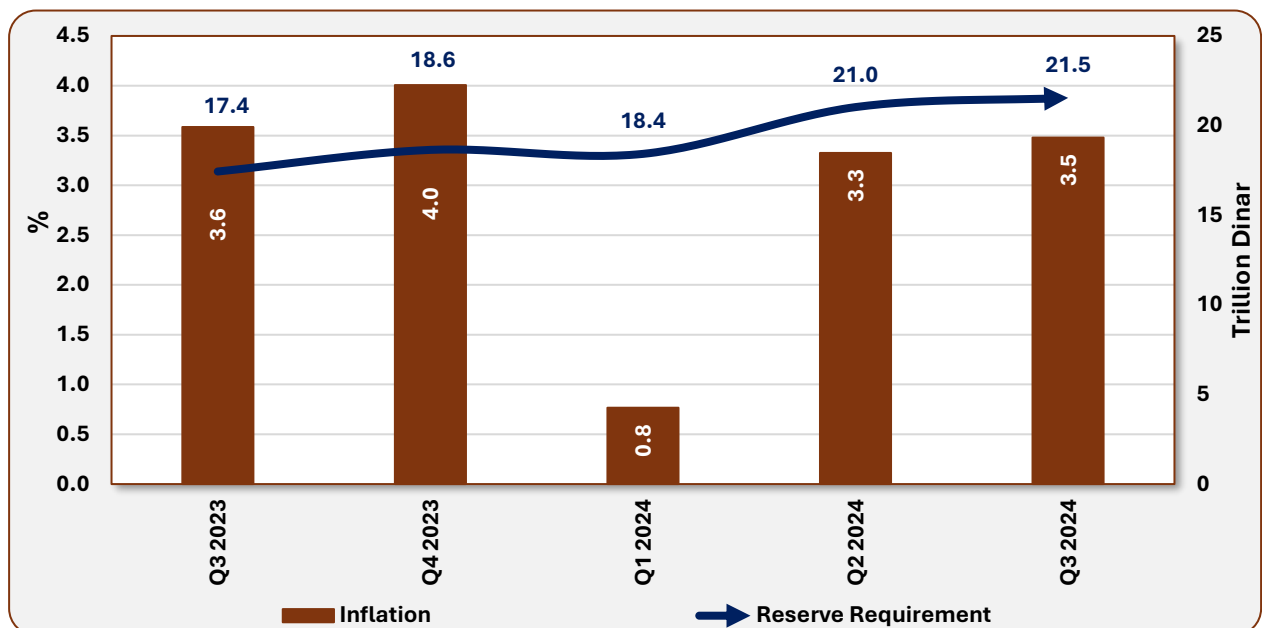


Figure (8) shows the inverse relationship between policy rate and inflation. Following the Central Bank of Iraq's increase of the policy rate from (4%) to (7.5%) for the third quarter of 2024, the economy responded with a slowdown, but with a smaller decrease in the inflation rate, which declined from (3.6%) to (3.5%) over the same period. This decline in inflation underscores the effectiveness of monetary policy in maintaining monetary stability.

1.7.2 Reserve Requirement:

The reserve requirement represents a percentage of customers' deposits that banks must keep at the central bank, as it ensures that banks are able to meet customers' cash withdrawal requests at any time. When the Central Bank of Iraq aims to pursue an expansionary monetary policy, it reduces the reserve requirement ratio. It means that banks can lend more money, leading to increased economic activity. And vice versa, when the Central Bank of Iraq pursues a deflationary monetary policy, it raises the reserve requirement ratio, which reduces banks' ability to lend, affecting liquidity volume and consequently inflation rate. Figure (9) shows the impact of the change in reserve requirement ratio on inflation.

Figure (9) Impact of Reserve Requirement Ratio Change on Inflation

The Central Bank of Iraq raised the reserve requirement, increasing the volume of the reserve requirement from (17.4) to (21.5) for third quarter of 2024, which restricted banks in the process of granting monetary credit to the private sector and contributed to greater price stability, as inflation fell from (3.6%) to (3.5%) for the same period. The decline in inflation supports a more stable economic environment.

Chapter Two

Analysis of the Development of Monetary Stability Indicators

This pivot aims to provide a comprehensive view of the key indicators that are used to measure it. Special emphasis will be placed on the criteria of monetary stability, adequacy of foreign reserves, fiscal discipline, and their role in achieving monetary stability.

2.1 Monetary Stability Criteria:

2.1.1 Monetary Stability Coefficient Based on Cash Flexibility Against Changes of GDP:

Monetary stability coefficient reflects the relationship between broad money supply (M2) growth and GDP growth at constant prices, which is used to assess monetary stability in the economy. This indicator is calculated by dividing the growth of broad money supply (M2) to the growth of GDP at constant prices, indicating the relative degree of responsiveness of money supply to relative changes in GDP, which represents the number of transactions denominated by money in the economy.

This indicator can be measured using an equation that shows the relationship between money supply and GDP. It is as follows:

$$B = \frac{\frac{\Delta M_2}{M_2}}{\frac{\Delta GDP}{GDP}} \dots\dots\dots (1)$$

Since:

B: Monetary Stability Coefficient.

$\frac{\Delta M_2}{M_2}$: The growth of broad money supply M2.

$\frac{\Delta GDP}{GDP}$: GDP growth at constant prices

- If the coefficient is close to or equal to one ($B = 1$): it indicates monetary stability, as the means of payment in the economy are consistent with the relative rate of change of GDP at constant prices, which means price stability and the disappearance of inflation.
- If the coefficient is less than one ($B < 1$): it indicates the presence of deflationary pressures, as money supply is growing at a slower pace than the growth of GDP at constant prices.
- If the coefficient is greater than one ($B > 1$): it indicates the presence of inflationary pressures, as money supply increases faster than GDP growth, which can lead to higher prices. Figure (10) shows monetary stability coefficient.

Figure (10) Monetary Stability Coefficient

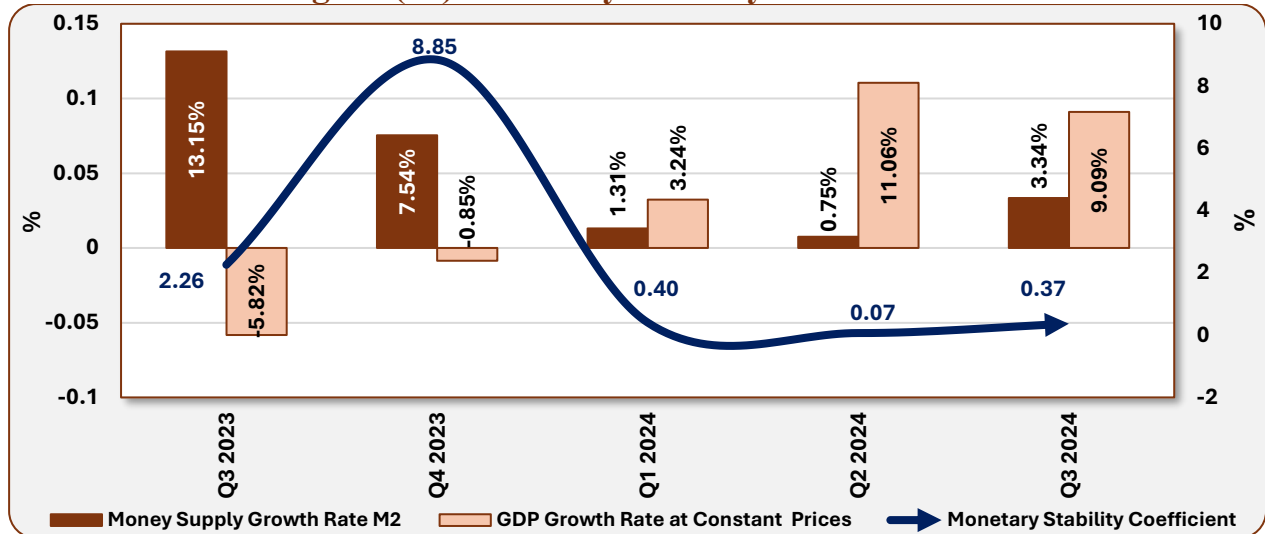


Figure (10) shows that monetary stability coefficient was (0.37%) for third quarter of 2024, indicating that the growth rate of monetary liquidity is lower than the growth rate of real GDP, meaning that the economy is not experiencing inflationary pressures.

2.1.2 Money Supply Surplus:

The criteria is used to measure the inflationary gap by calculating the difference between the change of narrow money supply M1 and the change of demand for money over a given period of time. To calculate total demand for money, the ratio between money supply to GDP at constant prices is

The gap is calculated according to the following equation:

$$G = \Delta M_1 - \frac{M_1}{GDP} * \Delta GDP \dots (2)$$

Since:

G = inflationary gap

ΔM_1 = change in money supply

ΔGDP = Change in GDP at constant prices

Money supply surplus = Inflationary gap / GDP

used multiplied by the change rate of GDP at constant prices. Thus, the inflationary gap is identified by comparing the change of money supply with the change of demand, as inflationary gap reflects the difference between supply and demand for money in the economy. The equation used to calculate is as follows:

$$\text{Inflationary gap} = \text{change in money supply} - \text{change in demand for money}^*$$

* The money demand variable refers to the money supply multiplied by the growth of output at fixed prices.

This equation helps determine whether there are inflationary pressures (when the change in money supply is greater than the change in demand) or deflationary pressures (when the opposite is true). Figure (11) shows money supply surplus.

Figure (11) Money Supply Surplus

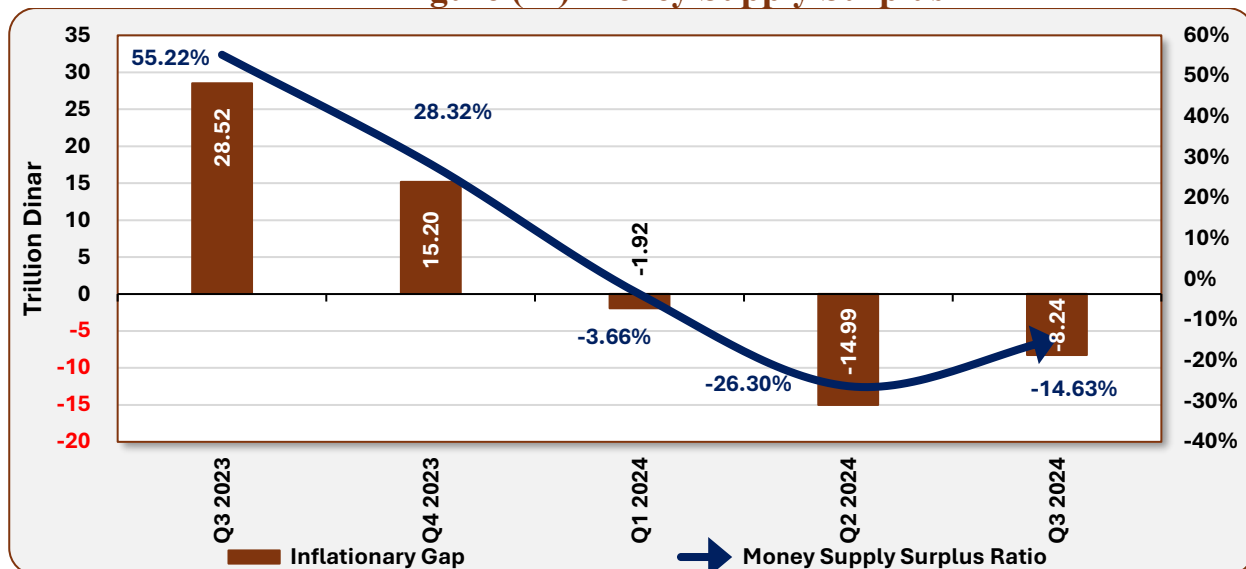


Figure (11) shows that the money supply surplus ratio decreased from 55.22% in the third quarter of 2023 to -14.63% in the same quarter of 2024. This decrease in money supply surplus coincided with a reduction in the inflationary gap, which reached -8.24 trillion dinars in the third quarter of 2024. Money supply surplus represents excessive purchasing power that is not matched by an increase in the supply size of goods and services, leading to a rise in local prices.

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

This indicator can be measured by the ratio of the change in the money supply to the ratio of the change in the price index. This ratio is an important indicator; it reflects the relative reaction degree in the money supply to the relative changes in the level of the price, and a significant increase in the money supply is usually associated with

The value of this indicator can be measured using the following equation:

$$B = \frac{\frac{\Delta M_2}{M_2}}{\frac{\Delta P}{P}} \quad \dots\dots\dots (4)$$

Where:

$\Delta P/P$: Price index growth (inflation rate).

If:

$B=1$, the economy is in a state of monetary stability.

$B>1$, the economy is experiencing inflationary pressures.

$B<1$, the economy is experiencing deflation.

higher price rates. Changes in the general prices level prompt the monetary authority to change amounts of money in economy for maintaining acceptable levels of them . Therefore, changes in the overall price level require changes in money supply to control them.

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

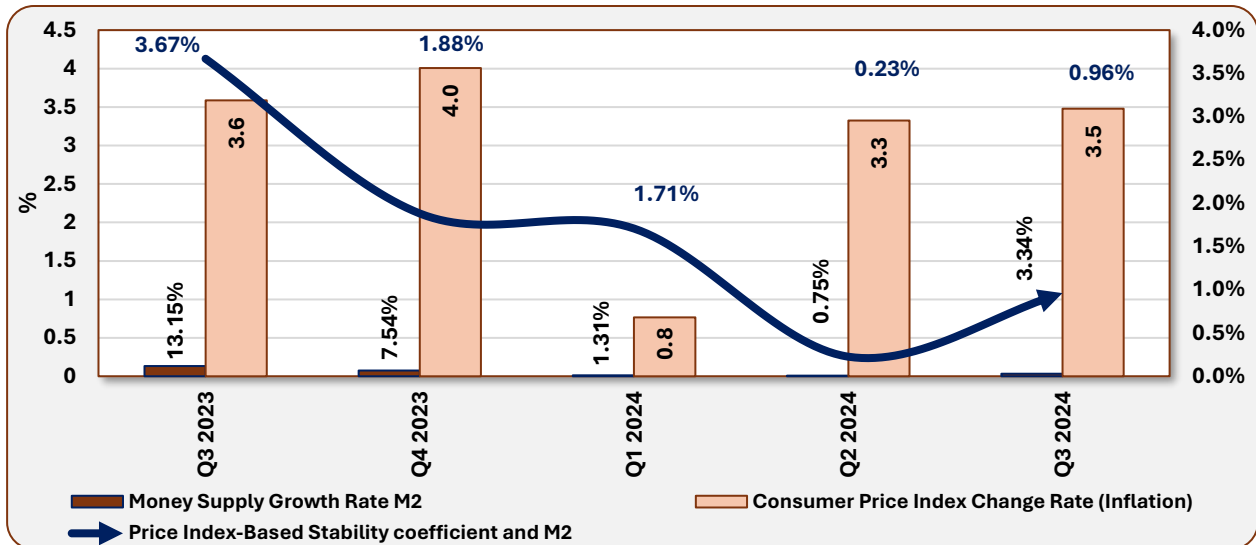


Figure (12) shows that the value of the index reached (0.96%) in the third quarter of 2024, as a result of the decrease in the growth rate of the money supply from (13.15%) to (3.35%), which means that the economy does not suffer from inflationary pressures. That is, the money supply responds to price changes without inflation in the prices of goods and services.

2.1.4 The Money Multiplier:

The money multiplier measures the banking system's ability to create the money and the impact on their size within the national economy. This is done through the process of attracting deposits. It represents the ratio of money supply (M2) to the monetary base. The greater the value of the money multiplier is than (1), the more potential there is for the banking system to create money. It expresses the amount of increase in the money supply resulting from a one-unit increase in the monetary base. Figure (13) shows the monetary multiplier values.

The money multiplier is calculated according to the following equation:

$$m = \frac{M_2}{M_0} \dots\dots (6)$$

Since: m = money multiplier

M2 = Offer money

M0 = money base

The monetary multiplier can also be referred to through the following formula:

$$m = \frac{1 + C}{r + C}$$

Since: C = Ratio of money in circulation to on-call deposits

r = Reserve Requirement Ratio

Figure (13) Money Multiplier

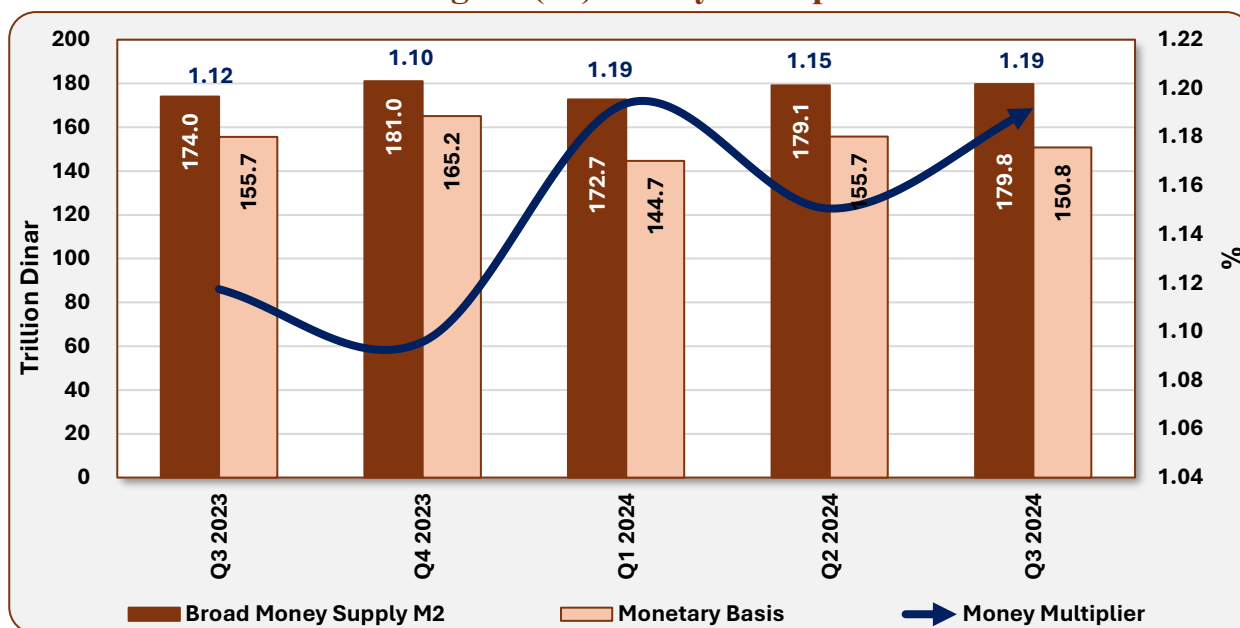


Figure (13) shows that the money multiplier recorded a slight increase from (1.12) times for the third quarter of 2023 to (1.19) times for the same quarter of 2024, which indicates the ability of the banking system to create money. This growth is attributed to the increase in the broad money supply from IQD (174) trillion to IQD (179.8) trillion, because of the increase in total bank deposits by (4.2%).

2.1.5 Size of Monetary Excess:

According to this indicator, the cause of inflation is the increase in the share of the productive unit of the amount of money above its optimal size, which leads to the emergence of monetary excess, which generates a continuous rise in the general level of prices, i.e. the occurrence of inflation. Monetary excess is the imbalance and disequilibrium between both the money supply and the

Calculated according to the following equation:

$$ME = \frac{M_2}{GDP} \quad \dots (5)$$

Since:

ME = Size of monetary excess

M₂ = money supply

GDP = GDP at constant prices

gross domestic product at constant prices. The situation in which the money supply changes upward with the stability of the size of the product will lead to monetary excess. Therefore, the monetary authorities must determine the optimal size of money to be a positive element that contributes to the trend towards economic development, not the opposite. Figure (14) shows the size of monetary excess.

Figure (14) Size of Monetary Excess

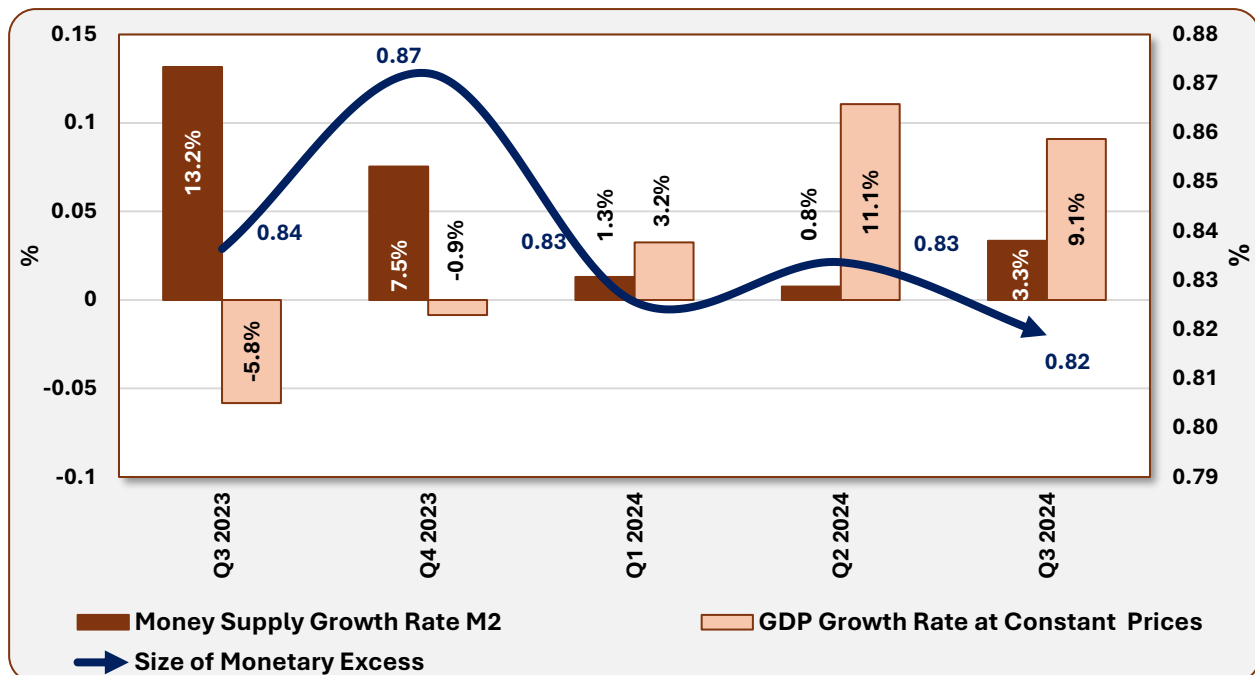


Figure (14) shows that the volume of monetary excess decreased from (84.0%) to (0.82%) for the third quarter of 2024 compared to the same quarter of 2023, which means that there are no inflationary pressures in the economy, as the GDP achieved a growth rate of (9.1%) by a greater amount than the growth rate of the broad money supply M2, which amounted to (3.3%) for the same period.

2.1.6 Velocity of Money in Circulation:

The velocity of money in circulation refers to the number of times monetary units are traded to carry out transactions (buying the output), as it is related to an inverse relationship with the amount of money in circulation, the more money available, the lower velocity of circulation of each monetary unit, and vice versa, and it is measured by dividing the GDP by the money supply. Figure 15 shows the velocity of money in circulation.

The velocity of circulation is calculated according to the following equation:

$$V = \frac{GDP}{M_2} \dots\dots (7)$$

Since:

V = velocity of circulation

M2 = money supply

GDP = GDP at current prices

Figure (15) Velocity of Money in Circulation

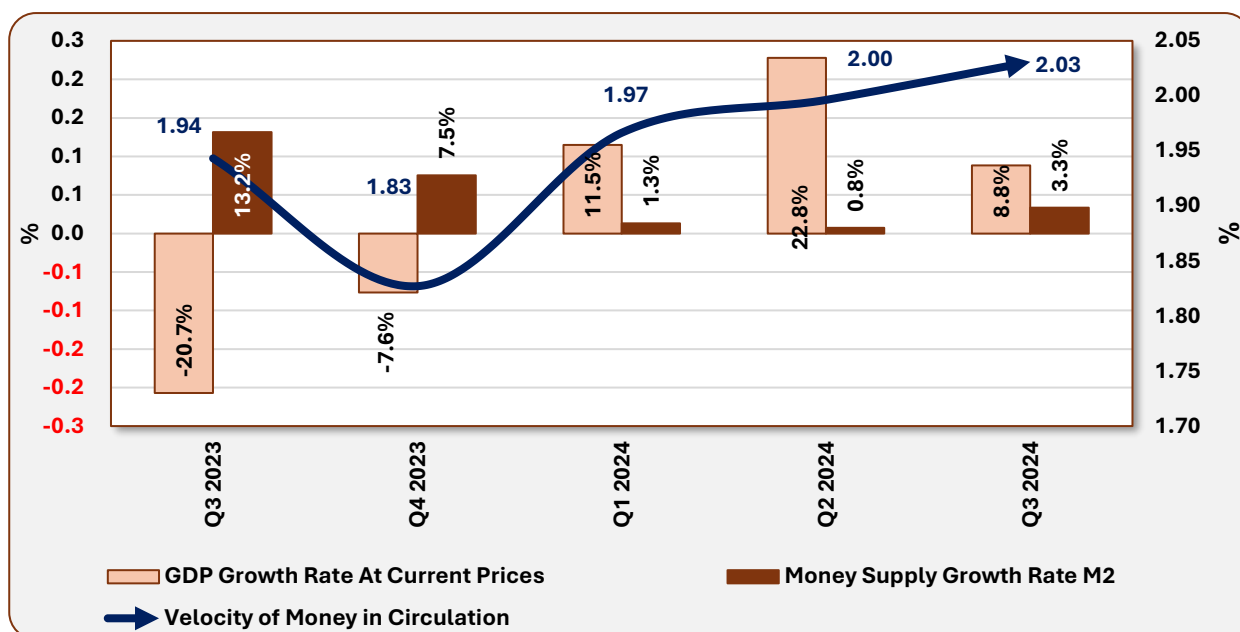


Figure (16) shows that money circulated faster in the economy in 2024, each dinar was (2.03) times to buy goods or services during the third quarter of 2024, compared to (1.94) times in the same quarter of the previous year, and the high the velocity of money in circulation is usually an indicator of an increase in economic activity, as it indicates that individuals and companies spend their money faster.

2.2 Foreign Reserve Adequacy:

2.2.1 Net Foreign Reserves to Issued Currency Ratio:

The ratio of net foreign reserves to issued currency is considered an important economic indicator used to assess the monetary authority's ability to defend the value of the domestic currency and its ability to settle external payments. This ratio indicates the size of foreign reserves held by a country compared to its issued currency in its economy.

The higher the ratio of net foreign reserves to issued currency, the greater the ability of the Central Bank of Iraq to conduct monetary sterilization, thereby affecting the foreign exchange market to protect its domestic currency from sharp fluctuations. It is preferred that the standard ratio for this indicator is not less than 100%. Figure (16) illustrates the ratio of net foreign reserves to issued currency.

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

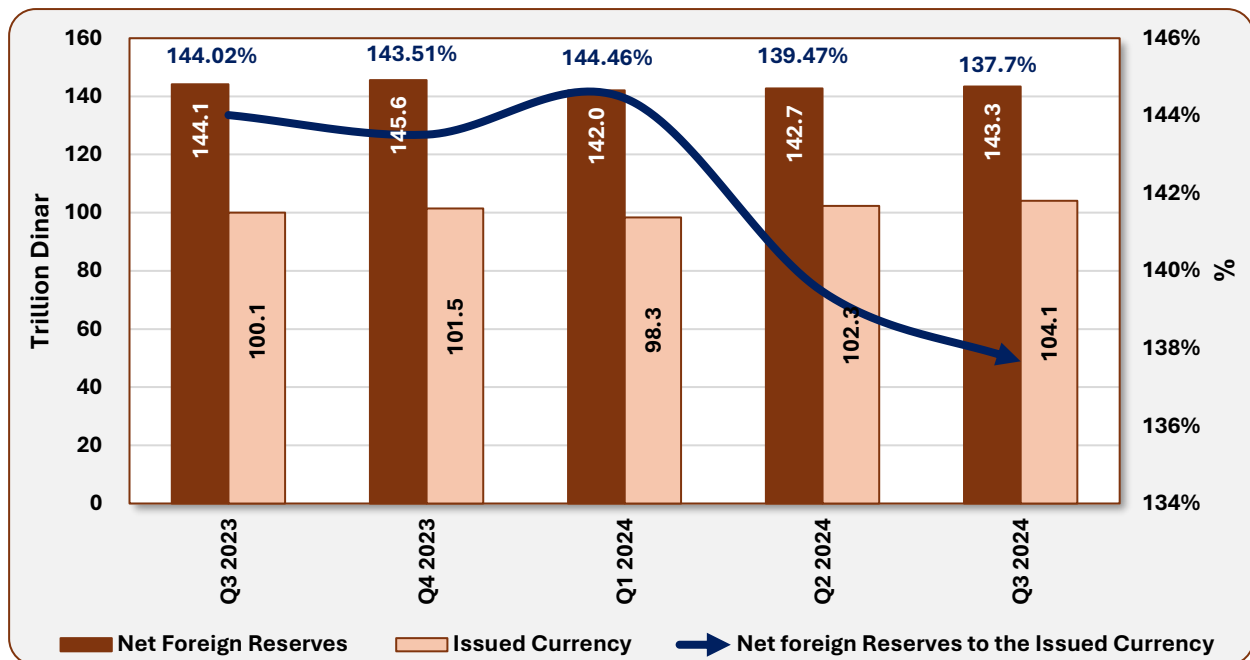


Figure (16) shows a decrease in the ratio of net foreign reserves to issued currency from (144.02%) in the third quarter of 2023 to (143.3%) in the same quarter of 2024. Despite this decrease, it remains higher than the standard ratio of (100%). This means that Iraq possesses a larger amount of net foreign reserves compared to the domestic currency in circulation, indicating that it has a surplus of net foreign reserves, although this surplus has witnessed a decrease compared to the previous year.

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

This ratio measures the net foreign reserves held by a country compared to the amount of money in circulation within its economy. Simply put, it is a comparison between 'money denominated in foreign currencies' and 'money in circulation outside the banking system and deposits.' The standard ratio is 20%, and Figure (17) illustrates the ratio of net foreign reserves to broad money supply M2.

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

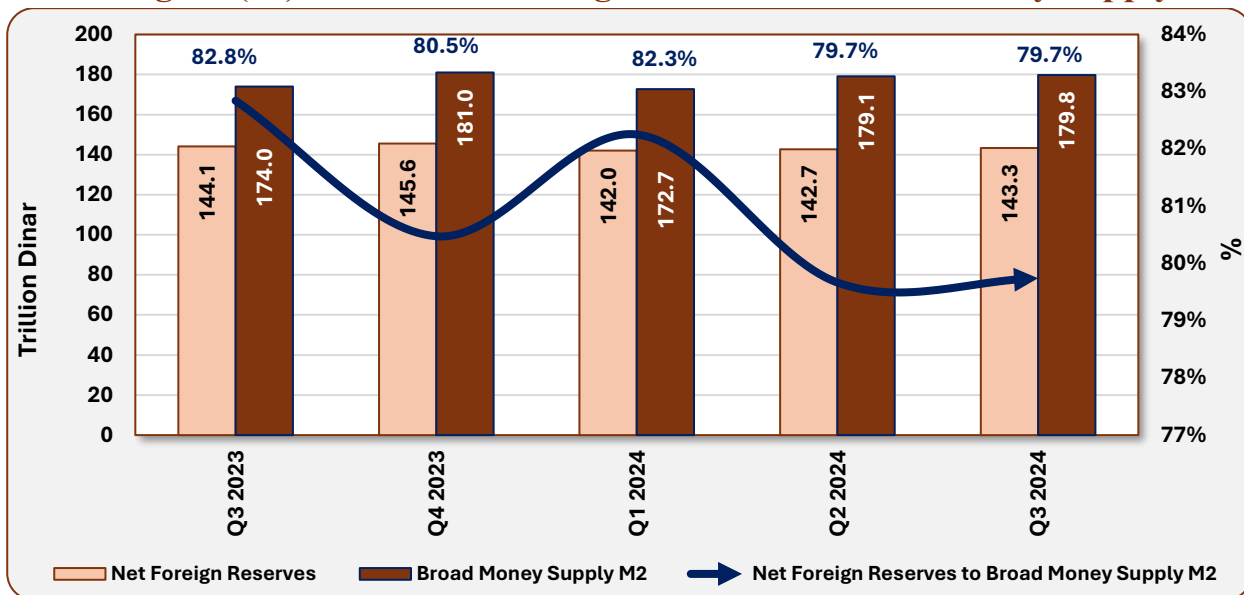


Figure (17) shows a decrease in the ratio of net foreign reserves to broad money supply (M2) from (82.6%) in the third quarter of 2023 to (79.5%) in the same quarter of 2024. This means that Iraq possesses a significant amount of net foreign reserves compared to the broad money supply (M2). Despite this decrease, it remains at a relatively safe level compared to the standard ratio of (20%).

2.2.3 Import Coverage Indicator:

Import coverage is often viewed as a measure of the number of months that imports can be sustained if all incoming foreign currency flows cease. The standard used is that this ratio should cover 6 months. Figure (18) shows the import coverage indicator.

Figure (18) Import Coverage Indicator

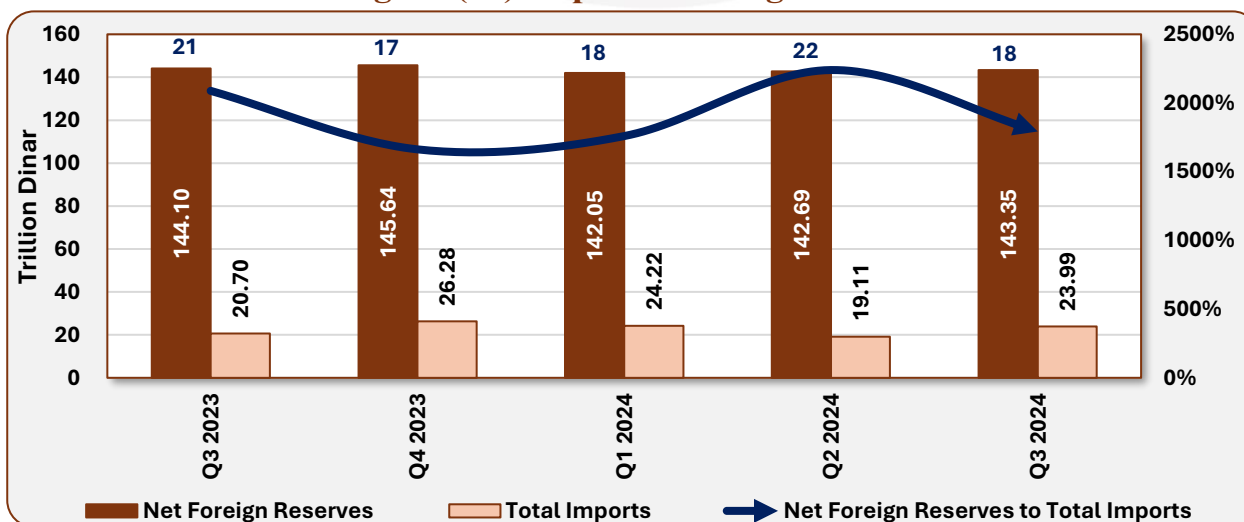


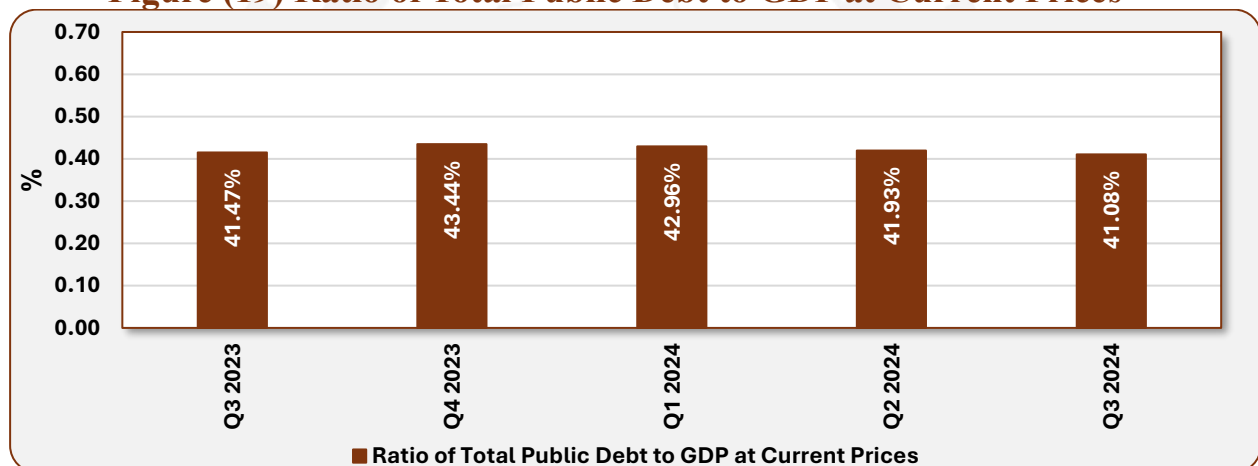
Figure (18) shows a decrease in the ratio of foreign reserves to imports from (21) months in the third quarter of 2023 to (18) months in the same quarter of 2024. Despite this decrease, Iraq's reserves cover (18) months of imports if it does not receive any oil revenues starting from the third quarter of 2024.

2.3 Fiscal Discipline Indicators:

2.3.1 Ratio of Total Public Debt to Gross Domestic Product (GDP):

A measure that illustrates the government's ability to repay its debts compared to its GDP. The internationally accepted standard is that it should not exceed (60%), although this varies from country to country based on numerous factors. However, very high levels of debt are often considered a cause for concern. Figure (19) shows the ratio of public debt to GDP at current prices.

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



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

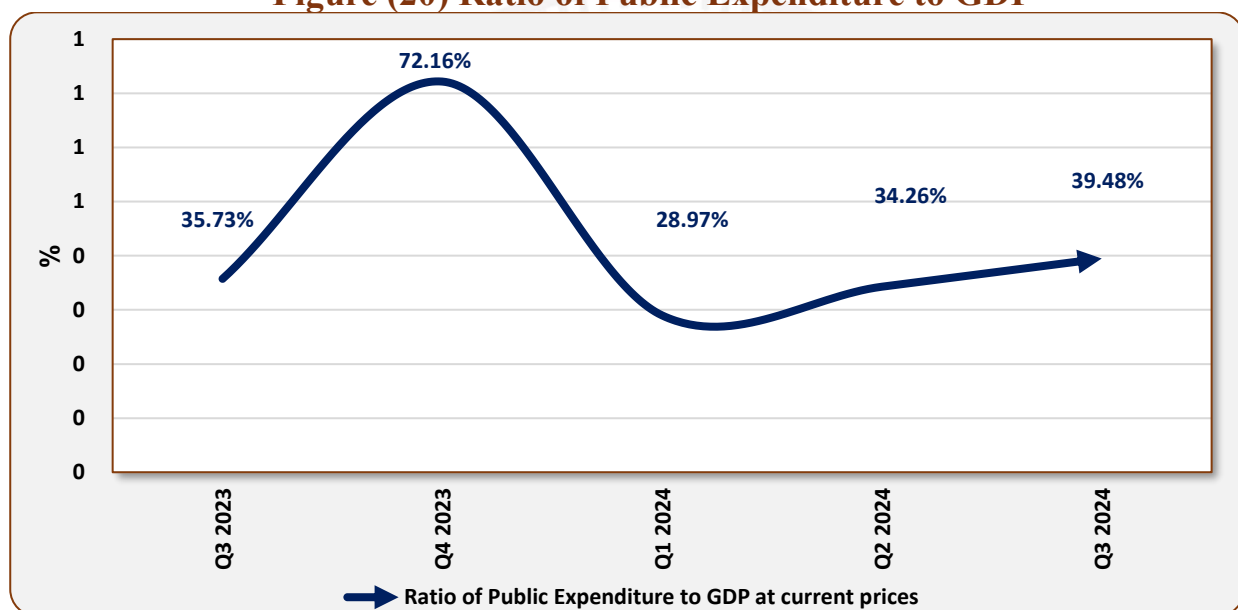
Figure (19) shows a decrease in the ratio of total public debt to GDP from (41.47%) in the third quarter of 2023 to (41.08%) in the same quarter of 2024. This is due to a greater increase in GDP at current prices compared to the increase in total public debt. GDP rose by (8.01%), while total public debt increased by (7%) over the same period. The increase in debt is due to the government's need to provide the necessary financial resources to finance public spending, which led to higher public debt levels. Consequently, if the government continues to increase public debt levels, the state will bear additional burdens in the form of debt interest, which will lead to an increase in the debt-to-GDP ratio.

2.3.2 Ratio of Public Expenditure to Gross Domestic Product (GDP):

The ratio of public expenditure to GDP is an important tool for measuring the size of government intervention in the economy and its impact on monetary stability. Policymakers must handle this ratio with caution. A significant increase in public spending without a corresponding increase in production may lead to increased demand for goods and services, which pushes prices upward (i.e., inflation).

The internationally permissible standard for this ratio is (30-35%). Figure (20) illustrates the ratio of public expenditure to GDP.

Figure (20) Ratio of Public Expenditure to GDP



* Public expenditure is considered as a flow of funds.

Figure (20) shows that the government spent (39.48%) of its GDP at current prices in the third quarter of 2024. This ratio is higher than the standard ratio, and this increase in public spending leads to an increase in aggregate demand, which in turn raises the general price level.

