



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



Monetary Stability Report

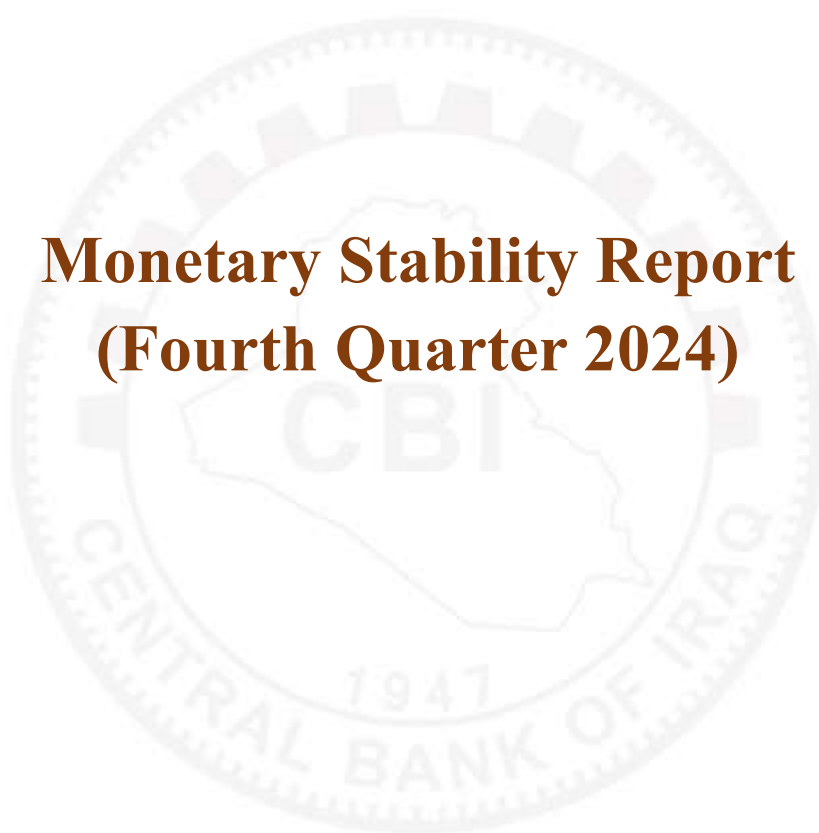
Fourth Quarter 2024

Central Bank of Iraq

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Monetary Stability Report (Fourth Quarter 2024)



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Introduction:

The Central Bank of Iraq is considered the primary authority responsible for ensuring monetary stability, which is a cornerstone for achieving sustainable economic growth and fostering confidence in the country's financial system. This stability reflects the Central Bank of Iraq's ability to effectively manage monetary policy to achieve its various objectives, such as maintaining price stability and the value of the national currency. To achieve this, the Central Bank of Iraq employs a range of conventional instruments, such as (reserve requirements, open market operations, and the discount rate), in addition to unconventional instruments when necessary. Furthermore, strengthening monetary stability contributes to bolstering confidence in the national currency and encourages increased domestic and foreign investments. Accordingly, this report aims to analyze the monetary landscape in Iraq by examining relevant monetary indicators.

Abstract:

In an effort to enhance monetary stability within the Iraqi economy, the Central Bank of Iraq (CBI) expanded its monetary sterilization operations during the last quarter of 2024. This led to an increase in cash receipts from IQD (19.36) trillion to IQD (23.44) trillion, compared to the same quarter in 2023. The Central Bank of Iraq primarily relied on its foreign exchange reserves to achieve this objective. These reserves maintained their benchmark levels, covering the country's imports for (13) months and constituting (130.1%) of the total issued currency during the same period.

Despite a (5.7%) increase in public spending, the amount of issued currency decreased by (0.9%) to IQD (100.54) trillion. This contributed to a (3.8%) decline in broad money supply (M2). Furthermore, the inflation

rate fell from (4.0%) in Q4 2023 to (2.8%) in Q4 2024. This reduction reflects the central bank's successful liquidity management, achieved by reactivating the monetary policy rate and raising the reserve requirement ratio. This decrease in the inflation rate indicates a more stable economic environment.

Regarding public finance, there's an urgent need for greater fiscal discipline from fiscal policy. This can be achieved by adopting strict fiscal rules that ensure the sustainability of public finances and link the growth of public spending to the growth of non-oil revenues. It's evident that the government spent the equivalent of (58.19%) of GDP in the fourth quarter of 2024, an increase that leads to a rise in aggregate demand.

The unchecked increase in public expenditures without sufficient revenue coverage could elevate public debt levels. Total debt rose from IQD (143.6) trillion in Q4 2023 to IQD (154) trillion in the same period of 2024. Therefore, continuing with this financial approach may exacerbate the debt burdens, so a permanent budget deficit must be avoided, and spending must be rationalized to reduce the size of the public debt and thus positively impact all monetary aggregates.

Chapter One

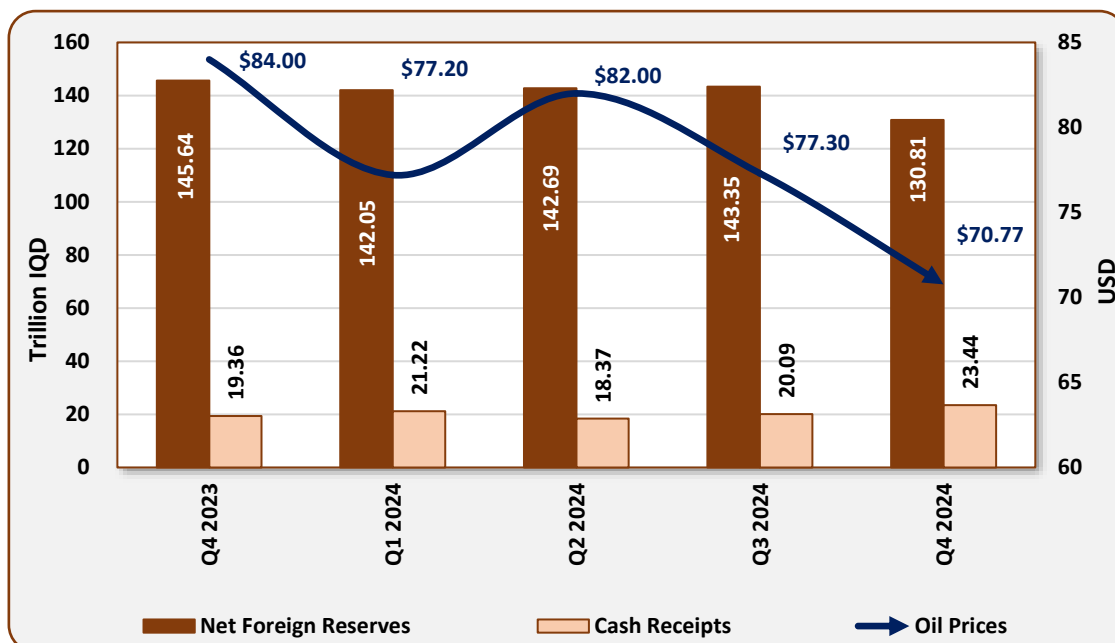
Analysis of the Evolution of Monetary Stability Changes in Iraq

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 evolution of these variables:

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 domestic 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 that net foreign reserves decreased by (10.18%) in the fourth quarter of 2024 compared to the same quarter of 2023, reaching IQD (130.81) trillion. This decrease is attributed to the Central Bank of Iraq's resort to withdrawing cash liquidity from the market by intensifying cash sterilization operations with the aim of maintaining monetary stability, which led to an increase in cash receipts from IQD (19.36) trillion to IQD (23.44) trillion during the same period. The decline in oil prices from USD (84) to USD (70.77) also contributed to reducing the volume of foreign reserves during the same period.

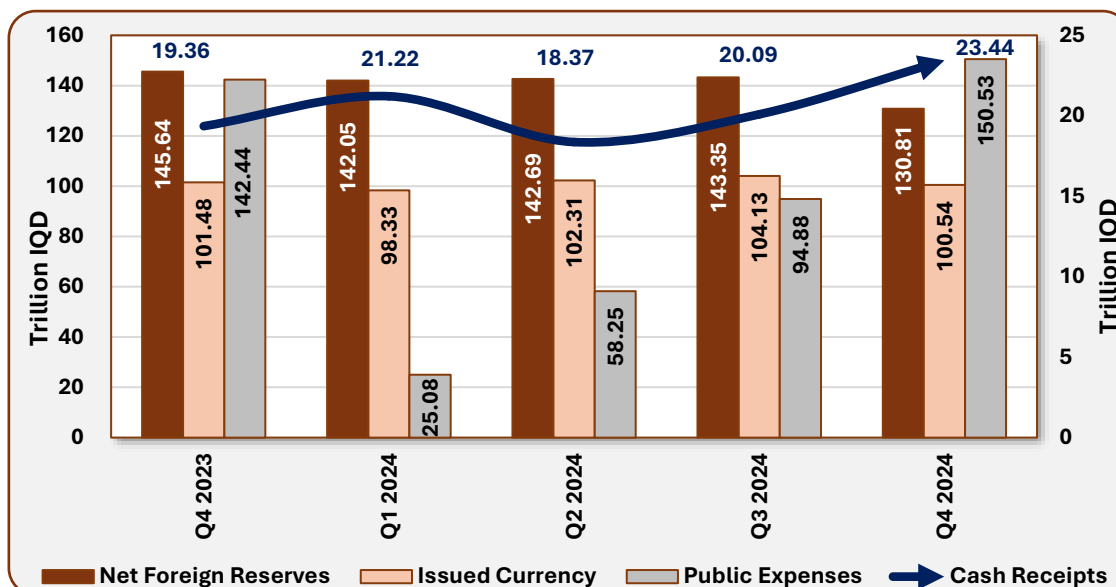
Figure (1) Cash Receipts and Oil Price Fluctuations and their Impact on Net Foreign Reserves



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, but its impact will be negative on the decrease in the size of foreign reserves. Figure (2) shows an increase in public spending by (5.7%), rising from IQD (142.44) trillion to IQD (150.53) trillion in the fourth quarter of 2024 compared to the same quarter of 2023, which required an increase in cash sterilization, so receipts rose from IQD (19.36) trillion to IQD (23.44) trillion for the same period, and this led to a decrease in the issued currency from IQD (101.48) to IQD (100.54) trillion, which depleted part of the net foreign reserves, which led to a decrease from IQD (145.64) to IQD (130.81) trillion.

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



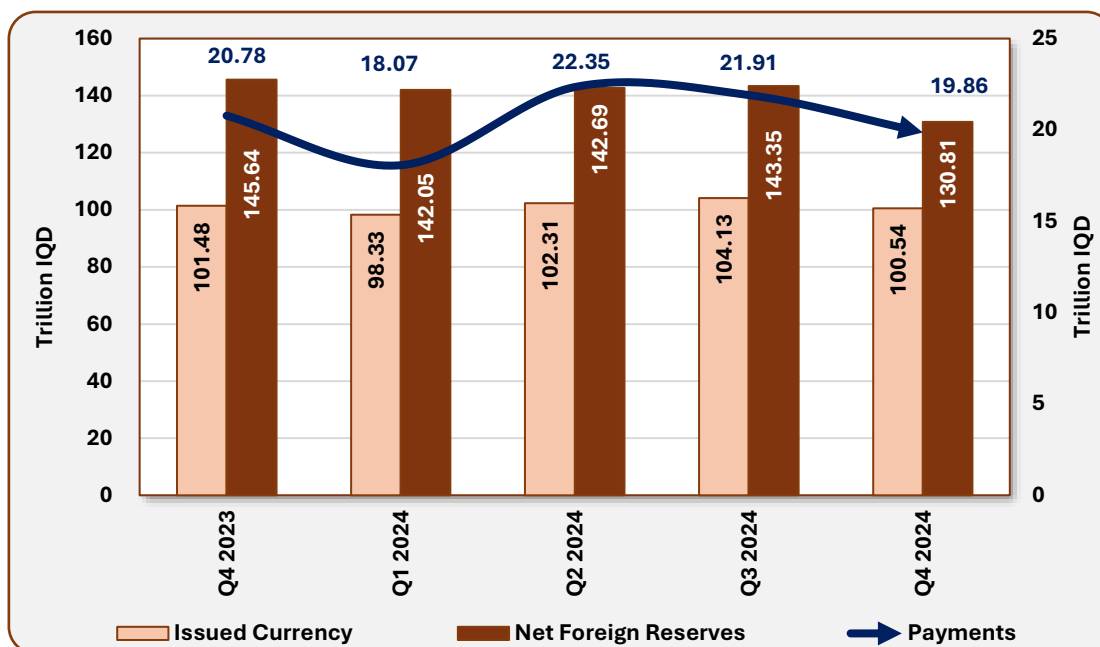
* The data mentioned is an accumulated balance and is measured by what appears at the end of the term.

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 the ministry of Finance in order 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 that cash payments decreased from IQD (20.78) trillion for the fourth quarter of 2023 to IQD (19.86) trillion for the same quarter of 2024, as a result of the decrease in oil revenues due to the decrease in oil prices, which caused a decrease in net foreign reserves from IQD (145.64) trillion to IQD (130.81) trillion in the same period. The decrease in cash payments also caused a decrease in the issued currency from IQD (101.48) trillion to IQD (100.54) trillion for the same period, and this decrease has a positive impact

on monetary stability because it does not require further monetary sterilization operations.

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

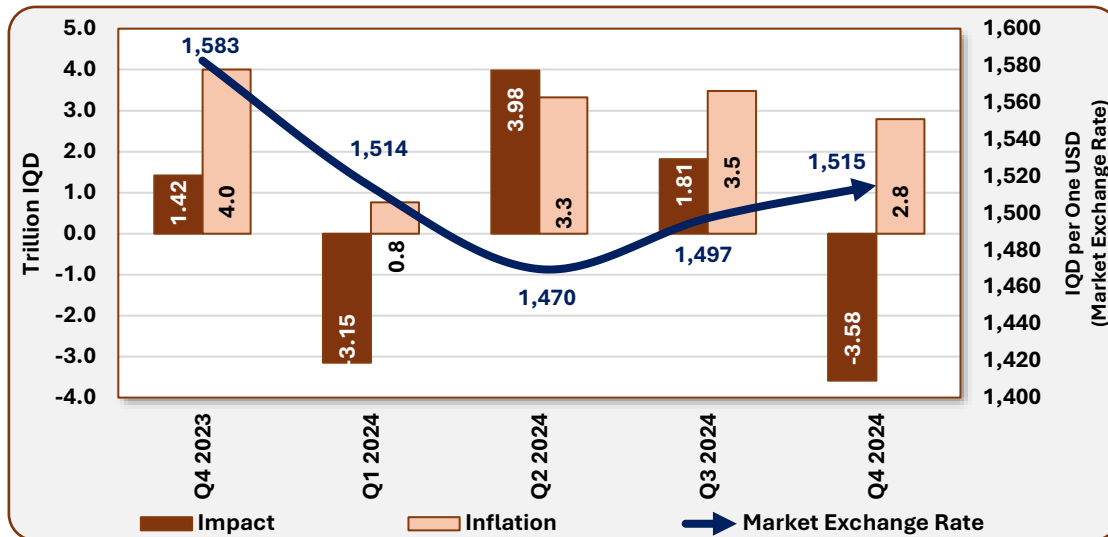


1.4 Impact Between Payments and Cash Receipts and Its Impact on Inflation and the Market Exchange Rate:

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) shows that the difference between cash payments and receipts (cash impact) decreased from IQD (1.42) trillion in the fourth quarter of 2023 to IQD (-3.58) trillion in the same quarter of 2024, indicating that the volume of cash receipts exceeded the volume of payments, as a result of increased cash sterilization operations. The inflation rate also declined from (4%) to (2.8%) during the same period, in parallel with the decline in the dollar exchange rate in the market from IQD (1,583) per one USD to IQD (1,515) per one USD during

the same period, reflecting a relative improvement in the value of the Iraqi Dinar and better monetary stability.

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



1.5 Components of the Monetary Base:

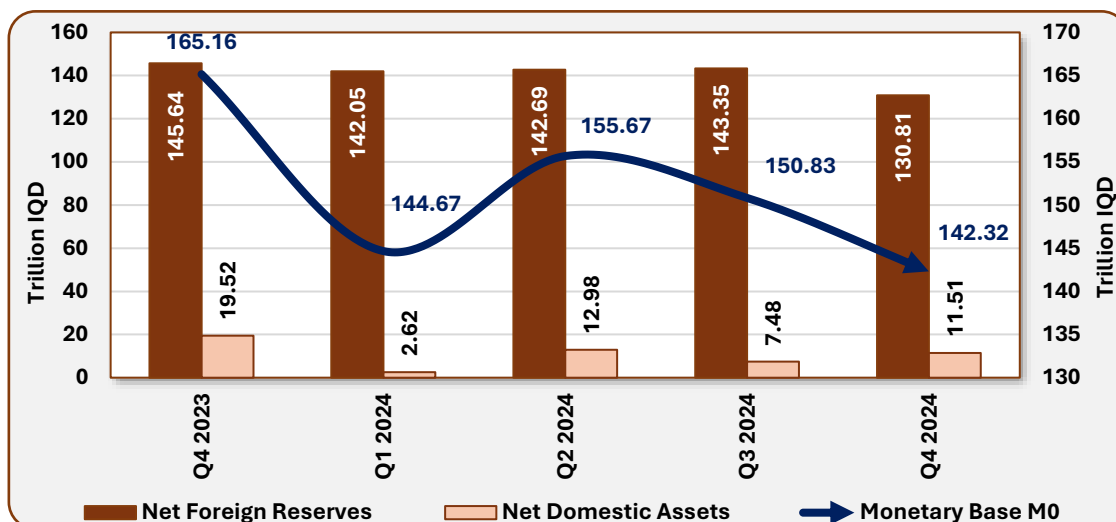
The monetary base represents the mini balance sheet of the Central Bank of Iraq and plays a crucial role in maintaining monetary stability, and it appears on both the assets and liabilities sides of the Central Bank of Iraq's balance sheet, which are as follows:

1.5.1 Monetary Base on the Assets Side of the Central Bank of Iraq's Balance Sheet:

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 monetary base. 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 base on the liabilities side. Figure (5) shows that net foreign assets decreased from IQD (145.64) trillion in the fourth quarter of 2023 to IQD (130.81) trillion for the same quarter of 2024, a decrease of (10.18%), which caused the monetary base

to decrease by (13.8%), falling from IQD (165.16) trillion to IQD (142.32) trillion for the same period. In addition to the decrease in net domestic assets from IQD (19.52) trillion to IQD (11.51) trillion.

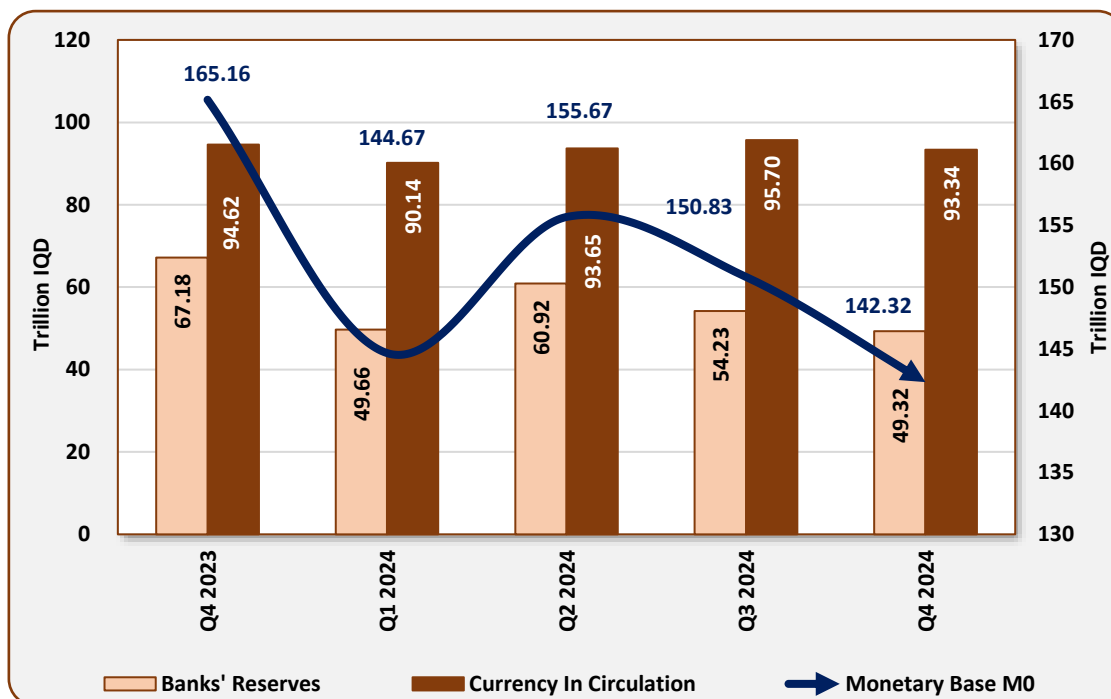
Figure (5) Net Foreign and Domestic Reserves of the Central Bank of Iraq and their Impact on Monetary Base



1.5.2 Monetary Base at the Liabilities Side of Central Bank of Iraq's Balance Sheet:

The monetary base at the liability side refers to money reserves, also called high-powered money, represented in the volume of both: the currency in circulation and banks' reserves (surplus and reserve requirement). Currency in circulation represents the bulk of the monetary base (M0) at liability side plus reserve surplus and reserve requirement. The increase of currency in circulation leads to higher monetary base. Figure (6) shows that the currency in circulation decreased by (1.3%) for Q4 of 2024 compared to the same quarter of the previous year, and that banks' reserves (surplus and reserve requirement) decreased from IQD (67.18) trillion to IQD (49.32) trillion for the same period, with a decrease rate of (26.6%) that caused the monetary base to decrease from IQD (165.16) trillion for Q4 of 2023 to IQD (142.32) trillion for the same quarter of 2024 due to the Central Bank of Iraq's policy of controlling liquidity levels to influence the general price level.

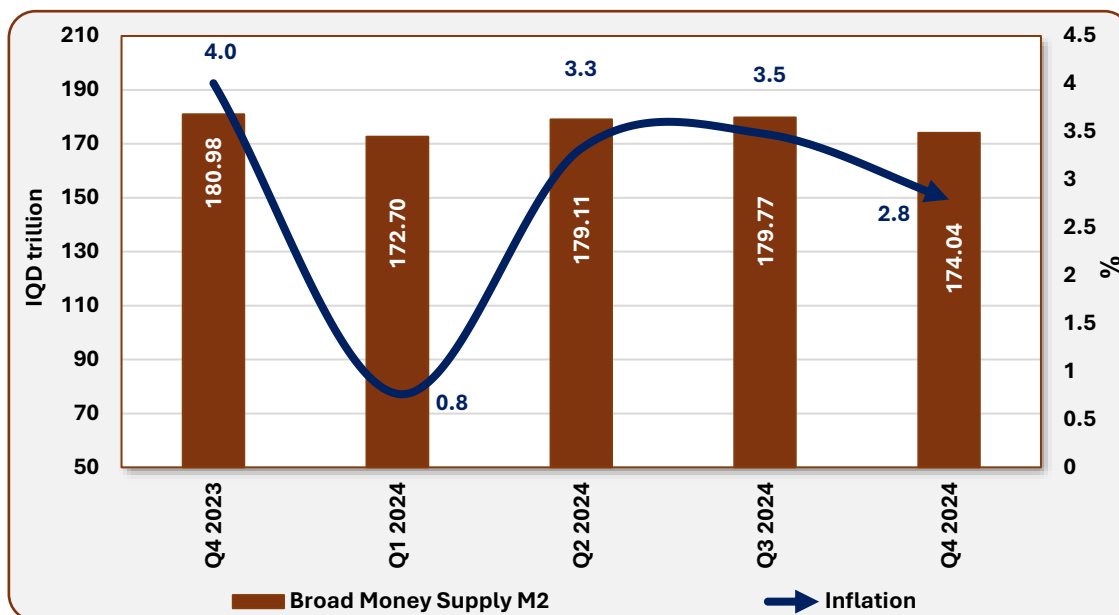
Figure (6) Currency in Circulation, Banks' Reserves, and their Impact on the Monetary Base



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

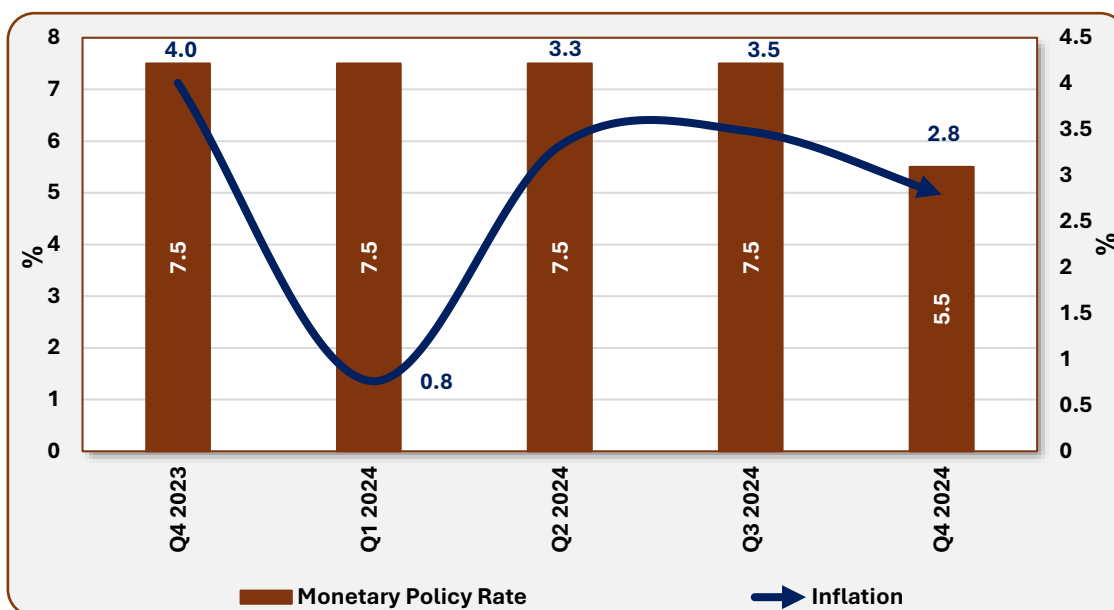
Monetary stability has been significantly affected by the volume of the money supply. When the money supply increases at a rate that exceeds real economic growth, it increases overall demand and leads to higher prices causing inflation. In contrast, if the money supply is less than the required to support 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 the money supply is balanced with the demand for money in the economy, leading to price stability, then stabilizing the value of the currency, and enhancing confidence in the financial system. Figure (7) shows a significant decrease in the broad money supply (M2) by (3.8%) for Q4 of 2024 compared to the same quarter of 2023, leading to a decrease of inflation from (4%) for Q4 of 2023 to (2.8%) for the same quarter of 2024. It indicates that the Central Bank of Iraq has succeeded in managing the money supply in an effective manner.

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



1.7 Monetary Policy Rate:

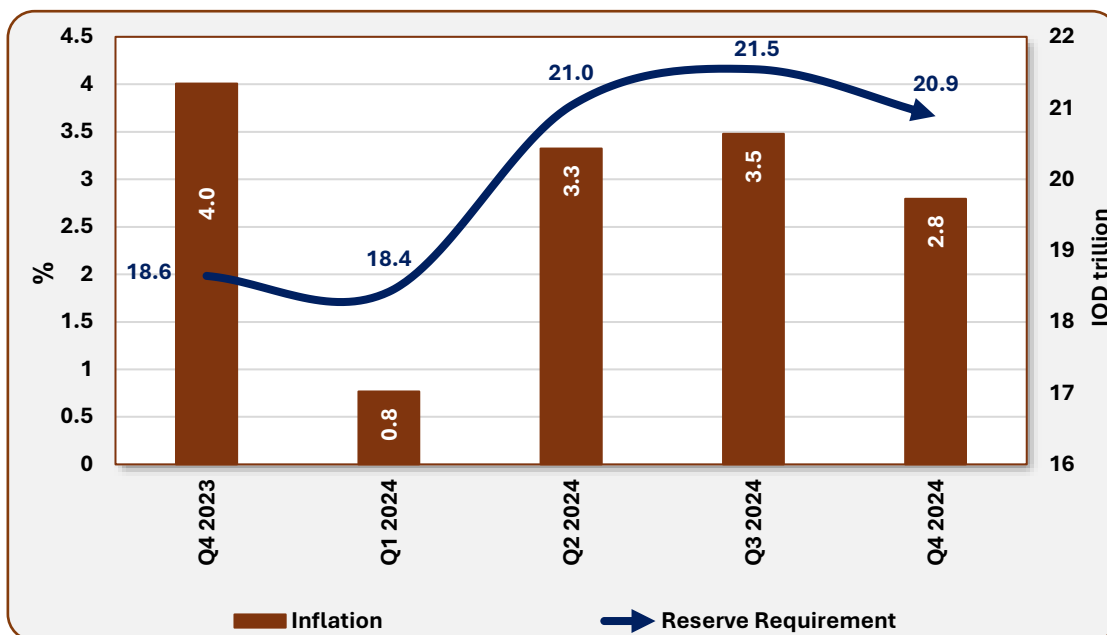
Monetary policy rate is the reference interest rate set by the Central Bank of Iraq to influence the cost of borrowing and lending in the economy, thereby controlling liquidity, inflation, and economic growth levels. The policy rate increased from (4%) to (7.5%) in June 2023. Figure (8) shows the inverse relationship between the policy rate and inflation. After the Central Bank of Iraq raised the policy rate from (4%) to (7.5%) for Q4 of 2024, the economy responded with a slowdown, but at lower inflation rates, which fell from (4%) to (2.8%) over the same period. This reduction in inflation confirms the effectiveness of monetary policy in maintaining monetary stability.

Figure (8) Monetary Policy Rate and Inflation**1.8 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 the banks' ability to lend, affecting liquidity volume and consequently inflation rate.

The Central Bank of Iraq raised the reserve requirement ratio, increasing the volume of the reserve requirement from IQD (18.6) trillion for Q4 of 2023 to IQD (20.9) trillion for the same quarter of 2024, which restricted banks in the process of granting cash credit to the private sector and contributed to greater price stability, as inflation fell from (4%) to (2.8%) for the same period. The decline in inflation supports a more stable economic environment, as shown in Figure (9).

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



Chapter Two

Analysis of the Development of Monetary Stability Indicators

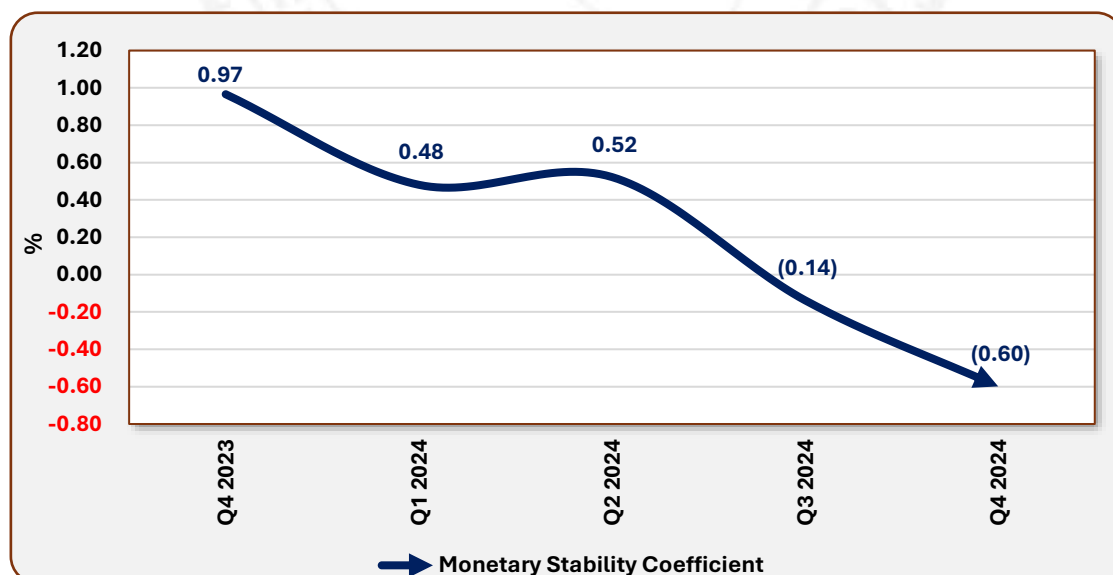
This pivot aims to provide a comprehensive view of the key indicators that are used to measure it. Special emphasis will be placed on the criteria of monetary stability, adequacy of foreign reserves, fiscal discipline, and their role in achieving monetary stability.

2.1 Monetary Stability Criteria:

2.1.1 Monetary Stability Coefficient Based on Cash Flexibility Against Changes of GDP¹:

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. Figure (10) shows that the monetary stability coefficient reached (-0.60%) for Q4 of 2024, indicating that the growth rate of monetary liquidity is less than the growth rate of real GDP, which means that the economy is not suffering from inflationary pressures.

Figure (10) Monetary Stability Coefficient

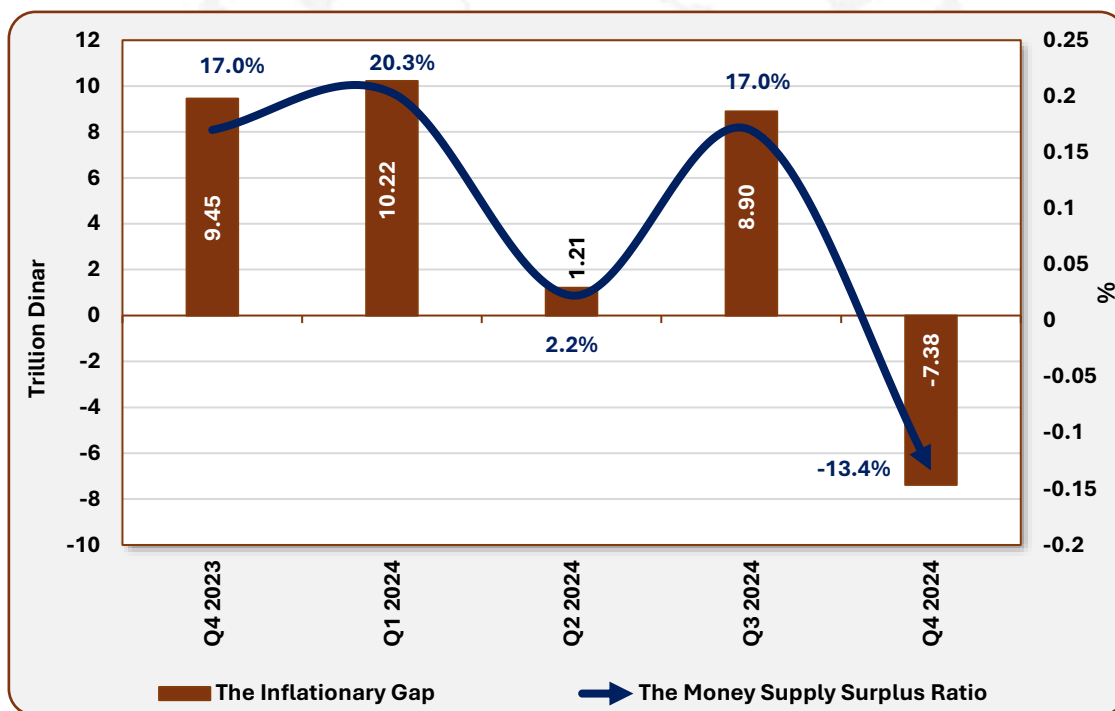


(1) For more information, see Monetary Stability Report Q3 /2024.

2.1.2 Money Supply Surplus²:

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. Figure (11) shows that the percentage of surplus money supply decreased from (17 %) for the fourth quarter of 2023 to (-13.4%) in the same quarter of 2024. This decrease in money supply surplus coincided with a reduction in the inflationary gap, which reached IQD (-7.38) trillion for the same 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.

Figure (11) Money Supply Surplus

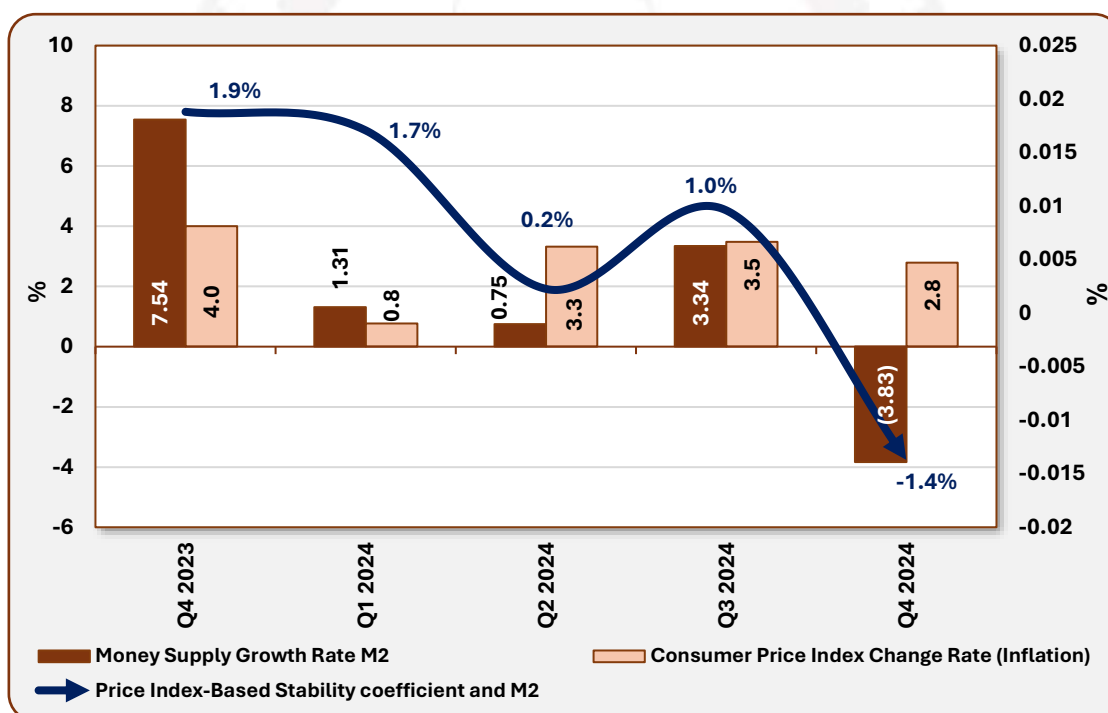


(2) For more, see the monetary stability report, third quarter/2024.

2.1.3 Monetary Stability Coefficient Based on the Elasticity of the Money Supply to Price Changes³:

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. Figure (12) shows that the value of the index reached (-1.6%) in the third quarter of 2024, as a result of the decrease in the growth rate of the money supply from (7.5%) to (-4.3%), 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.

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

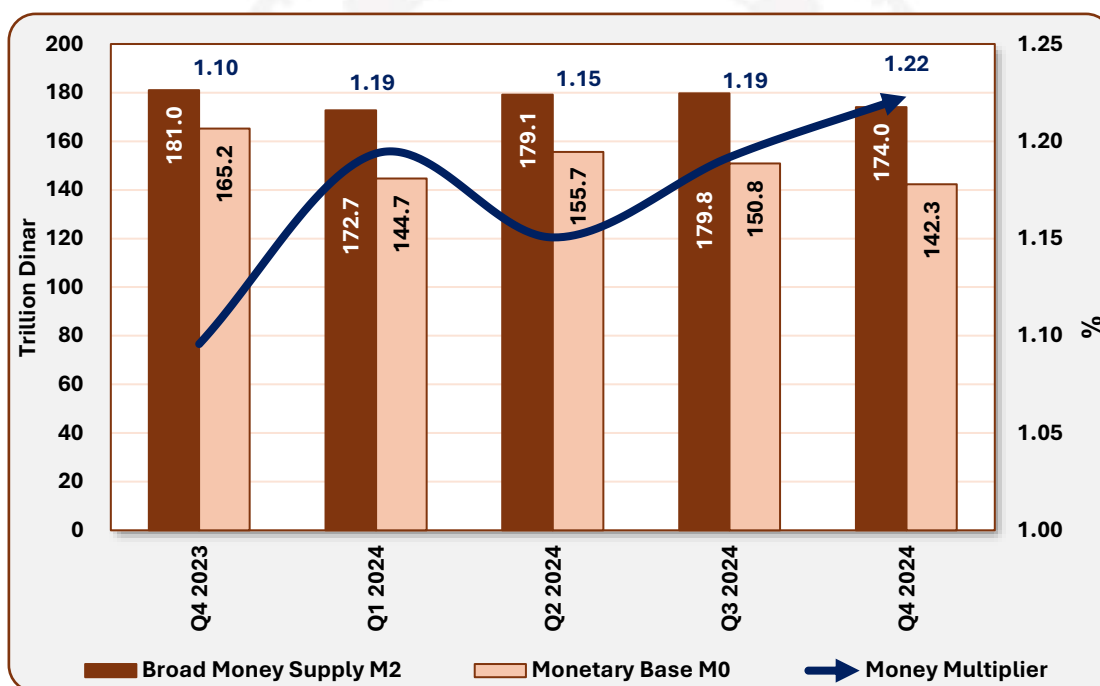


(3) For more, see the monetary stability report, third quarter/2024.

2.1.4 The Money Multiplier ⁴:

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. Figure (13) shows that the money multiplier recorded a slight increase from (1.10) times for the fourth quarter of 2023 to (1.22) times for the same quarter of 2024, which indicates the ability of the banking system to create money. This growth is attributed to a decrease in the monetary base from IQD (165.2) trillion to IQD (143.3) trillion.

Figure (13) The Monetary Multiplier Values



2.1.5 Size of Monetary Excess⁵:

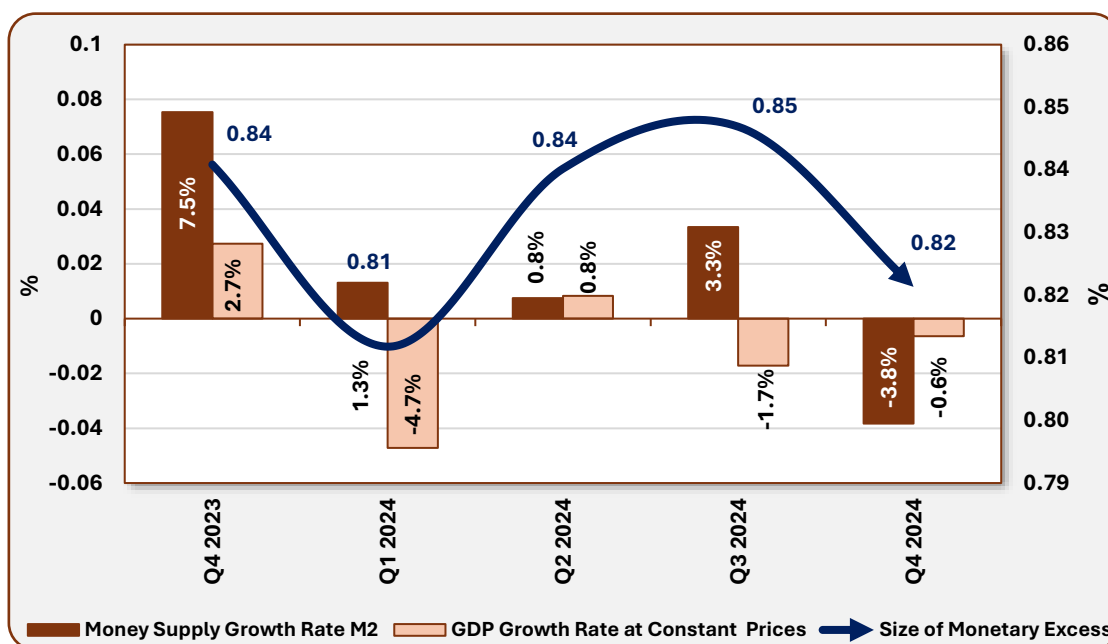
According to this indicator, the cause of inflation is the increase in the share of the productive unit of the amount of money above its optimal size, which leads to the emergence of monetary excess, which generates a continuous rise in the general level of prices, i.e. the occurrence of

(4) For More Information, See the Monetary Stability Report, Third Quarter/2024.

(5) For More Information, See the Monetary Stability Report, Third Quarter/2024.

inflation. Figure (14) shows that the volume of monetary excess decreased from (0.84%) to (0.82%) for the fourth 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 (0.6%) by a greater amount than the growth rate of the broad money supply M2, which amounted to (3.87%) for the same period.

Figure (14) Size of Monetary Excess

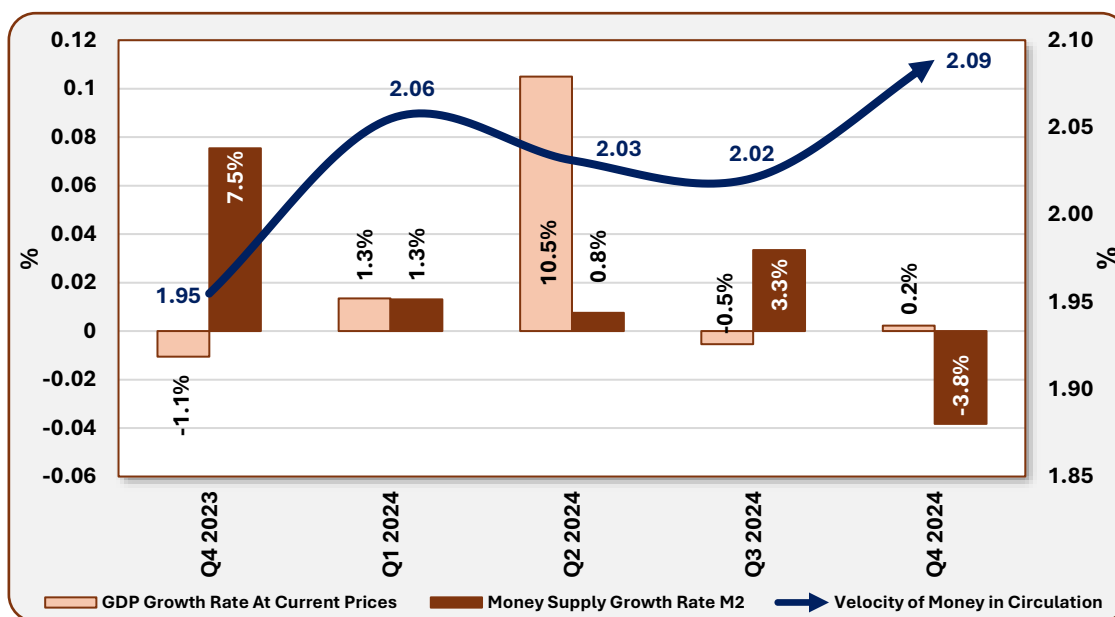


2.1.6 Velocity of Money in Circulation⁶:

The velocity of money in circulation refers to the average number of times that each dinar in the money supply is used to purchase a good or service that included in GDP, as it is related to an inverse relationship with the amount of money in circulation. Figure (15) shows that money circulated faster in the economy in 2024, each dinar was (2.09) times to buy goods or services during the fourth quarter of 2024, compared to (1.95) times in the same quarter of 2023, 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.

(6) For More Information, See the Monetary Stability Report, Third Quarter/2024.

Figure (15) Velocity of Money in Circulation



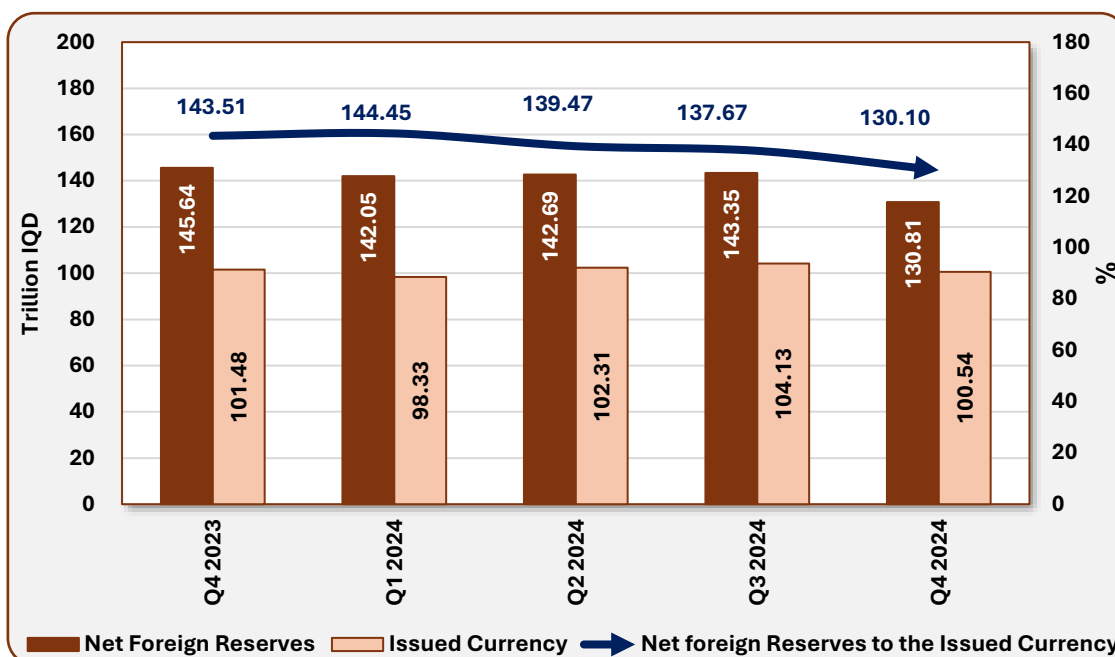
2.2 Adequacy of Foreign Reserves:

2.2.1 Ratio of Net Foreign Reserves to Issued Currency:

The Coverage of issued currency by the foreign reserves held by the Central Bank of Iraq is critically important. Adequate reserves are crucial for safeguarding the domestic currency's value against depreciation and maintaining acceptable inflation levels. A higher ratio of net foreign reserves to issued currency significantly enhances the Central Bank of Iraq's capacity for monetary sterilization. This, in turn, allows it to effectively intervene in the exchange market and shield the domestic currency from sharp fluctuations. It is preferred that the standard ratio for this ratio is no less than (100%).

As depicted in Figure (16), the ratio of net foreign reserves to issued currency witnessed a decrease from (143.51%) in the fourth quarter of 2023 to (130.1%) in the same period of 2024. Despite this decline, the ratio comfortably remains above the (100%) standard ratio. This indicates that Iraq maintains a substantial surplus in net foreign reserves relative to its issued domestic currency, even though this surplus has somewhat diminished compared to the preceding year.

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

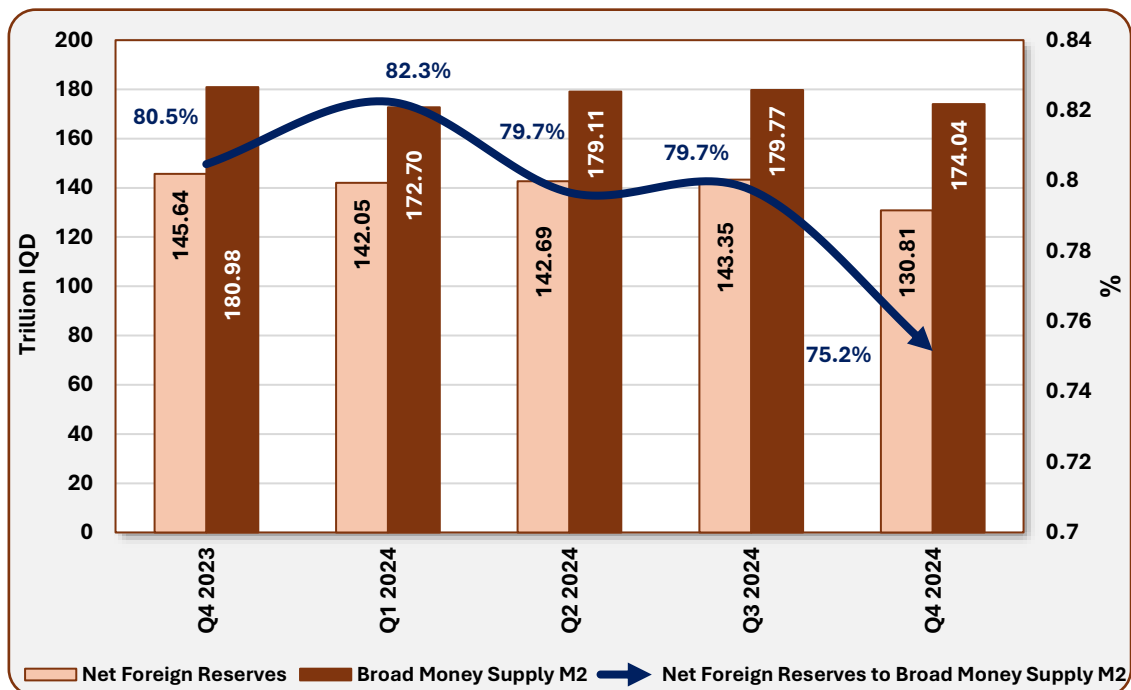


2.2.2 Ratio of Net Foreign Reserves to Broad Money Supply (M2):

This metric assesses a nation's net foreign reserves against the total money supply circulating within its economy. Essentially, it compares "foreign currency holdings" with "currency outside the banking system and deposits." The standard ratio is (20%).

As depicted in Figure (17), the ratio of net foreign reserves to broad money supply (M2) experienced a decline from (80.5%) in the fourth quarter of 2023 to (75.2%) in the same quarter of 2024. Despite this decrease, the ratio remains at a relatively secure level when compared to the (20%) standard ratio. This indicates that the volume of net foreign reserves is sufficient to bolster the currency's value.

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

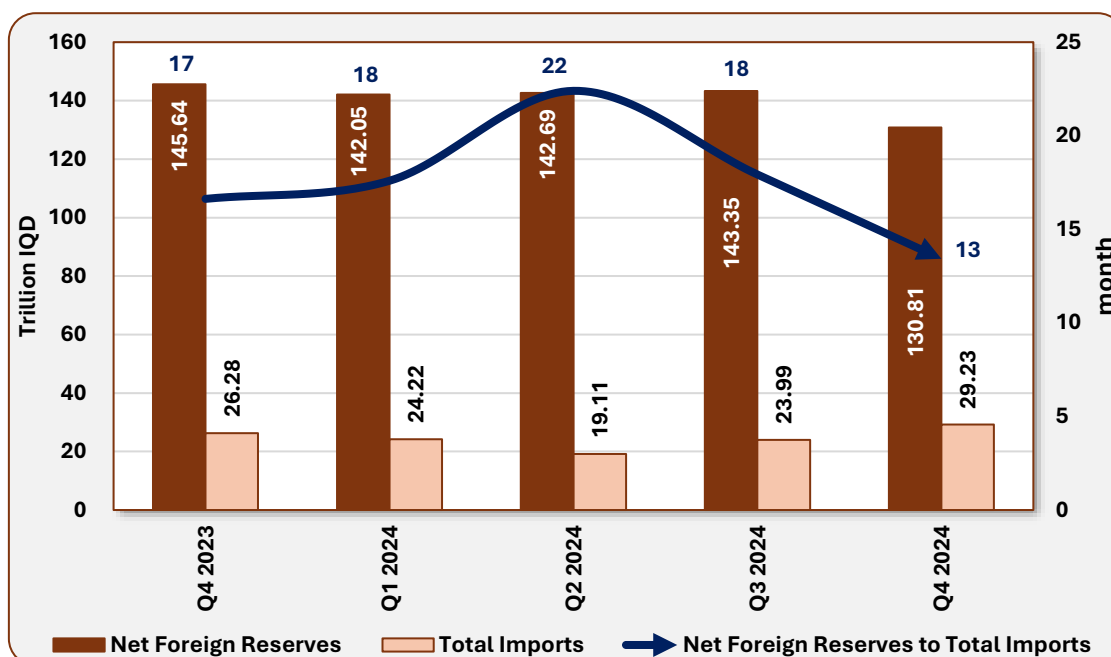


2.2.3 Import Coverage Indicator:

The Import Coverage Indicator is frequently regarded as a crucial metric, quantifying the number of months a country's imports can be sustained if all foreign currency inflows were to cease. The widely accepted standard ratio for this ratio is (6) months.

As illustrated in Figure (18), a decline was observed in the ratio of foreign reserves to imports, dropping from (16) months in the fourth quarter of 2023 to (13) months in the corresponding quarter of 2024. Notwithstanding this reduction, Iraq's existing reserves remain robust, capable of covering (13) months of imports even in the absence of any new foreign currency revenues, based on data from the fourth quarter of 2024.

Figure (18) Import Coverage Indicator



2.3 Fiscal Discipline Indicators:

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

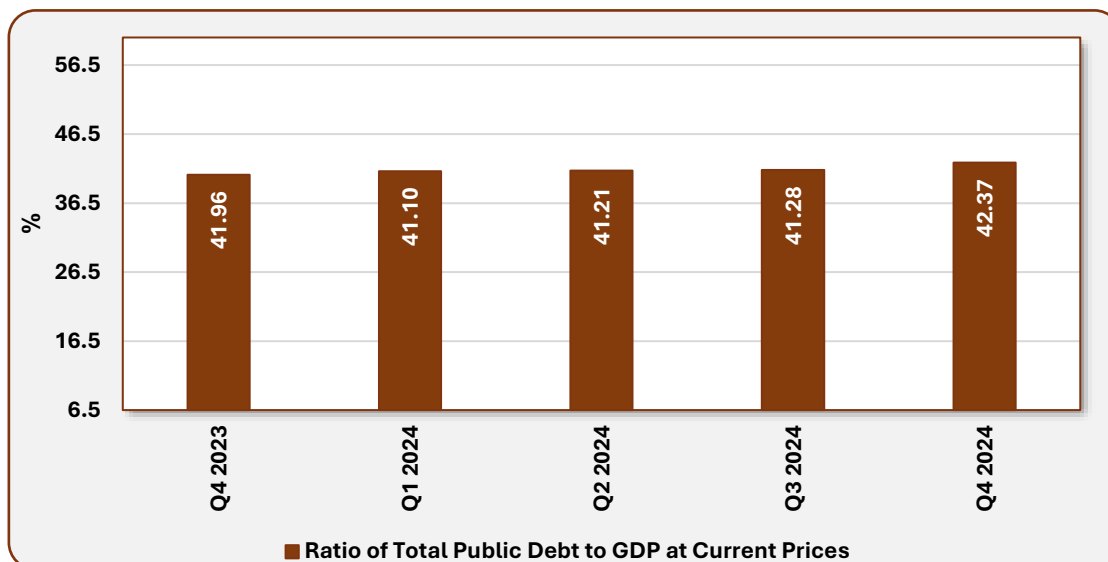
This metric assesses a government's capacity to service its debt obligations relative to its Gross Domestic Product (GDP). The internationally recognized standard ratio, though subject to country-specific nuances, generally stipulates that this ratio should not exceed (60%)⁷. However, persistently high debt levels are frequently a cause for significant concern.

Figure (19) illustrates an increase in the total public debt-to-GDP ratio, climbing from (41.96%) in the fourth quarter of 2023 to (42.37%) in the same quarter of 2024. This is primarily attributable to a more substantial rise in total public debt compared to the growth in GDP in current prices; while GDP expanded by modest (0.22%), total public debt surged by (7.2%) over the identical period. This increased indebtedness stems from the government's need to secure financial resources to fund public expenditure,

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

which caused an increase in public debt. Consequently, a continued increase in public debt rates will impose additional burdens on the state in the form of debt interest payments, thereby further escalating the debt-to-GDP ratio.

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

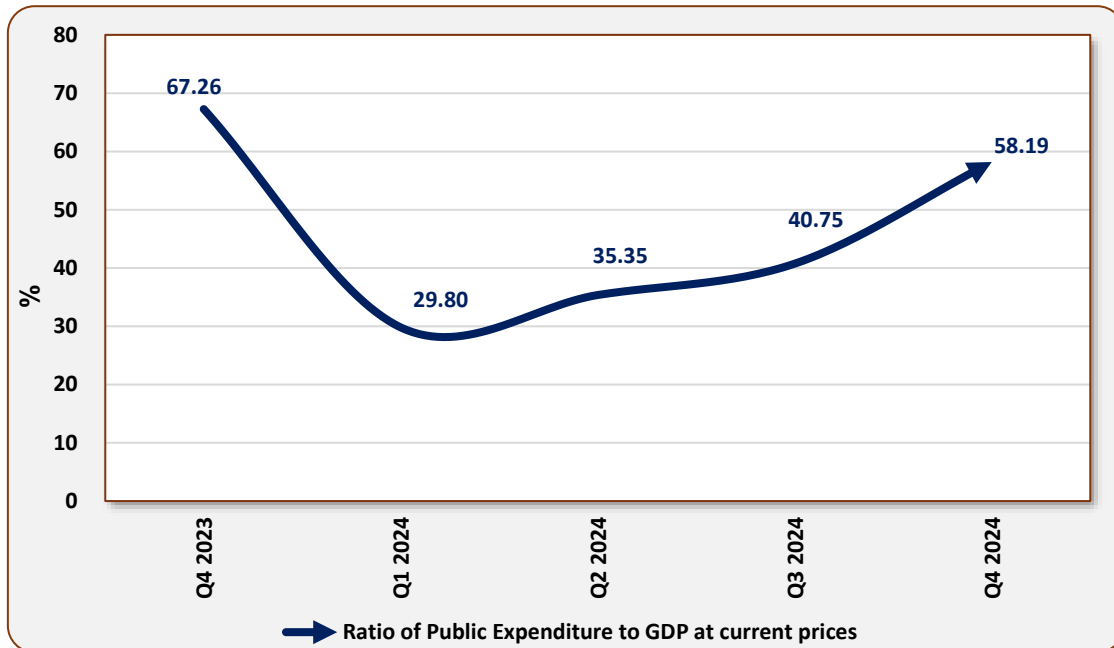


* This indicator is calculated by dividing the total debt by the GDP for the current quarter, plus the three preceding quarters.

2.3.2 Ratio of Public Expenditure to (GDP):

The ratio of public expenditure to Gross Domestic Product (GDP) is a crucial tool for gauging the extent of government intervention in the economy and its impact on monetary stability. Policymakers must approach this ratio with caution, as a significant increase in public spending without a corresponding rise in production can lead to an amplified demand for goods and services, consequently driving up prices (i.e., inflation).

Figure (20) illustrates that the ratio of public expenditure to GDP decreased from (%67.26) in the fourth quarter of 2023 to (58.19%) in the same quarter of 2024. This indicates that the government spent (%58.19) of its GDP in current prices in the fourth quarter of 2024. This trend underscores the significant role played by the Central Bank of Iraq in defending the currency's value, despite the rise in overall public expenditure.

Figure (20) Ratio of Public Expenditure to GDP

* Public expenditure is considered as a flow of funds.

