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Monetary Policy and Its Role in Economic Development: Iraq as a Model

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Introduction

Monetary policy is an important macroeconomic policy that plays an important and effective role in regulating the money supply and controlling cash liquidity and credit. Through this important role, monetary authorities represented by the central bank as the highest monetary authority can achieve specific vital goals according to priorities which determined by the problem that the economy suffers from. The monetary policy in Iraq has not witnessed a significant improvement in its required role, as this is due to the difficult conditions that Iraq has gone through at the political and economic levels. It has contributed to weakening its role in achieving economic stability in Iraq. However, the change of the political system in April 2003 and the ensuing years and the Central Bank's obtaining independence under the Law 56 of 2004 made monetary policy an important tool in influencing the Iraqi economy in a new way that is completely different from the previous, thus the central bank was able to adopt this policy to reach to the economic goals which have an important role in influencing the economy and then the society. It is important to mention that monetary policy is an important and effective policy in achieving economic development which cannot be overlooked in setting the required economic plan, as this does not mean that it has the full capacity to do so because it is part of the overall the collective economic policies that work to achieve the goal that the economic policy planners and seek in the country, as it is the economic stability, so this needs an economic vision and philosophy in which monetary policy plays a major role.

Keywords: Monetary Policy, Role in Economic Development, Iraq as a Model

The research hypothesis:

The research hypothesis set out from the view that (monetary policy has a positive role in influencing economic development and hence on the economy as a whole).

The research Problem:

The obstacles to the economic development lead to delay and lack in the development of the economy, therefore this is reflected in the economic well-being for the society, from the presence of sterile methods and policies that may lead to a deterioration of the economic situation. Therefore, studying these policies, including monetary policy in Iraq, is an in-depth study which is necessary to know its impact on economic development, that the discovering of the potentials of its success and its failures to avoid future economic problems.

The research of the goals:

The research is aiming to as follows:

1- Theoretical description to monetary policy tools.
2- A theoretical description of economic development and its theories.
3- An analytical description of the impact of monetary policy on economic development.

The research resources:

The researcher relied on historical sources that adopt monetary policy, as well as on sources that pertain to the Iraqi situation and the Iraqi economy.

Temporal and spatial limits for research:

As for the temporal limits, they were linked to monetary policies in Iraq, before and after 2003.

The spatial limits of the research which are the Iraqi economy and the monetary policy effectiveness in achieving economic development.

The Research Structure:

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With the intention of reaching the goal of the research, the research was divided into three chapters. The first chapter was devoted to discuss the theoretical framework of monetary policy in two topics, the first topic included what is monetary policy, while the second topic included monetary policy objectives and its tools.

As for the second chapter, as it is the general framework for economic development, as the second chapter was divided into two topics, the first topic included the concept of economic development, while the second topic included a study of theories and requirements of economic development in a brief way.

As for the third chapter, it came under the title of the developmental role of monetary policy in Iraq, as the third chapter was divided into two topics, the first one included the developmental reality in Iraq, while the second topic included the role of monetary policy in development in Iraq, as the research is ending with conclusions and recommendations and the Arabic book as references.

The first Chapter

Theoretical framework for monetary policy

The first topic

What is monetary policy?

Monetary policy is a tool of general economic policy that the state uses in addition to general economic policies such as financial policy, price policy, trade policy and wage policies to influence the level of economic activity through its impact on the central variables of this activity such as investment, prices, production and the income [)1]. [(]
There are several concepts of monetary policy, including what expresses about monetary policy as the effect of the central bank on the amount of money in society and its impact on the volume of credit, it can also affect the benefit rate, and therefore it would have effects on investment and economic activity in society [)2 ·] [(]Therefore, monetary policy can be defined as managing and adapting cash and exchanging it internationally, determining the size and availability of credit, also changing its cost and destination by specific means in order to achieve specific economic, social and policy goals[)3(]. So monetary policy can be defined as a set of monetary procedures that seek to achieve monetary and non-monetary goals and non-monetary measures to achieve monetary goals[)4].[(]As the monetary authorities seek through these measures to inject the economy with the desired cash quantity as to leak or absorb the unwanted cash amount.

Monetary policy has two broad and narrow meanings:

Monetary policy, in its narrow meaning, can be defined as a set of measures that which adopted by monetary management to regulate the monetary mass [)5].[(]Or, it is the procedures that the monetary authorities use to monitor the money supply with the intention of achieving certain economic goals. In this sense, the economist "Kent" has defined as it is the set of methods that have used by the monetary administration to monitor the money supply in order to achieve a specific economic goal as the goal of full use, in this sense, it includes the expansion and contraction of the volume of cash in circulation in order to reach specific goals [)6]. [(] As for the monetary policy in its broad sense, it includes all monetary and banking regulations because of its influential role in monitoring the volume of available cash in the economic system, in this sense, it includes all the measures that are taken by the government, the central bank and the treasury in order to influence the amount, availability and the use of cash and credit[)7] . [(] Monetary policy can be used to tackle the inflation and eliminate the inflationary gap, when it was found. This comes through the Central Bank seeking to reduce the volume of cash in circulation to curb aggregate demand and reduce the ability to purchase. Here, the government seeks to reduce the money circulating in the hands of the public and the banking system, through the multiplier mechanism, by adversely affecting the components of the money supply[) 8].[(] Thus we notice that the task of monetary policy does not stop at the limits of control over the amount of the currency issued and the offer the credit to form also the borrowing policy for the government sector because the latter have clear implications for the money supply as the monetary authorities do not find it very difficult to regulate the amount of cash issued by the central bank because the latter is the one that control and bears the total of the currency in

)1(Dr. Awad Fadel Ismail Al-Dulaimi, Money and Banking, Dar Al-Hekma for Printing and Publishing, Mosul, 1990, p. 583.
)2(Malath Majeed Banana, the slowdown in monetary policy and its implications for economic activity;
)3(Dr. Khamis Khalaf Musa Al-Fahdawi, Dr. Mazen Issa Al-Sheikh Radi, Economic Development, House of Books and Documentation, Baghdad, 2000, p. 27..
)4(Malath Majeed Banana, previous source, p. 5.
)5(Dr. Wadad Younis Yahya, previous source, p. 129.
)6(Dr. Awad Fadel Ismail Al-Dulaimi, previous source, p. 583.
)7(ibid, p. 584.
)8(Jamal Khreis, Ayman Abu Khudair, Imad Khasawneh, Money and Banking, First Edition, Al Masirah Publishing House, Amman (Jordan), 2002, p. 111..

circulation, but the matter differs according to banking money that commercial banks create by providing credit to the non-banking sector, from here the control of the credit control the essence of monetary policy [1]. Therefore, monetary policy must establish a credit plan that includes a quantitative and qualitative determination of credit[2].

Thus, it can be said that the role of monetary policy cannot be overlooked because it is the main influence in the money supply and the transition of the effect of the change in the money supply to economic variables such as the benefit rate, because if the benefit rate is reduced it will encourage more investment (This is assuming that there is an expected positive profit rate or optimistic economic forecast in the future) profits are achieved, the rate of accumulation of capital increases, as the incomes of individuals increase as a result of the expansion of investment due to multiplier work, that the opposite situation will occur if the central bank delays raising the benefit rate, as this case will encourage more savings, withholding money from circulation and a decrease in investment rates and profit rates, as this affects income, output, and use.

Monetary policy goals and tools

The first requirement: the goals of monetary policy:

The monetary policy aims to establish or maintain adequate monetary and credit conditions in a valid economy. The monetary authorities believe that a valid economy is characterized by high employment with a good rate of growth, as it can be maintained and the stability of the national currency exchange rates in various foreign currencies. That the central bank is trying to manipulate the money supply and credit conditions to achieve some or all of these goals[3].

The monetary policy aims to influence the money supply to create expansion and contraction in the size of the purchasing power of the state as the aim of increasing purchasing power is to stimulate the demand for investment, increase production and reduce unemployment[4].

It is clear that monetary policy does not play its role in a vacuum but rather, through its association with other branches of economic policy, it contributes for achieving common goals in the economic system, but in many aspects it becomes difficult to distinguish between monetary policy procedures and other policies, especially financial policy [5].

Also, one of the goals of monetary policy which is linked with economic growth is to achieve stability, development and prosperity in economic life[6].

The goals of one monetary policy differ from one country to another and from time to time in one country depending on the nature of the political and economic system [7].

The main goals that the monetary authority seeks to achieve can be determined by the following:

1- Achieving a high level of use

There is consensus among economists that ensuring a high level of employment is among the goals pursued by monetary policies. This is intended to ensure that the monetary authorities are keen to stabilize the economic activity at the highest possible level of employment for natural and human resources, that the monetary authorities take all procedures to avoid the economy from unemployment what the associated deflationary factors in production and income and disturbances in social relations, as from these procedures with the total volume of demand to the level which is necessary to operate unexploited productive resources[8].

What has become the responsibility of the government to use all scientific means to coordinate and use economic programs for the purpose of creating appropriate conditions for the purpose of use and to promote maximum use, production and purchasing power [9]. Since the full use does not mean the disappearance of unemployment and

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)1(Dr. Awad Fadel Ismail Al-Dulaimi, previous source, p. 584.
)2(Dr. Falih Hassan Khalaf, Development and Economic Planning, First Edition, Modern Book World, Irbid (Jordan), 2006, p. 269.
)3(Barry Spiegel, Money, Banking, and Economy: A Criticism Point of View, translated by Dr. Taha Abdullah Mansour / Dr. Abdel-Fattah Abdel-Rahman Abdel-Majid, Maryam Publishing House, Riyadh, 1986, p. 249..
)4(Dr. Hafiz Shuaili Amr, Money, Banking and Foreign Transfer Operations, Al-Fateh University Publications, Tripoli, 2007, p. 126.
)5(Dr. Wadad Younis Yahya, previous source, p. 13.
)6(Dr. Mustafa Rushdi Shiha, Monetary and Banking Economics, University House, Beirut, 1981, p. 728..
)7(Karim Mahdi Saleh, The Role of Monetary Policy in Economic Development in Iraq, Master Thesis, College of Administration and Economics, University of Baghdad, 1977, p. 70.
)8(Dr. Awad Fadel Ismail Al-Dulaimi, previous source, p. 86.
)9(Dr. Jalal Abdul-Razzaq Mahdi and others, Economics, seventeenth edition, Asawir Press, Baghdad, 2011, p. 197.

reaching to the zero. In other words, employment in the literal sense does not mean 100% of the potential workforce, but rather permitting with frictional unemployment.

2- The Stability of the price level:

It is to avoid the emergence of a general trend and clear long-term to change (high and low) or sharp short-term fluctuations in the general level of prices[1]. This goal is limited on working to combat violent and continuous changes in the price level, due to the lack of accompanying large fluctuations in the value of money, thus harmful effects on the level of income and wealth distribution and the allocation of economic resources between productive branches [2]. Therefore, the stability in the price level is a policy and a desirable goal from the monetary authority, as it leads to eliminating any imbalance which is happening in the economy. That the stability in prices can be achieved by controlling credit policies which is submitted to banks and financial and banking institutions and controlling the amount of cash in circulation[3].

3. The Encouraging of economic growth:

The effectiveness of monetary policy in encouraging economic growth is achieved through its impact on investment as one of its most important determinants. As the changes that monetary policy makes in the monetary needs of commercial banks and thus in the money supply are reflected in the form of corresponding changes in the benefit rate, which in turn determines the size of private investment. By assuming that other things are remaining the same[4] .

4.Improving the balance of payments:

The balance of payments is intended to indicate the value of goods, services, gifts, aid, and all capital, gold, and international loans that come from abroad to within the state or that leave from within the state abroad[5] . As this balance tends to the country when its inquiries from the outside world in hard currency are greater than its payments abroad. That the opposite is true, all countries are seeking whatever their degree of economic development was, making this balance tends toward it in order to maintain its gold stocks and hard currency reserves. So the deficit in the balance of payments means that the country pays more than it receives in a current manner in foreign currency. This deficiency can only be covered by withdrawing its foreign cash which reserves or selling some of its assets, or by borrowing or obtaining some grants and subsidies, with negative effects on the external value of the national currency, while the role of monetary authorities here is to intervene to limit the expansion in the volume of spending which is granted to non-bank economic units in an attempt to reduce their imports. AS if the reason for the deficit in the balance of payments is the large number of short and long-term investments abroad, reducing the size of bank credit leads to reducing the liquidity of these economic units, forcing them to recover their capital that is employed abroad[6].

It is worth noting that monetary policy in developing countries seeks to achieve the following two goals:

A- Achieving rapid and balanced economic development:

Developing countries are distinguished in some matters, which are the lower marginal propensity for saving and the high marginal propensity to consume. They are also characterized by a significant decrease in capital as well as low productivity. Therefore, it seeks, through monetary policy, to achieve rapid and balanced economic development by encouraging savings and increasing its investment orientation.

In addition, the role of monetary policy in this regard is limited for achieving an internal financial through controlling the availability of money and its cost in order to prevent variation and misuse of resources and mobilize savings and raise their rate, as well as in achieving external stability by balancing the balance of payments, because of this great importance in facilitating the process of economic development[7].

B- Developing a financial system based on sound principles:

The financial system can be defined as the group of institutions, policies and methods that plan, organize, manage and control the processes of creating, packaging, distributing and using the monetary resources of a particular society (financial flows) in a way that makes them identical and proportionate to the production and distribution of goods and services to this community (in-kind or samples flows) at the national, sectoral, and economic unit level[8].

)1(Dr. Jalal Abdul-Razzaq Mahdi and others, previous source, p. 200.
)2(Dr. Awad Fadel Ismail Al-Dulaimi, previous source, p. 9.
)3(Dr. Kamel Allawi Kazem, Dr. Hassan Latif Kazem Al-Zubaidi, Principles of Economics, Third Edition, 2011, p. 321.
)4(Dr. Awad Fadel Ismail Al-Dulaimi, previous source, p. 587.
)5(Malaz Faiq Majeed Banana, previous source, p. 11.
)6(Dr. Awad Fadel Ismail Banana, previous source, p. 588.
)7(Dr. Jalal Abdul-Razzaq Mahdi and others, previous source, p. 201.
)8(Malaz Faiq Majeed Banana, previous source, p. 15.

The development of the financial system as a target of monetary policy is extremely important because monetary policy can work through it and thus the central bank performs an additional job in developing countries which is the development of credit institutions as well as the capital market with a view for mobilizing possible savings, allocating resources in appropriate manner to the development goals [1] .

The second requirement: monetary policy tools:

They are the tools which are available to the Central Bank to use to influence the size of payment methods in the frame of a specific monetary and credit policy, for the purpose of achieving certain goals, it is through these tools that the central bank, with a view to achieving a specific monetary policy, can particularly influence the liquidity of commercial banks, so that it can control the size of payment methods for deposit cash, which it is sooner and later converting to legal money as these tools enable the Central Bank at the same time to control and guide commercial banks in the process of creating credit[2]. In order for the monetary policy to achieve its predetermined goals, it must use certain tools or methods which are used by the investigation to achieve these goals.

The monetary authorities in the Department of Monetary and Credit Affairs depend on two types of means: general or quantities and Selective Tools, while quantitative means seek to influence the volume and cost of credit, thus on the total monetary quantities which is presented in the economy. As qualitative means aim to influence certain types of credit with the intention of directing some economic activities [3].

First: Quantitative (or general) policy means:

Which is consisting the following:

- Bank Rate or Rate or Rediscount Rate
- Open Market Operations (OMO)
- Changing in the statutory reserve rate

1-Bank Rate or Rate or Rediscount Rate:

The bank price, or as it is usually called, the discount rate is defined as the price that the central bank charges for the re-deduction of its commercial and securities, when this price higher, the less commercial banks will go toward making a discount with the central bank, thereby reducing their ability to lend, whereas the opposite happens when this price falls, as banks go towards deducting their securities and thereby their ability to lend [4] .

When the central bank uses the expansionary monetary policy to address the economic downturn, it will reduce the "discount rate" (or the rebate rate) to encourage banks to increase their borrowing from the bank, As the increasing in loans obtained by these banks which is reflected in other monetary variables, so these expansionist trends will move and detail the economic activity[5] . (31). The central bank also adopts a "deflationary monetary policy" to deal with inflationary trends, starting with an increasing in the price which it receives in exchange for discounting commercial papers that are offered by banks. This increase generates deflationary effects on monetary variables, starting with a decrease in banks 'demand to borrow from the central bank and ending with a decrease in the amount of the money supply.

Open Market Operations (OMO) :

It means entering the central bank as a seller or buyer of papers, bonds and assets. If the central bank decides to reduce the money supply deliberately to enter the market as a seller of some of its assets and vice versa, when the central bank wants to expand the money supply, it urchases bonds, assets and securities from individuals and banks [6], that the central bank adopts this policy in order to address the economic recession and to stimulate economic activity, as it enables the monetary authority to keep the initiative in its hands always. It also allows them to achieve or absorb the national currency from the monetary base in an appropriate amount [7], as its success depends on the availability of an advanced high and cash market in which appropriate amounts of private and government securities are traded[8], what is noticed in developing countries in general, and Iraq among them, the size of securities, bonds and financial assets

)1(Jalal Abdul-Razzaq Mahdi and others, previous source, p. 201

)2(Dr. Osama Mohamed El-Fouly, Dr. Zeinab Awadallah, Economics of Money and Finance, New University House, Alexandria, Egypt, 2005, p. 198.

)3(Dr. Awad Fadel Ismail Banana, previous source, p. 589.

)4(Dr. Khamis Khalaf Musa Al-Fahdawi, Dr. Mazen Issa Al-Sheikh Radi, previous source, p. 28.

)5(Dr. Wadad Younis Yahya, previous source, p. 134.

)6(Dr. Falih Hassan Khalaf, Economic Development, Al-Irshad Press, Baghdad, 1988, p. 231..

)7(Barry Spiegel, previous source, p. 250..

)8(Dr. Awad Fadel Ismail Al-Dulaimi, previous source, p. 595.

decreases, as well as the scope of dealing with them is narrowed , is almost confined to government bonds, treasury transfers and some bonds issued by some agencies as they are limited [1].

3- Changing in the statutory reserve rate

Contemporary monetary legislation is obligated to specify a certain rate of the reserves that commercial banks should keep with the central bank to meet depositors 'requests [2], as whenever this rate was high, these banks would decrease its ability in creating deposits (creating money), whereas if this rate decreases, the ability of the banks to create money and deposits increases, that central banks use this method within their monetary policy in different patterns [3].

Legal cash reserves consist of deposits with the central bank, cash in the fund, as is the case in Iraq, or only deposits with the central bank. These reserves are multiplied as a rate of current deposits or total bank deposits and their amounts change with the change in the volume of deposits as well as when the monetary authorities resort for changing the rate of legal reserves [4]. The content of this method is that if the central bank sees that the amount of credit which is provided by commercial banks has exceeded the desired level, wanting to reduce the credit in order to combat inflationary signs in economic activity, it will resort for raising the legal rate of cash reserves, i.e. increasing the minimum level of cash reserves required by the bank Central to keep them. In addition, if the commercial banks do not have a surplus in their cash reserves to cover the required increase in the cash reserve, then the banks do not only tighten the provision of new loans, but may find themselves in a position that requires them to call some of their loans, as this reduces the amount of credit that already exists [5].

Second: Specific Policy Means:

Central banks, through the use of specific tools to implement monetary policy aim to influence the direction of bank credit in a manner that ensures which is consistent with achieving the ultimate goals[6]. Among these means as follows:

1- Regulating consumer credit:

Under this type of control, credit for consumer purposes is regulated by specific rules for organizing the sale by installments of durable consumer goods [7]. This regulation takes the form of rules for how to pay and the maximum period of installment. So this quality control requires two things that are a minimum of the price provider and a maximum payment[8].

2- Regulating borrowing through bonds by specifying margin requirements

Credit may be regulated by allowing individuals, particularly speculators to borrow from banks to guarantee by purchased bonds in a previous period, with the condition of limiting with the margin of warrantee or margin requirements. This defined as the rate of the market value of the bonds which presented as collateral for the loan, which may not be loaned from banks or dealers in bonds[9].

3- The Influence or Morally Persuasion:

Accordingly, the central bank uses its influence or authority to persuade commercial banks and other intermediary financial institutions of the need to cooperate to implement a deflationary or expansionist policy, that, if the central bank finds that the economic situation requires reducing the money supply, it can use this tool to reach its goal by calling for the management of other banks to be cautious in their lending and investment policy[10].

4- The Direct influence:

It means the agreement or disagreement about the investment and lending policies for commercial banks and the rest of financial institutions and imposing sanctions on banks that follow inappropriate practices from the point of view of monetary authorities [11].

)1(Dr. Falih Hassan Khalaf, Development and Economic Planning, previous source, p. 268.
)2(Dr. Khamis Khalaf Musa Al-Fahdawi, Dr. Mazen Issa Al-Sheikh Radi, previous source, p. 229..
)3(Dr. Wadad Younis Yahya, previous source, p. 139.
)4(Dr. Awad Fadel Ismail Al-Dulaimi, previous source, p. 607.
)5(Malaz Faiq Majeed Banana, previous source, p. 21.
)6(Dr. Wadad Younis Yahya, previous source, p. 140..
)7(Dr. Awad Fadel Ismail Al-Dulaimi, previous source, p. 613.
)8(Malaz Faiq Majeed Banana, previous source, p. 26..
)9(Dr. Awad Fadel Ismail Al-Dulaimi, previous source, p. 614.
)10(ibid, p. 615..
)11(ibid, p. 615..

From the procedures that the central bank must has taken: The central bank refused to carry out a rebate in which is tending of commercial banks when it declared that it did not agree with its investment policies.

The Second Chapter

General framework for economic development:

The First topic

The concept of economic development[1]

The concept did not capture the attention of contemporary economists and their controversy did not arouse it as much as this raised the concept of economic development. Therefore, contemporary literature on development is replete with numerous attempts in the field of determining economic development.

In this regard, the discussion mainly revolves around the issue of distinguishing between the term of economic growth and the term economic development, as the two concepts do not depart into one meaning. So that we can distinguish between the two concepts in that: economic growth is the growth of the national product without significant and tangible changes in other aspects, while development means in addition to the foregoing: the growth of the national product with the occurrence of important and wide changes in the economic, social, political, cultural fields and in the legislation and regulations that control these fields.

As the concept of economic development is broader than the concept of economic growth, everyone understands at least that economic growth is the product of the placed situation, that it is due to a narrow, quantitative and measurable concept which is related to the changes over time in the size of national product or national income in its total or individual form, although there are economic and non-economic factors that underlie these changes, However, in itself it remains a concept of a pure economic nature, as actual growth can be achieved without fundamental transformations in the social and political structures and location, or in the values, attitudes, organization, and technology.

As for development, it is usually described as a standard concept, which requires a significant shift in the powers or previous domains[2]. Basing on the for mentioned, it clearly shows that the concept of economic development differs fundamentally from the concept of economic growth, that a distinction must be made between them, the latter means the quantitative increase in some economic indicators, while economic development means the overall economic, political and cultural changes that accompany that growth. Therefore, economic development is a process that is achieved through making fundamental changes and transformations in the structure and structure of the economy, with the accompanying social and economic transformations that contribute for expanding the needs of society with the ability to satisfy them with the available resources which is ultimately lead to economic and social well-being[3], then development is: a continuous cumulative process that consists of a set of political, social, economic and technical changes that share their actions through reciprocal feedback, a process that launches a self-vision that works to develop the capabilities of the economy and society which enables it to provide manpower and material and financial resources to enhance and rationalize economic production, thus allowing for an adequate level of living for citizens in a framework of security in a continuous manner)[4], therefore, economic development is supposed to be seen on the basis that it is a deliberate and continuous process that creates the social, political and technological conditions, by making changes in the economic structure with the intent to exploit resources and energies, in addition to diversifying production in a manner consistent with economic and social considerations, in the hope of achieving the growth increased in national income and in the level of individual income. Hence, economic development can be

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)1 (See:

- Dr. Eman Atia Nassef, Principles of Macroeconomics, New University House, Alexandria (Egypt), 2007, pp. 235 and beyond.
- Dr. Falih Hassan Khalaf, Macroeconomics, Modern Book World, Irbid (Jordan), 2007, p. 457.
- Dr. Mahmoud Hussein Al-Wadi, Dr. Kazem Jasim Al-Issawi, Macroeconomics, Dar Al-Maysara, Amman (Jordan), 2007, pp. 263 and beyond.
- Dr. Amr Mohieldin, Development and Economic Planning, Arab Renaissance House, Beirut, 1972, pp. 207-250.
- -Dr. Khamis Khalaf Musa Al-Fahdawi, Dr. Mazen Issa Al-Sheikh Radi, previous source, p. 119 and beyond..

)2(Dr. Kamel Allawi Kazem Al-Fatlawi, Dr. Hassan Latif Kazem Al-Zubaidi, previous source, p. 322.

)3(Dr. Omar Hamid Majeed Muhammad Al-Ezzi, Exploring the Future of Agricultural Development in Iraq in light of the Global Food Crisis, Master Thesis, College of Administration and Economics, University of Baghdad, 2010, p. 7..

)4(Dr. Kamel Allawi Kazem Al-Fatlawi, Dr. Hassan Latif Kazem Al-Zubaidi, previous source, p. 322.

defined as: A societal process conscious and directed to find structural transformations that lead to the formation of a base, releasing a self-production capacity, whereby a steady increase in the average productivity of the individual and the capabilities of society is achieved within a framework of social relations that confirms the link between reward and effort also deepens the requirements of participation targeting the provision of basic needs as well as provides guarantees for the individual, social and national security)) [1](, This definition may be more accurate and more comprehensive than the reality of developing countries and their economic and social goals.

The Second topic

Economic development requirements

1- The Capital

Capital is as a productive element which is scarce in developing countries, by virtue of being an element in the production process, the levels of production are linked to the levels of capital which is used in the production process. As capital takes the permanent goods which are used to produce another commodity, either consumer goods or productive capital. Thus, capital goods become the outcome of capital formation of a long-term nature that requires resources to spend on them)[2]. (

2- Natural Resources:

The authors disagreed about the importance of natural resources in the framework of the development process, as there are those who believe that natural resources play a fundamental and decisive role in the development process, while others see that natural resources do not play a crucial role in achieving the development process, although they can help and facilitate this) [3] .(It is worth noting that most developing countries, including Iraq, do not suffer from scarcity of natural resources, but the degree of the benefit from them depends on the availability of other economic development requirements.

3- Technological development:

There is a relationship with a high degree of complexity between the world and technology and development that goes beyond the narrow view for the link of economic growth by using technical progress in production to its effect on the patterns of production, consumption and employment, the level of skills, the nature of societal needs, behavior patterns, values and aspirations)[4](, Therefore, technological development is an important and necessary factor in achieving economic development.

4- Human Resources:

Human resources play an important role in the development process, this comes from the fact that the human being is the goal of development and its means, as the fact that the human being is the goal of development, it comes from the final goal of the development process which is to raise the standard of living of the human by raising the level of his real income, raising the level of other aspects of his life by increasing production and developing it, also ensuring its equitable distribution, whereas the fact that the human being is the means of development comes from the fact that the development process is developed, implemented and gives its fruits through the human activity, which it is impossible to imagine the development taking place without relying on the human being as a designer and an implementer of it, therefore as a beneficiary of it)[5]. (

The Tird Chapter

The developmental role of monetary policy in Iraq

The first topic

The developmental reality in Iraq

A Preface:

The Iraqi economy is one of the economies that enjoy with abundant economic and natural resources, but it still suffers from a reduction in its giving for its citizens due to the effects of politics and its ripples in its history. Perhaps the great legacy that he inherited from the militarization of its economy with the lack of opportunities to improve it in light of economic mismanagement have made him an approved economy despite his money from those resources

)1(Dr. Khamis Khalaf Musa Al-Fahdawi, Dr. Mazen Issa Al-Sheikh Radi, previous source, pp. 122-129..
)2(Dr.. Yahya Ghani Al-Najjar, d. Amal Abdul Amir Shalash, previous source, p. 314..
)3(Dr.. Falih Hassan Khalaf, Economic Development, previous source, p. 167..
)4(Dr.. Yahya Ghani Al-Najjar, Dr. Amal Abdel Amir Shalash, previous source, p. 332.
)5(Dr.. Falih Hassan Khalaf, previous source, p. 170

[1].As for the nature and achievements of development in Iraq, it cannot be isolated from the social, economic, international and regional dimensions, and above all, oil, as these forces were ruled the development process in the country [2].

First: The main features of the Iraqi economy:

The Iraqi economy is characterized by many features that were considered as a whole in the causes of its occurrence in the clutches of backwardness which are:

1- The disruption of the economic structure, i.e. the absence of sectoral proportions at the level of the constituent sectors of the local economy, as the imbalance is clear through the dominance of the oil sector over the rest of the economic sectors, both in terms of its relative outcome in gross output as the primary source of financing for development and public spending programs [3].

2- The country's dependence on foreign industry.

3- The increasing in the rate of external debts that the Iraqi economy is encumbered, which is estimated at (150) billion dollars.

4- The phenomenon of unemployment as all of its kinds appears. That this is what it does on the economic, social and political situation, directly and indirectly, an agreement that confuses the mechanism of developing the economic plan.

5- The high level of the general prices, as what it means by a decrease in the level of real income except the level of inflation began to decline after the year 2000 and currently the Iraqi economy is witnessing almost significant increases in some of the items of the consumer price index[4].

6- In light of this reality, the Iraqi economy has become suffering from many economic distortions, including what it inherited from the previous stages and others produced by the current stages, as this reflected negatively on many economic indicators [5].

Second: The contemporary problems of the Iraqi economy

A- High unemployment:

Iraq has not emerged in the phenomenon of unemployment at its worsening rates during the eighties and nineties of the last century due to the general military mobilization conditions that included most of the economically active population, so their rates did not exceed 5%, according to statistics in 1987. However, unemployment after 2003 began to constitute a worrying concern for the state after its rates worsened and its trends diversified, with its causes were multiplied, so that the causes of the past interacted with the present conditions in raising the unemployment rate to rise [6], so it is considered the most serious economic and social problems facing the state at the present time.

The Iraqi debts were the major problem that impeded the wheel of the economy in addition to a number of negative factors, despite the fact that Iraq is classified as the second country in the world in terms of its oil reserves, as it remained burdened with debts, from the debts of what was announced according to Iraqi sources, which it had identified about (65) billion dollars, while the World Bank and the Bank for International Settlements, he estimated the debts about (127) billion dollars, while (35) billion dollars were returned to loans from Gulf countries and (40) billion dollars belongs to European countries. As for the rest of the debt, there is no accurate information about it, on this basis, the debt is one of the problems that hinder the process of economic development[7].As these debts and the burdens that they leave behind stand in the way of the rehabilitation process of infrastructure and reconstruction, that

)1(Mustafa Shaalan Abu Shanah Al-Shibli, the global financial crisis and its repercussions on Arab economies, Iraq and Egypt, two cases of study, Master Thesis, College of Administration and Economics, University of Kufa, 2010, p. 110..

)2(Hassan Shaker Al-Shammari, Effectiveness of Financial and Monetary Policy and Future Trends in Iraqi Economy, Master Thesis, College of Administration and Economics, University of Kufa, 2006, p. 55. .

)3(Source No. 1, p. 111 .

)4(Mustafa Shaalan Abu Shanah al-Shibli, previous source, p. 112.

)5(Dawood Salloum Abdul-Hussein Al-Khazraji, privatization in developing countries between the requirements of development and the motives for foreign investment with a special reference to Iraq, PhD thesis, College of Administration and Economics, University of Kufa, 2008, p. 143..

)6(Ministry of Planning, National Development Plan Report 2010-2014, Baghdad, 2009, p. 36.

)7(Mustafa Shaalan Abu Shanah al-Shibli, previous source, p. 116 .

the resource-rich country has become a leader in the list of countries eligible for grants and aid, as it has turned into the largest importer of oil and its derivatives in the region after it was one of the largest exporters to it)1. (

C-The aged wheel of Reconstruction:

Despite what was rumored about it, the reconstruction and its acceleration were not enough to get Iraq out of economic problems and did not achieve its desired results. As the first meeting of the Iraq Reconstruction Programs was held in New York in 2003, in which the main sectors were identified to be placed under the reconstruction program for a period of three years, with the agreement was reached between some Iraqi ministers, the United Nations, the International Monetary Fund and the World Bank in achieving high economic growth rates, by eliminating unemployment, rehabilitating the private sector, achieving the general welfare of the Iraqis, achieving the financial market, raising agricultural capabilities, introducing modern agricultural equipment and reforming the banking system, but the insecurity has created a weakness factor in front of the United States of America's ability to accomplish these projects on the one hand, on the other hand, no less important, which it helped to backwards these accomplishments, which are the statements of American officials that the United States will stop supporting this reconstruction in the event of the expiration of the period which was prescribed for it)2 . (

D- Administrative corruption undermines the development efforts:

The war that confronted the economy, internal divisions and civil war was liable to lag behind administrative corruption, as the Iraqi Supreme Audit Authority has revealed, as a separate institution from the Inspector General for the Reconstruction of Iraq, that was established in the year (2004), that administrative corruption is not limited to American officials, American companies working in the reconstruction of Iraq, rather, the Iraqi ministries in particular included the Ministry of Defense as well, as the commission provided financial statistics on the size of embezzlement in September 2005, about (9) billion dollars, which affected administrative corruption. As the government intervened by issuing arrest warrants for the Minister of Defense and (22) governmental officials) 3.(There is no doubt that this administrative corruption which is rampant in all state agencies is standing as an obstacle for achieving economic development in Iraq.

Third: The Analysis of the main indicators for the Iraqi economy:

1- The oil sector and its effects on the economic sectors:

Oil is an important source of monetary and financial revenue for the Iraqi economy, as this is considered the main pillar in building the Iraqi economy, that it contributes to a large rate of the revenues of the public budget.

As the structural imbalance of oil economies is embodied in the fact that it depends in its economic activity on a single source in the formation of national income and the oil sector has a stranger to the national economy, such as the oil producing countries)4.(So the decline in the oil indicator is a negative factor for achieving economic growth in Iraq, by reviewing the role of economic sectors and their contribution in supporting the economy, we note the high relative importance of the role of the industry sector during the era that accompanied economic planning in the 1970s, however, this sector did not achieve the desired results due to the mismanagement of the economy with the projects that are in fact due to the allocation of an important aspect of the oil profit to serve the system and what can be kept it there. So the contribution of this sector in production and achieving economic development was declined. As for the agricultural sector that enjoyed the ability to export the agricultural commodities to European countries in the era of the fifties of the last century, this situation with agricultural interest did not stay, as it ended in the era that followed the fall of the defunct regime and the decline in government support for the production requirements, which reflected the negative role of the agricultural sector. As for the services sector, it tends to fall behind when it is compared to Arab and regional countries, especially in the field of finance, as it is noticed that this sector depends on oil revenues to support the wheel of growth with the contribution for raising the gross domestic product, basing on this it can be said that oil represents the vital artery that feeds all sectors, so what is oil exposed from external shocks, it seems clear in the case of development of the economic in Iraq)5.(

2- The Analyzing of the gross domestic product:

)1(Iyad Kazem Hassoun, The problem of external indebtedness for selected Arab countries with a special reference to Iraq for the period (1987-2004), Master Thesis, College of Administration and Economics, University of Kufa, 2007, p. 64..

)2(Mustafa Shaalan Abu Shanna al-Shibli, previous source, p. 118.

)3(The same source, p. 119.

)4(Dr. Abbas Jabbar Al-Shara, Oil and the Political Dimension, Journal of Economic Sciences, Volume V, No. 20, University of Basra, 2008, p. 4..

)5(Mustafa Shaalan Abu Shanah al-Shibli, previous source, pp. 123-124.

As a result of the deteriorating of the economic conditions and the decline in oil prices, which are considering the main factor in supporting the Iraqi economic growth, as the domestic product witnessed an increasing from 2002 to 2008, except the year 2007, that the growth of the local product seemed to decline, but in 2009 the rate of growth of the local product decreased to (6.9%).) in comparing with 2008, despite what was raised about the economic results of the economic policy in Iraq, we find that there is a confusion and poor economic planning that was reflected in the economic performance in general, as the presence of the foreign competition for local goods led to the collapse of domestic production because the cost of producing Iraqi goods includes high costs. In addition to the costs of fuel and transportation, these increased costs have led to the reluctance of many producers and their deviation from investment in agricultural and industrial activities [1].

The Second Topic

The Role of the monetary policy in Iraq

Monetary policy in Iraq takes its direct and indirect tools to achieve its goals of ensuring currency stability, achieving internal and external balance, issuing currency, monitoring and planning foreign exchange, organizing and planning credit, monitoring banking and accelerating economic growth (ensuring that the currency cover from assets does not fall below 50% of the currency in circulation) also it characterized by adequacy, effectiveness and flexibility [2].

We can refer to the following stages:

1- Monetary policy in Iraq before 2003:

The monetary policy in Iraq before 2003 was limited by the decisions of the previous regime, as these policies were not independent in its work, but rather they worked within one framework in order to achieve the desires of the authority that was taking spontaneous and ill-considered decisions, even the governor of the central bank is being appointed on the basis of controls of his affiliation and loyalty to the authority. Perhaps the most important characteristic of monetary policy in Iraq at that point is its resort to a policy of paper money issuance to finance the budget deficit and perpetuate the bloated security and military effort, that the supply of money competed as an average during the period 1980-2003, with a rate of 56.13%, which exposed the economy to monetary shocks which increase in inflation rates, which rose by about 43.18% as an annual rate during the period 1980-2003 [3] .

In addition to the Iraqi unilateral economy that depends on oil exports, whose revenues cover approximately 90% of the treasury's expenditures, when the oil markets are exposed to supply shocks due to changes in oil prices, that the shocks are transmitted directly to the Iraqi economy, what so-called external shock of supply, which in turn affects the state budget, as its effects are shown by increasing in inflation and the local flag (dinar) inflation, also individuals turn for using other assets as a store of value instead of the dinar. So the prevailing trend in Iraq is to use the US dollar as a saving of the value or sometimes use it as a mediator for exchange that what is called the phenomenon (dollarization), or replacing foreign exchange instead of domestic cash, as the Iraqi economy was marked as (a dollarized economy) and here another challenge which emerged that added to the challenges before the monetary authority which is represented by the central bank as it is responsible for finding a way out and radical solutions to it, with the limited effectiveness of monetary policy for the period before 2003 and the results that are consistent to some extent at that time, some economic indicators for that period[4]can be summarized as:

A- Annual inflation rate from 1980 to 2003 is 43.18% annually.

B- The money supply growth rate from 1980 to 2003 was 56.13% annually.

C - Annual exchange rate growth rate from 1980 to 2003 65.60%.

D - The internal public debt for the year 2001 reached (3552885) million dinars.

1- Monetary policy in Iraq after 2003: -

The most prominent event which related to the performance of monetary policy for the period after 2003 is the independence that the Central Bank of Iraq had obtained under the Law 56 for the year 2004.

The issue of independence is a pivotal and important issue in the financial reform process, but provided that the conditions of transparency and responsibility must be not neglected because the central bank remains responsible for the political authority in the event of a mistake, that which threatens the integrity of monetary stability, as the responsibilities are clear which creates a sound and effective environment for the exercise of control and

)1(The same source, pp. 124-125 .

)2(Abbas Yahya Khadr Al-Mandalawi, Monetary Policy Capabilities in Promoting Local Investment in Iraq for the Period (1980-2003), Master Thesis, College of Administration and Economics, University of Baghdad, 2004, p. 36.

)3(Mustafa Shaalan Abu Shanah al-Shibli, previous source, p. 129.

)4(Dr.. Thoraya Al-Khazraji, Monetary Policy in Iraq Between Accumulations of the Past and Future Challenges, Journal of Baghdad College for Economic Sciences University, No. 23, 2010, p. 7.

accountability processes, thus, the tasks of the central bank are determined which are drawn by basing on knowledge of the characteristics and constraints of the national economy, as the success of the central bank is responsible for drawing and implementing monetary policy which depends to a large extent on the existence of a clear and considered policy to treat the inflationary gap, exchange rates, etc[1].

After 2003, the monetary authority in Iraq took a set of important measures and steps on the monetary level that aim to enhance and develop the economic and financial stability as well as to maintain the stability of local prices to create a competitive economic environment based on the mechanism of supply and demand in creating future goals and directions and policy-making, among the most important measures is to replace the national currency on 15/1/2004 with a value of 4 trillion Iraqi dinars, granting the work licenses to foreign banks, eventually, a daily auction for the foreign exchange as well as a new law for banks and the Central Bank of Iraq No. 56 of 2004, which aims to reformulate the goals, methods and functions of the central bank in order to fit with the reality of the market economy which is governed by a monetary and banking environment which is defined clearly[2]. There are direct means that the central bank is still working on to influence the market liquidity and the liquidity of the banking system, especially the use of legal reserves in a manner on all bank deposits by 25% after the government deposits have been excluded from this ratio, noting that there are applications that placed within the so-called existing facilities, as the central bank has adopted a so-called the benefit rate that represents its monetary policy of 6% lends on the basis of the banks when they are facing a liquidity crisis with the addition of two points in the first lending and three points in the second lending. Also the Central Bank is currently seeking to develop the secondary cash market by allowing banks to buy and sell treasury transfers, bonds and government papers among themselves, with the hope of moving to the next step (open market operations) within the application of its indirect tools, it also (aims to implement a number of new tools that complement the daily currency auction, such as the ability to carry out regular operations to buy and sell government financial bonds in the free market)[3].

However, the main goal of the current monetary policy remains to reduce unruly inflation, which places its shadows on the economy in general and the individual income in particular[4].

The Conclusions:

1- The monetary policy is one of the most important economic policies that affect the economy. Through its quantitative and qualitative tools, it treats problems that arise upon the economy from inflation or deflation, as the central bank is the executive body of monetary policy.

2- The Iraqi economy extremely needs to activate the role of monetary policy further in order to achieve economic development.

3- The monetary policy in Iraq before 2003 was completely subjected to the decisions of the political authority, especially with regard to the policy of monetary issuance to finance the state budget deficit without any restrictions and excessively, which resulted in an increase in participation of inflation rates, also an increasing in the general level of prices, with a significant increase in the money supply.

4- The monetary authority in Iraq after 2003 was able to take a set of important measures or steps on the monetary level which enabled it to achieve some of the economic goals which it had been set before, such as reducing overall inflation and reducing the phenomenon of dollarization to some extent.

5- The independence which is granted to the Central Bank, in accordance with its new law, has effectively helped to take the right decisions which are in the interest of the economy and contributed to a certain extent for keeping politics away from economic decisions.

The Recommendations:

1- The necessity of adopting an effective monetary policy which aimed for continuing to curb the inflationary pressures that were resulting from the continued application of the expansionary spending policy.

2- Keeping monetary policy away from political goals, i.e. the necessity of separating and distinguishing between politics and economics, as the desisting from making the central bank the financial leverage of the government.

3- The necessity of integrating and aligning monetary policy with other economic policies, such as trade policy, financial policy and others, while following with the same direction and coordination to achieve the set economic goals and reducing contradictions between economic policies.

4- Activating the monetary tools for the Central Bank which are currently followed to modernize, develop and increase the efficiency of the stock market in Iraq and to keep abreast of developments in the financial markets.

)1(Dr.. Thuraya Al-Khazraji, previous source, p. 8.
)2(Ministry of Planning, previous source, p. 54.
)3(Abbas Yahya Khadr al-Mandalawi, previous source, p. 37.
)4(Dr.. Thuraya Al-Khazraji, previous source, p. 8..

5- Allowing the foreign banks to work in Iraq in line with the investment law, as well as motivating the Iraqi banks to invent mechanisms to improve their performance and create an atmosphere of competition.

6- Re-activating the work of specialized banks (agricultural, industrial and real estate) to accelerate the growth process, which is considering as a vital goal for monetary and economic authorities.

7- Reducing the benefit rate in a way that stimulates bank credit and encourages the increased investment by the private sector in the productive areas in a manner commensurate with the state of financial stability and low levels of inflation.

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