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Monetary and Fiscal Policies in Iraq Under Structural Challenges: An Econometric Analysis for the Period (2004-2024)

Mohammed Madlool Ibrahim

University Samarra, College of Islamic Sciences

ABSTRACT: This research aims to analyze and describe the reality of the financial and monetary economy in Iraq from 2004 to 2024, a period marked by profound structural transformations. The research focuses on evaluating the effectiveness of monetary policy tools used by the Central Bank of Iraq, specifically the foreign currency auction window, in achieving monetary stability. It also examines the nature of rentier fiscal policy and its dominant impact on macroeconomic variables. Methodologically, the research adopts a descriptive-analytical approach to review the institutional framework and challenges, complemented by a quantitative econometric approach to investigate the dynamic relationships between variables. The Autoregressive Distributed Lag (ARDL) model was used to test the short- and long-run relationships between real GDP (as the dependent variable) and the money supply (M2) , government spending, exchange rate, and oil prices (as independent variables). The analysis indicates that fiscal policy, directly linked to oil revenues, has the greatest impact on economic activity, while the effectiveness of monetary policy remains limited due to dollarization , weak credit access for the banking sector, and the dominance of budget financing requirements (Al-Ani, 2020; Central Bank of Iraq, 2023). Accordingly, the research recommends adopting structural reforms aimed at diversifying the economy, strengthening the independence of the central bank, and developing the financial sector to enhance the efficiency of resource allocation and support sustainable growth.

KEYWORDS: Monetary policy, fiscal policy, rentier economy, ARDL model , Central Bank of Iraq, dollarization , Iraq.

INTRODUCTION

The Iraqi economy represents a rentier economy model , relying almost entirely on a single sector: oil, which constitutes the primary source of government revenue and exports (Al-Hamdani, 2019). This structural dependence has made the economy vulnerable to sharp fluctuations in global oil prices, directly impacting the stability of its macroeconomic variables (IMF, 2022). Following 2003, Iraq embarked on a process of rebuilding its economic institutions, including the Central Bank and the Ministry of Finance, with the aim of transitioning to a market economy (Central Statistical Organization, 2021). In this context, monetary and fiscal policies emerged as key tools for managing the macroeconomy; however, their effectiveness has been hampered by deep-seated structural challenges security, political, and economic (Al-Ubaidi, 2018)

RESEARCH PROBLEM

The research problem revolves around the following question : " To what extent are monetary and fiscal policies in Iraq effective and coordinated in achieving economic stability and sustainable growth , given the dominance of the oil sector and the existing structural challenges? " This problem leads to several sub-questions:

- What is the nature of the tools used by the Central Bank of Iraq and are they sufficient to achieve its goals? (Al-Shammari and Al-Jubouri, 2021)
- How does the rentier nature of fiscal policy affect the performance of monetary policy and other economic variables? (Mohammed and Ali, 2022)
- What is the nature of the dynamic relationship (short and long term) between monetary and financial variables and economic activity in Iraq? (Pesaran et al., 2001)

RESEARCH OBJECTIVES

The research aims to achieve the following:

- Description and analysis of the institutional framework for monetary and fiscal policies in Iraq.
- Evaluating the monetary policy tools available to the Central Bank of Iraq, with a focus on the currency sale window mechanism (Al-Ani, 2020.)
- Analysis of the impact of government spending dependent on oil on monetary and macroeconomic variables (Al-Hamdani, 2019).
- Estimating and measuring the dynamic relationship between money supply, government spending, exchange rate, oil prices, and real GDP in Iraq using the ARDL model (Kadhim, 2023).

RESEARCH HYPOTHESIS

The research is based on the following main hypothesis : " Fiscal policy, driven by oil revenues, has a greater and more direct impact on economic growth in Iraq compared to monetary policy, whose effectiveness remains limited by structural constraints such as dollarization and weak monetary transfer channels ." (This hypothesis is supported by the findings of Al-Hashemi's study, 2017, and World Bank reports, 2023)

RESEARCH METHODOLOGY

To achieve the research objectives and test its hypothesis, two complementary methodologies will be used:

- **The descriptive-analytical approach** : It is used in the theoretical aspect and in describing and analyzing the reality of the financial and monetary sector in Iraq, based on official reports and previous studies (Musa, 2020)
- **Standard quantitative approach :** It is used in the applied aspect by building a standard model of time series models (ARDL) to analyze the relationships between the study variables during the period (2004-2024) (Pesaran et al., 2001)

RESEARCH STRUCTURE :

The research is divided into five chapters, in addition to the introduction and conclusion. The first section addresses the theoretical framework and previous studies. The second section presents the reality of the financial and monetary sector in Iraq. The third section is dedicated to the econometric methodology and the study variables. The fourth section presents and discusses the results of the econometric analysis. Finally, the fifth section presents the most important conclusions and recommendations

Part One: Theoretical Framework And Previous Studies

1.1 Theoretical Framework of Macroeconomic Policies

1.1.1 Monetary Policy: Concept, Objectives, and Tools.

Monetary policy is defined as the set of actions and measures taken by the monetary authority (central bank) to influence the money supply or the cost of financing (interest rates) in order to achieve a set of ultimate goals for the national economy (Blanchard, 2021). The traditional objectives of monetary policy are:

- **Price stability** : This is the ultimate goal of most modern central banks, and it means maintaining a low and stable inflation rate (Mishkin, 2019.(
- **Economic growth :** By providing a stable monetary environment that encourages investment and production.
- **Achieving full employment** : This is a goal closely linked to economic growth.
- **Exchange rate stability** : This goal is of particular importance in open and small economies.
- **Stability of the financial system** : Ensuring the safety and soundness of financial institutions (Bernanke, 2020)

To achieve these goals, central banks use a range of tools that can be categorized as follows:

- **Indirect (quantitative) tools** : These are the instruments that affect the money market in general, without discrimination. They include:
- **Interest rate (discount rate**) : This is the price that the central bank charges commercial banks for lending to them.
- **Legal reserve ratio** : It is a percentage of deposits that commercial banks are required to hold with the central bank.
- **Open market operations** : It is the buying and selling of government securities in the market with the aim of influencing the volume of liquidity.
- **Direct (qualitative) tools** : These are tools that target specific sectors. They include: setting credit ceilings and moral persuasion. In the case of Iraq, the foreign currency sale window is considered a semi-direct tool with a broad impact (Al-Ani, 2020).

1.1.2Fiscal Policy: Concept, Objectives, and Tools .

Fiscal policy is defined as the use of public revenues (taxes) and public expenditures by the government to influence the level of aggregate demand and achieve economic and social objectives (Stiglitz & Rosengard, 2015). Its main objectives are:

- **Resource allocation** : Directing resources towards the production of public goods and services.
- **Redistribution of income and wealth** : Through a progressive tax system and government transfers.
- **Achieving economic stability** : Through expansionary policies (increasing spending or reducing taxes) during recessions, and contractionary policies during inflation (Keynes, 1936)

Its main tools are government spending (current and investment) and taxes (direct and indirect), in addition to public debt.

:1.1.3The Relationship Between the Two Policies: Coordination, Dominance, and the "Dutch Disease "

The relationship between monetary and fiscal policy is crucial for successful economic management. Ideally, there should be coordination between the two policies (Sargent & Wallace, 1981). However, in economies like Iraq, two phenomena emerge:

- **Fiscal Dominance** : This occurs when monetary policy is forced to meet the financing needs of the government budget. If the government is suffering from a large deficit, the central bank may resort to financing this deficit (directly or indirectly), which undermines its primary objective of maintaining price stability (Cochrane, 2023)
- **Dutch Disease** : In rentier economies, the boom in the natural resources sector (oil) leads to a rise in the real exchange rate, which harms the competitiveness of other productive sectors (agriculture and industry) and leads to their atrophy, and deepens dependence on the rentier sector (Corden & Neary, 1982)

:1.2Previous Studies

Previous studies were divided into themes to serve the research objectives Studies on monetary policy in Iraq:

- **A study by Al-Ani (2020)** : This study examined the impact of the foreign currency auction window on exchange rate stability in Iraq. It concluded that while the window was effective in stabilizing the nominal exchange rate, it contributed to the depletion of foreign reserves and exacerbated dollarization.
- **Study (Al-Shammari and Al-Jubouri, 2021)** : This study examined the effectiveness of monetary policy transmission channels to the real sector in Iraq. It concluded that the interest rate channel and the credit channel are very weak, rendering traditional monetary policy largely ineffective in influencing economic activity.
- **A study by Al-Saadi (2019)** : I focused on the impact of monetary policy on inflation in Iraq, and found that changes in the money supply are the main driver of long-term inflation.
- Studies on fiscal policy and rentier economics:
- **A study by Al-Hamdani (2019)** : This study analyzed the impact of oil shocks on government spending and economic growth in Iraq. The results showed a strong and positive correlation between oil revenues and government spending, and that current government spending (salaries) has a short- term expansionary effect but does not contribute to sustainable growth.
- **Study (Al-Hashemi, 2017) :** I examined the impact of fiscal policy on economic growth in Iraq, and emphasized the dominance of current spending and the lack of a strategic vision for investment spending.
- **Study by (Al-Zubaidi, 2022)** : I analyzed the problem of the general budget in Iraq and its relationship to oil revenues, and called for structural reforms to achieve financial sustainability.
- Related standard studies:
- **Study (Kazem, 2023) :** I used the (ARDL) model to analyze the impact of monetary policy on economic growth in Iraq, and found a weak and insignificant impact.
- **Study (Mohammed and Ali, 2022)** : I used the Error Correction Model (VECM) to analyze the relationship between government spending, money supply and inflation, and emphasized the phenomenon of fiscal dominance.

International reports:

International Monetary Fund Report, 2022) : The report indicated that fiscal policy in Iraq is pro-cyclical , where spending expands significantly when oil prices are high and contracts sharply when they are low, thus increasing the severity of economic fluctuations.

- **World Bank Report, (2023)** : It highlighted the challenges facing the Iraqi banking sector and the weakness of financial inclusion as a major obstacle to growth.

What distinguishes the current research :

This research is distinguished from previous studies by combining the analysis of monetary and fiscal policies in an integrated framework, using a modern standard methodology (ARDL) to analyze the dynamic relationships between multiple variables in the short and long term, and covering a more recent time period extending to 2024, which allows for the analysis of the effects of recent changes in exchange rate policy, and it also relies on a comprehensive and up-to-date database.

Part Two: The Reality of the Financial and Monetary Sector and Public Finance in Iraq

:2.1The Central Bank of Iraq: Legal Framework and Instruments

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The Central Bank of Iraq was established under Law No. (56) of 2004, which granted it legal independence from the government to achieve its objectives of maintaining domestic price stability and the stability of the financial system (Ministry of Finance, 2004). However, this actual independence faces significant challenges (Al-Ubaidi, 2018)

The monetary policy tools currently used in Iraq are:

- Foreign currency trading window : It is the main operational tool. The central bank sells US dollars to banks and financial institutions at an official exchange rate to meet the demand for foreign currency and finance imports. Its stated objectives are to stabilize the exchange rate and control inflation, but in practice it is the tool through which government oil revenues (in dollars) are converted into Iraqi dinars to finance budget expenditures (Al-Ani, 2020; Central Bank of Iraq, 2023)
- interest rate : The central bank sets the "key interest rate," but its impact on the economy is very limited due to the small size of bank credit directed to the private sector and the weak transmission channel of the interest rate effect (Al-Shammari and Al-Jubouri, 2021)
- Legal reserve : The bank uses this tool intermittently to influence banks' ability to lend (Al-Saadi, 2019.)

:2.2Evolution of Exchange Rate Policy

Iraq's exchange rate policy has gone through different phases:

Installation period (2004-2020): The Central Bank followed a fixed but managed exchange rate policy (Managed Peg) around the level of 1190 dinars to the dollar, with a narrow margin of movement (Central Bank of Iraq, 2020)

Currency devaluation (December 2020) : In response to the severe financial crisis resulting from the drop in oil prices and the Corona pandemic, the Central Bank officially devalued the dinar to 1460 dinars to the dollar with the aim of increasing the government's dinar revenues (International Monetary Fund, 2021)

Partial reassessment (February 2023) : In an attempt to control the rising exchange rate in the parallel market and reduce inflationary pressures, the government and the central bank decided to adjust the official rate to 1310 dinars per dollar (Ministry of Finance, 2023)

:2.3Structure and Challenges of the Iraqi Banking Sector

The Iraqi banking sector is characterized by duality and concentration:

- Government banks (Rafidain Bank, Rasheed Bank, and the Trade Bank of Iraq (TBI)) control more than 85% of the total assets of the banking sector. They focus primarily on financing government operations and disbursing employee salaries, and their role in financing the private sector is limited (Musa, 2020)
- Private banks : There are a large number of private banks (both national and Islamic), but they are small in size and suffer from challenges related to weak capital, limited services, and weak public confidence in them (World Bank, 2023

Key challenges:

- Low financial inclusion : A large percentage of Iraqis do not have bank accounts and deal in cash (Banking Supervision Authority, 2022.)
- High dollarization : There is a widespread preference for using the US dollar in large transactions and savings, which weakens the sovereignty of the Iraqi dinar and the ability of the central bank to control liquidity (Al-Ani, 2020)
- Weak credit to the private sector : The ratio of credit granted to the private sector to GDP is among the lowest in the region (Al-Shammari and Al-Jubouri, 2021.)

:2.4The structure of public finances and public debt

Public finance in Iraq is characterized by the following features:

- Revenue side : Oil revenues account for over 90% of total public revenues, making the budget highly sensitive to fluctuations in oil prices. Non-oil revenues (taxes, customs) contribute only marginally (Al-Hamdani, 2019; Al-Zubaidi, 2022)
- Expenses side : Current expenditures constitute the largest share of public spending (over 75%), concentrated in salaries, wages, pensions, and the social safety net. Investment spending, on the other hand, is subject to reduction during financial crises (Al-Hashemi, 2017; Ministry of Finance, 2022)
- Public debt : Public debt witnessed a significant increase after 2014 as a result of the war against ISIS and the decline in oil prices. It is divided into domestic debt (through the sale of treasury bills to government banks) and external debt (from international institutions and creditor countries). Managing public debt poses an additional challenge to public finances and monetary policy (IMF, 2022.)

Part Three: Research Methodology and Standard Model

:3.1Describing the study variables and data sources

To achieve the research objectives, the following variables were identified for the period (2004-2024) using quarterly data (or annual data if unavailable):

Table (1): Study variables and sources

symbol	variable	Definition	Unity	Expected source
LRGDP	Real GDP	The dependent variable represents .economic growth	One billion dinars (at constant prices)	Central Bank of Iraq Central Statistical ,(2024) (2024) Organization
LM2	Presenting criticism in its broadest sense	monetary policy variable	one billion dinars	(2024) Central Bank of Iraq
LGE	Real government spending	fiscal policy variable	One billion dinars divided by the) (price index	Ministry of Finance Central Bank of ,(2024) (2024) Iraq
LEXR	official exchange rate	Intermediate monetary variable	Dinar/Dollar	(2024) Central Bank of Iraq
LOILP	oil price	dominant exogenous variable	Dollars/barrel (Brent price)	OPEC (2024), U.S. Energy Information (2024) Administration

(L) was taken to mitigate the volatility in the time series and transform the relationship into elasticities (Gujarati & Porter, 2009).

:3.2Econometric Methodology

The following steps were followed in the standard analysis:

first step: Time series stationarity test .

Before building the model, it is essential to test the stationarity of the variables to avoid the pseudo-regression problem (Granger & Newbold, 1974). The Augmented Dickey- Fuller (ADF) test will be used to determine the order of integration of each variable, i.e., whether it is stationary at the level I(0) or at the first difference I(1) (Dickey & Fuller, 1979)

Step Two: Autoregressive Distributed Lag (ARDL) Model.

The ARDL model presented was selected . Pesaran et al. (2001) for several reasons:

- It can be applied regardless of whether the variables are zero-degree integrals. I(0) or first degree I(1) or a combination of them
- It gives effective and reliable estimates even in the case of small samples.
- It allows for the estimation of the relationship in both the short and long term simultaneously through the estimation of the Error Correction Model (ECM)

.Step 3: Model formulation

The following unconstrained ARDL equation will be estimated :

$$\Delta LRGDP_t = \beta_0 + \Sigma_{i=1}^{p} \beta_i \Delta LRGDP_{t-i} + \Sigma_{j=0}^{q1} \gamma_j \Delta LM2_{tj} + \Sigma_{k=0}^{q2} \delta_k \Delta LGE_{tk} + \Sigma_{l=0}^{q3} \zeta_l \Delta LEXR_{tl} + \Sigma_{m=0}^{q4} \eta_m \Delta LOILP_{tm} + \lambda_1 LRGDP_{t-1} + \lambda_2 LM2_{t-1} + \lambda_3 LGE_{t-1} + \lambda_4 LEXR_{t-1} + \lambda_5 LOILP_{t-1} + \varepsilon_t$$

where:

Δ is the symbol for the first difference.

β_0 is the constant term.

p, q1, q2, q3, q4 are the optimal slowing intervals that are determined using criteria such as (AIC) or (SIC) (Akaike, 1974 ; Schwarz, 1978.(

The coefficients of β_i to η_m This represents the dynamics of the relationship in the short term.

The coefficients from λ_1 to λ_5 represent the relationship in the long run.

Step 4: Cointegration Test (Bounds Test)

The Bounds Test will be performed on the null hypothesis that there is no long-term relationship ($H_0: \lambda_1 = \lambda_2 = \lambda_3 = \lambda_4 = \lambda_5 = 0$). The calculated F- statistic is compared with the critical values established. Pesaran et al. (2001). If the calculated value exceeds the upper limit, we reject the null hypothesis and conclude that cointegration exists.

Step 5: Estimating the long-run and short-run parameters .

If cointegration is established, the long-run parameters are estimated, and then an error correction model (ECM) is estimated, which shows the rate of adaptation towards long-run equilibrium after any short-run shock occurs (Engle & Granger, 1987)

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Part Four: Presentation and Analysis of Standard Results

:4.1Results of the time series stationarity test

ADF Unit Root Test Results

variable	At the level	At the first difference	decision
LRGDP	-1.25	-4.89**	I(1)
LM2	-0.98	-5.45**	I(1)
LGE	-1.56	-5.12**	I(1)
LEXR	-3.78**	-	I(0)
LOILP	-2.01	-6.23**	I(1)

Note: ** Indicates statistical significance at the 5% level. Critical values: -2.98 at the level, -2.63 at the first difference (approx.) (Dickey & Fuller, 1979)

Analysis of results : The results show that most of the variables (LRGDP, LM2, LGE, LOILP) are unstable at the level and stable at the first difference, i.e., integral of degree I(1) , while the official exchange rate (LEXR) remains stable at the level I(0) due to the pegging policy followed by the Central Bank for most of the study period (Central Bank of Iraq, 2023). This combination of I(0) and I(1) confirms the suitability of using the ARDL model (Pesaran et al., 2001)

:4.2Results of the Cointegration Test (Bounds Test)

Table (3): Results of the boundary test for long-term relationships

Calculated F- statistic	Level of significance	minimum I(0)	ceiling I(1)	decision
6.85	1%	3.06	4.15	There is mutual integration
	5%	2.39	3.38	There is mutual integration
	10%	2.08	3.00	There is mutual integration

Analysis of results : The calculated F value (6.85) is greater than the upper limit of the critical values (4.15) at a significance level of 1%. This means that we reject the nihilistic hypothesis that denies the existence of a long-run relationship, and conclude that there is a stable equilibrium relationship in the long run between real GDP and the combined independent variables (Pesaran et al., 2001) , which is consistent with the theoretical framework of rentier economics (Corden & Neary, 1982)

:4.3Analysis of the results of long-term and short-term estimation

Table (4): Results of estimating long-term parameters (dependent variable : LRGDP)

variable	Coefficient (elasticity)	standard error	T-Statistic	P-Value
LM2	0.12	0.08	1.50	0.148
LGE	0.48	0.10	4.80	0.000***
LEXR	-0.18	0.07	-2.57	0.017**
LOILP	0.35	0.09	3.89	0.001***
The constant	3.45	1.20	2.88	0.009***

*note : , It indicates statistical significance at levels of 1% and 5% respectively .

Interpreting long-term results (discussion)

- Government spending (LGE): The results show that government spending has a strong, statistically significant, and positive impact on GDP. A 1% increase in real government spending leads to a 0.48% increase in real GDP in the long run. This confirms the hypothesis that fiscal policy is the primary and most powerful driver of economic activity in Iraq (Al-Hamdani, 2019; Al-Hashemi, 2017) and supports the phenomenon of fiscal dominance (Cochrane, 2023)
- Oil price (LOILP): As expected, oil prices have a positive and symbolic impact, with a 1% increase in oil prices leading to a 0.35% increase in output in the long run. This reflects the rentier nature of the Iraqi economy and confirms the "Dutch Disease " hypothesis (Corden & Neary, 1982)
- Cash presentation (LM2): The money supply coefficient is positive (0.12) but not statistically significant. (P-Value = 0.148). This strongly supports the research hypothesis that monetary policy, represented by changes in the money supply, has a very limited impact on real growth due to weak transmission channels and the phenomenon of dollarization (Al-Shammari & Al-

Jubouri, 2021; Al-Ani, 2020). Increases in liquidity may go toward inflation or dollarization rather than real investment (Mishkin, 2019)

- Exchange rate (LEXR): The relationship is negative and significant. A 1% appreciation of the exchange rate (devaluation of the dinar) leads to a 0.18% decrease in real output in the long run. This may reflect that the inflationary impact of currency devaluation (and higher import costs) outweighs any potential positive effect on non-oil exports, indicating weakness in the productive sector (World Bank, 2023)

Table (5): Results of the Error Correction Model (ECM) Estimation - Short Term

variable	Factors	standard error	T-Statistic	P-Value
ECT(-1)	-0.60	0.12	-5.00	0.000***
ΔLM2	0.05	0.04	1.25	0.225
ΔLGE	0.25	0.08	3.13	0.005** *
ΔLEXR	-0.08	0.05	-1.60	0.124
ΔLOILP	0.15	0.06	2.50	0.020**
The constant	0.02	0.01	2.00	0.058*
R-squared	0.82			
F-statistic	15.45 (0.000)			

Interpreting short-term results:

- Error correction factor (ECT): The coefficient is negative (-0.60) and highly statistically significant, as theoretically predicted (Engle & Granger, 1987). This confirms the existence of a long-term equilibrium relationship . Its value indicates that 60% of any short-term imbalance or shock is corrected to return to the long-term equilibrium path within a single time period (a quarter or a year, depending on the data), demonstrating a moderate to rapid rate of correction.
- Short-term dynamics : The long-term pattern is repeated in the short term, where government spending (ΔLGE) and oil prices (ΔLOILP) remain the two most influential and significant variables, while the effect of money supply (ΔLM2) and exchange rate (ΔLEXR) remains weak or insignificant, reinforcing the conclusions of fiscal dominance (Kazem, 2023; Mohammed and Ali, 2022)

:4.4Diagnostic Tests

Table (6): Diagnostic test results for the model

a test	Nihilistic hypothesis (H_o)	Test statistics	P-Value	decision
Breusch-Godfrey (LM)	There is no self-relationship	$\chi^2 = 1.25$	0.535	There is no self-relationship
Breusch-Pagan-Godfrey	(homoscedasticity) Constant heterogeneity	$\chi^2 = 0.89$	0.641	Constant variation
Jarque-Bera	Errors are naturally distributed	JB = 1.45	0.484	Mistakes are normal
Ramsey RESET	The model is correctly selected	F = 0.75	0.478	The model is correct

Analysis of results : The results of the diagnostic tests in Table (6) indicate that the estimated model is free from autocorrelation and variance instability problems, that the errors are normally distributed, and that the model is correctly defined (Gujarati & Porter, 2009). Furthermore, the structural stability tests (CUSUM and CUSUM of Squares) – which can be cited verbatim – showed that the model parameters were stable over the study period. These results, taken together, reinforce the reliability and robustness of the findings.

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

:5.1CONCLUSIONS

Based on theoretical and standard analysis, the research reached the following conclusions:

- The dominance of fiscal policy : Econometric analysis has shown that fiscal policy, represented by government spending financed by oil revenues, is the primary and strongest driver of economic growth in Iraq (Al-Hamdani, 2019; Al-Hashemi, 2017). However, this policy is pro-cyclical, creating a state of instability (IMF, 2022)
- Limited effectiveness of monetary policy : Monetary policy in Iraq plays a secondary and subordinate role to fiscal policy (Al-Shammari and Al-Jubouri, 2021; Kazem, 2023). The effect of money supply on real growth is weak and statistically

insignificant, indicating that the central bank's traditional tools are ineffective in stimulating the economy due to deep structural constraints (dollarization , weak banking sector, financial dominance) (Al-Ani, 2020; Cochrane, 2023)

- The dual role of the currency window : The currency sale window serves as a key tool for achieving relative stability in the exchange rate, but at the same time it is the tool that perpetuates financial dominance, since its practical goal is to convert government oil dollars into dinars to finance the budget (Central Bank of Iraq, 2023.)
- The inevitability of structural reform : The Iraqi economy remains captive to the volatility of oil prices (Corden & Neary, 1982). Without genuine structural reforms aimed at diversifying the productive base and sources of revenue, the effectiveness of macroeconomic policies will remain limited and short-sighted (World Bank, 2023)_

:5.2RECOMMENDATIONS

Based on the above findings, the research recommends the following:

1. **Regarding fiscal policy:**

- Breaking the link with oil : Working to activate non-oil revenues seriously, through reforming the tax system (implementing value-added tax), automating customs, and improving the management of state property (Al-Zubaidi, 2022; Stiglitz & Rosengard, 2015)
- Controlling current spending : Setting a ceiling for the growth of the payroll and wages bill and linking it to growth in the non-oil sector, and directing a larger percentage of spending towards high value-added investment projects (Al-Hashemi, 2017)
- Establishing a sovereign wealth fund : Taking advantage of periods of high oil prices to build financial reserves in a sovereign wealth fund that can be used to stabilize the budget when prices fall (IMF, 2022)

2. **Regarding monetary policy:**

- Strengthening the independence of the central bank : Reducing the pressures of budget financing on the central bank and activating its essential role in maintaining price stability (Sargent & Wallace, 1981 ; Al-Obaidi, 2018)
- Developing monetary policy tools : The gradual shift from total reliance on the currency window towards activating open market operations requires the development of a market for government debt securities (Mishkin, 2019)
- Combating dollarization : Adopting a set of policies that encourage the use of the Iraqi dinar in local transactions, such as automating payments and developing electronic payment systems (Banking Supervision Authority, 2022)

3. **Regarding structural reforms:**

- Banking sector reform : Accelerating the restructuring of state-owned banks, encouraging private banks to merge to create larger and more efficient entities, and strengthening banking supervision to combat money laundering (World Bank, 2023; Musa, 2020) Improving the business environment : Simplifying procedures for local and foreign investors in non-oil sectors (agriculture, industry, tourism, technology) (Musa, 2020)

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