A TEST OF THE EXTENT OF THE CENTRAL BANK'S SUCCESS IN MAINTAINING ITS INDEPENDENCE IN LIGHT OF FINANCIAL DOMINANCE AFTER 2003

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I. INTRODUCTION:

Although the Central Bank was granted independence by Law No. 56 of 2004 and its law stipulated several goals, including stabilizing prices and reducing inflation levels, the fiscal policy had an impact on the work and objectives of the Central Bank, as the public finances after 2003 in Iraq were directed towards a consumerism trend. Away from the directions and objectives of monetary policy, through the rise in commercial expenditures at the expense of investment expenditures, in contrast to the increase in the volume of imports of goods and services with the dominance of oil exports over the volume of total exports, and these factors combined made the monetary policy subject to fiscal policy pressures to achieve the goals of the bank Central, on top of which is monetary stability.

Research problem:

The trends of public finances after 2003 were uneconomic, which led to higher current spending, lower investment spending, higher import volumes, and lower non-oil exports. All these policies were reflected in instability and high unemployment, which made the Iraqi economy unilaterally structured par excellence, and failed in The orientation towards financial resources other than depleted resources.

Research hypothesis: The research starts from the hypothesis that…

there is an inverse relationship between financial dominance and independence of the central bank.

Research goal:

✓ Analyzing the reality of the general budget, trade balance, public debt, and the financial depth of the Iraq Stock Exchange and the impact of fiscal policy on the work and objectives of the Central Bank.

✓ Analyzing the Open Market Operations Tool (Currency Auction Window) in sterilizing non-productive spending, which is all going towards unproductive consumer imports to achieve the goal of stability.

Research methodology: In order to achieve the research objectives and to prove or disprove the aforementioned hypothesis, the research relied on the descriptive analysis approach in order to reach the required results.

search limits:

Time limits: The research is based on the period extending from 2003 until 2018.

Spatial boundaries: Iraq is a case study.

Research structure: To prove the hypothesis and achieve the goal, the research was divided into:
Conceptual framework for central bank independence and financial dominance.


II. CONCEPTUAL FRAMEWORK:

Central Bank Independence:
The independence of the central bank means that the bank is authorized to bid on the objectives assigned to it, and surely Be independent of The state is in management Politics Cash In order to Isolate it About Government pressure, a concept similar to an independent judiciary. The independent institution defines its goals and takes its decisions without interference from the executive authority. This means independence from the dictates of the government, and the freedom to manage monetary policy as central bank governors (not politicians) desire, in the sense of complete separation, between Authority Cash And represented At the bank Central And power Economic Represented By the government In each Thing whether From Hand Administration Politics Cash And credit or the structure Regulatory… etc. And this does not mean that the bank The central works in isolation from macroeconomic policies because politics Cash Which get up Managed the bank Central is one Policies Economic To the state. But should that be the decisions of the bank Central And specially In Regard Politics Cash Independent And congruent to me Limit Big With politics Economic the public To the state. Thus me meant Independence in Specify Objectives Intermediate And in Selection Tools Occasion For puberty That Objectives With The necessity of preservation on Larger Saucepan Maybe From harmony And harmony between Politics Cash And Finance. And so The independence Means that is being To the bank Central the authorities And powers Full for work On Achieving goals Politics Cash (Abdel Moneim, 2019,2). From reality Different concepts For independence Banks Central Could stand up On a number From Constituents Which Touching to her concept Banking independence Central, And that Including Includes Enjoy Banks Centralization with independence in draw And take Decisions Related Monetary policy (Objectives And tools) at Flew consistent From Macroeconomic policies away from Verse Pressure Policy. In Iraq, the independence of the Central Bank has been strengthened according to the Central Bank of Iraq Law No. (56) of 2004 amended, which stipulates that the Central Bank represents the only authority in Iraq responsible for formulating and implementing monetary and credit policies without the need for approval and approval of the Minister of Finance, while granting the Central Bank sufficient powers To set and determine the monetary policy completely freely and without receiving instructions or directions from the government or any other entity (Muhammad, 2019, 371).

Financial Dominance
Means Dominance Financial that the government Plans To spend it Away About Which Coordinate With Monetary authority. And put Its budget Nor care By Impotence at budget, Where is management This Impotence by the bank Central, or by Market the money, And the frequently What It happens so if It was the bank Central Non independent About the government From Where Design And implementation Monetary policy Where get over On His policy Objectives Which Determined by the government And cares Out At Free laying Main For politics Economic To the state. Therefore The the government will not care Growing inability budget as long It No Expect a plus At a cost Religion Where provide the bank Central most Financing For this Impotence, whether From Resources Fact or Issuing More From Coins Than Lead to me More From the growth at size inability budget, as such Lead to me Rates increase Inflation And lower Values the currency Patriotism Before Coins Foreign, and consequently drop Power capacity No cash at Investigation Its goals(Friday, 20-21 2012). As for at Dominance condition Cash, Where that the bank Central Determines His goals And is By design And implementation Monetary policies Away About Requirements the government to fund inability Its budget, And therefore drop Power capacity Financial at Investigation Its goals.

And goal the bank From This Action he is Investigation Goal Inflation and stabilization Intended for Exchange The foreigner, And the For this We find that Authority Financial at Shade dominance Full of power Cash Is not Free Completely at Specify size inability budget, And the on her Commitment To adjust spending Year,

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and when You want Governments that Borrow at Shade Presence dominance Cash It will You find Itself is Free Completely at that Because she Subject For some Restrictions Interior, as such it's a From Preferred Not to borrow Except if Equal the value Ongoing For the net Obligations Government Toward Others With current value For surpluses (returns Tax minus Spending) Which From Expected Achieved at The future, and vice versa In shadow System (Financial dominance) The the government At Identify it The balance Initial For impotence is being that Independently About The value of its obligations Real For others (Masoud, 2005, 276), and on the basis of that, the financial dominance is a different concept to the concept of the independence of the central bank, and in the case of the Iraqi economy, the financial dominance emerges due to the overlapping of the financial policy work within the framework of monetary operations, with this effect the effect of financial dominance interacts with the opposite direction The stability policy adopted by the monetary policy in Iraq after (2003) and within the independence of the Central Bank by law (56) For the year (2004) reflected the impact of negative interaction through Heb E deficit of the huge budget and public debt, which represents the internal negative pressure factor on monetary policy to finance the deficit.

III. ANALYTICAL FRAMEWORK

2.1. Reality analysis of the general budget in Iraq for the period (2003-2018)

By reading the data on the development of the volume and components of public revenues and public spending in its two parts (current and investment) in Iraq for the period (2003-2018) and issued by the Ministry of Planning, the Central Statistical Organization, the National Accounts Directorate, the following becomes clear:

- Total public spending recorded an increase during the period (2003-2018) to reach (80873188.8) million dinars in (2018) compared to (4901960) million dinars in (2003), with an increase of (75971229) One million dinars, as a result of an increase in current spending resulting from the system of wages and salaries and allocations directed to the reconstruction of the infrastructure in exchange for the unstable security conditions that Iraq witnessed, which required the provision of financial resources to meet the needs of the security side (almajmeai, 2018,295). As the proportion of investment spending to total public expenditure during the period (2003-2018) did not exceed (34.2%) While the percentage of current spending out of total public spending during the same period varied to reach a maximum (94.2%) And below (62.6%) This indicates the limited investment spending in Iraq.

(Figure 1) the path of the evolution of public spending, both current and investment in Iraq for the period (2003-2018).

Source: the shape From Prepare researcher To count On Reports Economic, Ministry of Planning, Central Statistical Organization, National Accounts Directorate.
Total public revenues increased to reach (89649860) million dinars in (2018), compared to (2201740) Million dinars in the year (2003), by increasing the amount (87448120) One million dinars, as a result of lifting restrictions and sanctions imposed on Iraq before (2003), which was reflected in an increase exports Oil Rough as well as high Crude oil prices. And that cast a shadow over the rise in oil revenues. As the proportion of oil revenue contribution in the total public revenues during period (2003-2018) ranged between (97% - 88%), in return was the contribution of tax revenues in total public revenues did not exceed (%11.3) despite raising the sales tax on Card recharging mobile phones and Internet networks, and imposing airport tax in a lump sum amounting to (25) One thousand dinars for one ticket, and increasing the real estate tax rate from (10%) to me (15th%). And the imposition of sales tax on a number of imported goods that included cars of all kinds at a tax rate (5%) And tobacco at a rate of (100%), and an increase in the percentage of fees for electricity, telephone, water and sanitation services (Al-Arabi, 2018).

(Figure 2) the course of the evolution of public revenues in both its oil and tax in Iraq for the period (2003-2018).

Source: the shape From Prepare researcher To count On Reports Economic, Ministry of Planning, Central Statistical Organization, National Accounts Directorate.

The general budget has achieved a deficit of (2700 220) Million dinars in (2003), at a rate of (9.1%) of the gross domestic product, and after the year (2003), the oil revenues of Iraq increased, which was reflected in the increase of public revenues and achieved a surplus in the general budget of (871358.7) One million dinars in the year (2004), at a rate of (1.6%) of the gross domestic product, and a surplus will continue to be achieved in the general budget until the year (2008), but on the other hand the year (2009) witnessed a deficit in the general budget by (346195) and by (0.26%) of the gross product, as a result of the repercussions of the global financial crisis that reflected its shadows on the overall economic fields, corresponding to a surplus in the general budget during the period (2011-2012), after which the general budget recorded a deficit during the period (2013-2016) that exceeded (9%) while providing the Federal financial management Act (No. 6 of 2019) at a rate of 3% of GDP at a higher fiscal deficit (Iraqi 0.2019 7).

(Figure 3) the course of the evolution of the general budget in Iraq for the period (2003-2018).

Source: the shape From Prepare researcher To count On Reports Economic, Ministry of Planning, Central Statistical Organization, National Accounts Directorate.

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Based on that ... indicate the results of analysis of the dominance of oil revenues on public revenues with a low proportion of the contribution of revenues of non-oil, compared to the dominance of spending this on the tunnels year with the low percentage of spending investment of spending public, and this confirms the nature of the great imbalance suffered by the Iraqi budgets and the extent of The fragility of the Iraqi economy and its increasing dependence on oil.

2.2. Analyzing the reality of the trade balance in Iraq

By reading the data on the development of the volume of exports and imports in Iraq for the period (2003-2018) issued by the Ministry of Planning, the Central Bureau of Statistics, the National Accounts Directorate, the following becomes clear:

- The Iraq was still dependent on exports of crude oil, and this indicates the dominance of crude oil on the total Iraqi exports. The contribution of oil exports to total exports reached (%94) in 2003, as oil exports reached (7519) Million dollars, while total exports (7991) Million dollars, on the other hand, the year 2018 witnessed an increase in the contribution of oil exports to total exports to reach (98.4%) in 2018, as oil exports reached (83800) Million dollars, while total exports (85 200) Million dollars, and this confirms the reality of economic that the Iraqi economy unilaterally side relies on oil exports, which ranged from the contribution of oil exports of total exports during the period of study between (94% - 98%) and thus made the Iraqi economy with a high sensitivity to change data prices of oil in global markets on the one hand, and for changes in the value of the approved exchange rate (the US dollar) on the other hand. Whereas, the contribution of commodity exports and exports of petroleum products was low, which does not constitute any weight in the structure of Iraqi exports, and this is due to the weakness of the production apparatus of goods and services directed to the external year.

- Either for import, which derives its importance in meeting the domestic demand effected the Increase goods and services, combined with the weakness or absence of device production from its coverage, Iraq relies almost entirely on imports to fill domestic demand of various commodities needs, as was the total imports for the year (2018) of commodity materials and oil products worth (37) billion US dollars (Ministry of Planning, 2019, 3) and as a result of this weakness in the production base of Iraq, it is forced to import approximately (95%) of industrial goods and (85%) Of foodstuffs to meet the local demand (Resin, 2017, 132).
2.3. Analysis of the reality of public debt

By reading the data on the development of public debt (internal and external) in Iraq for the period (2003-2018) issued by the Central Bank of Iraq, the following becomes clear:

- that Public debt Outer It was High very During the year (2003) result To accumulate Debt volume and debt service ratio Before (2003 ), But Taking To decrease after 2003 to total Religion Outer (48625780) One million dinars in (2018), as a result of the lifting of the sanctions imposed on Iraq, which was reflected in an increase exports Crude oil And that cast a shadow over the rise in oil revenues and more Reserves Foreign debt that contributed to financing And its benefits , as well About agreement club Paris Which Done Under it Turn off(80%) From Debt Iraq During that period( the National Development Plan for the years 2010-2014, 50).

- Saw religion The year Internal A rise of up to( 41,822,918 ) Million dinars in the year (2018) compared to ( 5,543,684) million Dinar at Year2003 , By an increase of (36,279,234) Million Dinars as a result of increased spending year and especially spending this that the heaviest burden the budget versus fluctuating volume of revenues of oil unless the government was forced to a recourse to domestic debt to finance the deficits of the budget during the period(Hassan, 2010, 61).

4.2. Analyzing the reality of the currency selling window.

By reading the data on the development of the Central Bank’s purchases of dollars from the Ministry of Finance and the Central Bank’s sales of dollars for the period (2003-2018) issued by the Central Bank of Iraq, the following becomes clear.
thatWindow Sale the currency (Sale Dollar Opposite The dinar) play a role Essential at sterilization surplus criticism(Not To inflate ), are you not coming Of high volume Expenses The budget the public To the state Form Basis. And county On stability price Exchange through, financing Trading External And transfers Investors And purposes Other Considering the bank Central Monopolist Natural For the coin Foreign (Dollar Oil) .That is why we find that the Central Bank purchases of dollars from the Ministry of Finance in the event of a surplus in the general budget . P Purchases Bank has reached the Central US ( 52.229 ) $ million dollars in 2018, while the central sales amounted to $ ( 47.133 ) million dollars in the same year as a result of late achieved a surplus in the general budget amounted to (8776671.2) A million dollars , on the other hand , we find an increase in the central purchases of dollars in the event of a surplus in the trade balance , in order to achieve stability in the exchange rate, as the trade balance surplus reached (41377289.6) In 2018.

![Central Bank purchases of dollars from the Ministry of Finance vs Central bank sales of dollars](image)

Figure (6) The development path of the CBI's purchases and sales of dollars for the period (2006-2018)

Source: the shape From Prepare researcher To count On Reports Economic To the bank Central .

5.4. The financial depth of the Iraq Stock Exchange.

The depth of the financial index, which is measured by dividing the market value in the stock market on the gross domestic product (Alphenanc,2000,185), which is MA evil reflects the ability of the state to move the head of capital at the macro level , as well as demonstrates the ability of the market financial to contribute In support of the economic growth process, this indicator also allows to determine the extent to which the economy is affected by financing through the stock market, and explains the degree of dependence of the financial sector on banks or on stock markets to finance economic operations (Ross Levine,2009,13). Through the data issued by the Iraq Stock Exchange, we note that the financial depth index was small and fluctuated during the years of study, and this indicates that the Iraq Stock Exchange does not contribute to supporting economic activity in Iraq, despite following the steps of financial reform and the occurrence of some developments in The stock market works, but the market’s role is still limited and low in the national economy.

![Financial depth](image)

Figure (8) The path of development of the financial depth of the Iraq Stock Exchange for the period (2006-2018).

Source: the shape From Prepare researcher To count On Reports Economic Market for Iraq Stock Exchange.
IV. CONCLUSIONS AND RECOMMENDATIONS.

V. CONCLUSIONS.

- Although the central bank to grant independence Law No. 56 in 2004, the text of its law on several goals, including the stability of prices and lower levels of inflation... but that fiscal policy has functional roles, political and social influential work and objectives of the Central Bank.

- Public finance after 2003 in Iraq was heading towards a consumer trend, away from the direction of monetary policy.

- Cash after the 2003 policy is hostage to finance a large degree of policy, because the government relies in spending on revenues of oil which revenues from currency and foreign are exchanged in the currency of a national with the central bank and thus will increase version cash accordingly, this case is called dominance of oil-financial.

- The ratio of investment spending to total public spending during the period (2003-2018) did not exceed (34.2%) While the percentage of current spending out of total public spending during the same period varied to reach a maximum (94.2%) And below (62.6%) This indicates the limited investment spending in Iraq.

3.2. Recommendations.

- Diversifying and maximizing the domestic revenues of the public budget in order to avoid reaching financial - oil dominance

- Coordination between fiscal and monetary policy in drawing up the macroeconomic policy for the Iraqi economy

- Correcting financial imbalances and reducing the general budget deficit by controlling local expenditures, setting specific ceilings for operational expenditures and increasing their efficiency Collectible Taxes And fees And wages And limit From Phenomena Corruption. As well as managing And adjust Religion The year Including Achieves Sustainability The situation Financial

- Upgrading the work of the Iraq Stock Exchange in financing economic operations and contributing to supporting economic activity in Iraq

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