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Financial Transformations in Iraq (2014 - 2024)
Growth of the Money Supply and Increase in Internal Debt

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● **Opinion Article**

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Financial Transformations in Iraq (2014 - 2024): Growth of the Money Supply and Increase in Internal Debt

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About

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Al-Bayan Center pursues its vision by conducting independent analysis, as well as proposing workable solutions for complex issues that concern policymakers and academics.

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Since 2014

Fiscal and monetary policies in Iraq have witnessed major changes over the past decade. The figures in the annual statistical bulletins of the Central Bank for the years (2014)[1] and (2024)[2] reflect noticeable increases in the growth of the money supply and internal debt, illustrating the economic challenges the country faced during this period.

1. Growth of the Money Supply and Expansion of the Currency Structure

The currency issued, which means "cash issued by the Central Bank for circulation, excluding cash in the Central Bank's vaults," recorded remarkable growth. It rose from about 39.8 trillion dinars at the end of 2014 to more than 100.5 trillion dinars at the end of 2024. This growth was not limited to volume alone, but also extended to the structure of the circulating monetary denominations. In 2014, the 25,000-dinar denomination was dominant, while the 50,000-dinar denomination, issued by the Central Bank in 2015, came to constitute more than 38.8% of the money supply by the end of 2024.

The currency issued is considered one of the primary factors affecting the Iraqi economy, as the increase in the structure of the money supply reflects the need to meet market demand.

By comparing current expenditures, we find that employee compensation was the primary driver for the growth of the money supply, as salary allocations doubled from 28.4 trillion dinars in 2014 to 60.5 trillion dinars in 2024. This expansion in government spending reflects the government's reliance on oil revenues to cover expenditures, leading to an increase in the money supply. It is noted that a large part of this supply is circulated outside the banking system, as estimates indicate that about 87% of the money supply in Iraq circulates outside the banking system. This means that out of every 10 printed dinars, only one dinar returns to the banking system, reflecting inefficiency in cash liquidity management. Consequently, the relationship between government spending, money supply growth, and the change in its structure is a complex one.

2. Growth of Internal Public Debt

Internal public debt represents the outstanding balance of domestic debt owed by the government, and includes the outstanding balance of treasury bills in addition to other facilities obtained by the government from the banking system. One of the most prominent features of this decade is the evolution of the volume of internal public debt, which recorded an increase exceeding 774%. At the end of 2014, total internal debt amounted to 9.5 trillion dinars, and was almost entirely limited to treasury bills. However, at the end of 2024, it rose sharply to reach 83.04 trillion dinars.

The instruments of this debt diversified to include treasury bills, loans from government banks, and bonds; Table[3] below illustrates the components of internal debt as of December 2024.

Item	**(Amount (Million Dinars**
Treasury Bills	51,165,617
Loans from financial institutions	13,364,479
Loans from government banks	5,900,000
Bonds	9,834,245
Debt owed by the Ministry of Finance	755,519
(CSD system bills (364-day maturity	2,030,000

3. The Relationship Between Foreign Reserves and Internal Debt

According to the annual statistical bulletin of the Central Bank of Iraq for the year 2024, total foreign assets held by the Central Bank at the end of December 2024 amounted to approximately 130,839,519 million Iraqi dinars. When evaluating these reserves at the exchange rate adopted by the Central Bank

(1,310 dinars per dollar), they amount to about 99.9 billion US dollars. When compared to the currency issued, which reached 100.5 trillion Iraqi dinars, the coverage ratio of foreign reserves to the currency issued at the end of December 2024 is approximately 129.6%. This ratio indicates that the Central Bank of Iraq possesses foreign reserves covering the entire currency issued for circulation, with a surplus of 29.6% over the value of the currency issued. This indicator reflects the strength of the Iraqi dinar and the ability of the Central Bank to support the stability of the local currency at that stage.

Despite being a positive indicator from a monetary standpoint, it requires a precise reading when linking it to the growth of internal debt. Possessing massive foreign reserves of approximately 130.3 trillion dinars, which exceeds the value of the internal public debt of 83.05 trillion dinars, means that the government-through the Central Bank-possesses strong financial solvency and the capability to cover its monetary obligations. But the fundamental challenge remains that the growth of internal debt may lead in the future to an increase in the issued monetary supply (currency in circulation) if the deficit is financed through internal borrowing, which will reduce the importance of the foreign reserves adequacy ratio-the very mechanism considered a safety valve to prevent the deterioration of the value of the Iraqi dinar.

In conclusion, the analysis of the period from 2014 to 2024 shows that the Iraqi economy has moved into a stage characterized by a noticeable increase in cash liquidity and a rise in internal debt. This model, which relies on expanding current expenditures through internal borrowing and increasing financial liquidity, puts continuous pressure on monetary policies and foreign reserves. Its sustainability remains fully tied to the stability of global oil prices and the state's ability to control the growth of current expenditures. However, the question regarding the sustainability of this model under the current situation, especially with the closure of the Strait of Hormuz and the interruption of oil revenues, remains open.

Sources:

1- Central Bank of Iraq - Directorate General of Statistics and Research, Annual Statistical Bulletin for 2014, Baghdad - Iraq, 2015.

2- Central Bank of Iraq - Directorate General of Statistics and Research, Annual Statistical Bulletin for 2024, Baghdad - Iraq, 2024.

3- Prepared by the researcher based on data from: Central Bank of Iraq, Department of Statistics and Research, Annual Statistical Bulletin for 2024, Baghdad, 2024, Table No. (36), p. 76.

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