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The Role of Coordination Between Fiscal and Monetary Policies in Overcoming the Economic Crisis in Iraq for the Period 2014-2020

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INTRODUCTION

In few years, the Iraqi economy was exposed to two double economic crises, the first was in 2015-2016, and the second one was the Corona crisis in 2020, so it was necessary to bypass these crises to be coordination between the fiscal and monetary policies in order for the economy to overcome the state of stagnation.

The concept of coordination between fiscal and monetary policies refers to the common understanding by those in charge of managing public debt, and the fiscal and monetary authorities of the objectives of those policies, in light of the mutual influence of their various tools, and that those in charge of managing public debt present their vision about costs and risks that are compatible with the government's financing requirements The size of the public debt, working to separate debt management and monetary policy objectives, establishing the principle of accountability when financial development is achieved, and exchanging information between the monetary and financial authorities and those in charge of debt management about the government's current and future liquidity needs.[1]

The importance of coordination between the monetary and financial policies stems from a basic foundation, which is that the high degree of coordination between the two policies gives a great ability for both policies in the face of economic crises that may hat the economy, such as inflation or deflation, and avoids conflict between the objectives of both policies, as well as preventing the dominance of financial policy over monetary policy. Or vice versa while maintaining the independence of the central bank.

FIRST: THE TRADITIONAL MODELS OF THE INTERACTION OF FISCAL AND MONETARY POLICIES

It usually expresses the mechanism of fiscal policy and its interaction with monetary policy through various economic models that were able to express realistically and literally the performance of the two policies under economic assumptions that the national economy of any country may witness.

IS-LM model : Probably one of the most important and famous graphs , It is what is expressed by the IS-LM curve in the interaction of fiscal and monetary policies, which in turn reflects the position of each of the Keynesians and the Money for their vision of the performance of both fiscal and monetary policy.

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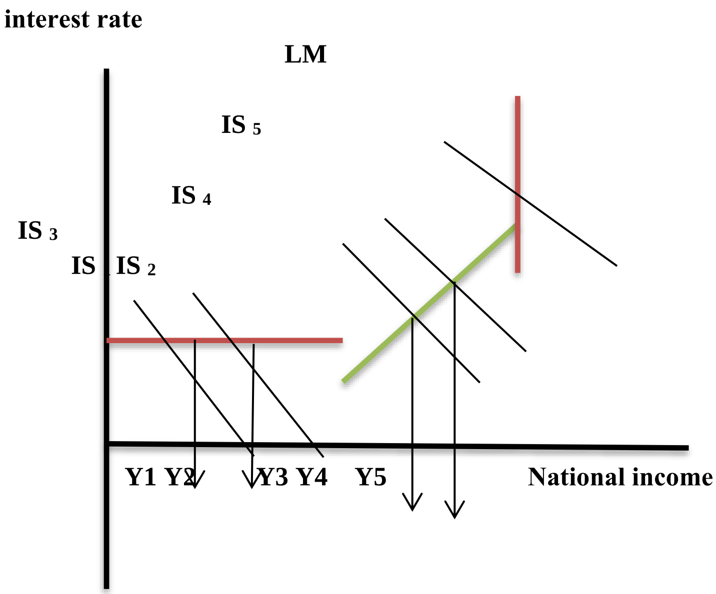
Figure (1) IS-LM model



Source : Haitham Abdul Qader Al-Janabi, The Basics of Macroeconomics, Scientific Books House 2010, p. 101.

SECOND : EFFECTS OF COORDINATION BETWEEN FISCAL AND MONETARY POLICIES:

Most important effects of coordination can be summarized as follows [2] :

(a)- combating economic cycles; When the economy is facing a state of stagnation and unemployment, fiscal policy may resort to increasing public spending in order to increase aggregate demand (investment-consumption, surplus exports) and/or reduce or eliminate some taxes and/or increase government payments (subsidies) in order to encourage consumer spending and investment, and thus generate new job opportunities that absorb a large part of the idle hand, at the same time the monetary authority must support the financial authority in combating stagnation and unemployment through its policy tools (quantitative and qualitative). Investment and consumption. Lowering the interest rate also discourages saving deposits, and thus these resources are directed either to consumption or investment or both.

The monetary authority can also activate other tools such as quantitative tools such as open market operations, legal reserves, and re-discount rates. The central bank, through open market operations, purchases securities, and this leads to the expansion of monetary reserves and increases the ability of banks to grant credit and stimulate the elements of aggregate demand to reduce the burden of deflationary pressures.

(b) - In dealing with inflation, monetary policy alone cannot be able to address high inflation rates without the support of fiscal policy and other economic policies to achieve economic stability, as the Central Bank (the monetary authority) absorbs the excess amount of the money supply and then aggregate demand, in addition to reducing the volume of bank credit provided by commercial banks to individuals and enterprises. Which leads to a reduction in the volume of spending and then aggregate demand, in addition to reducing the volume of government loans directed to individuals and banks, or borrowing from individuals (offering government bonds), with the aim of reducing the volume of money circulating among individuals and thus reducing consumer and investment spending. The same field is working to reduce the volume of government spending, by reducing the volume of income in addition to increasing the volume of government revenues by increasing the amount of direct and indirect taxes or reducing the volume of subsidies.

(c)- Determining the exchange rate, the adoption of an expansionary financial policy coupled with a restrictive monetary policy results in a clear impact on determining the exchange rate and the expansionary financial policy leads to an increase in the supply of domestic bonds and this leads to an increase in net wealth, and on the other hand, the restrictive monetary policy leads to a reduction in monetary reserves , which leads to a decrease in net wealth, and then it is expected that the mix of the two policies (monetary - fiscal) will not change the level of net wealth, and therefore there will be no (wealth effect) on the exchange rate in the event that the rate of change in the fiscal and monetary policies is equal.

(d) - The high degree of coordination between the monetary and fiscal policies paves the way for an efficient investment environment; The stability of the interest rate and taxes in all its forms plays a role in achieving high rates of growth of local and foreign investments. The monetary authority is to offer low interest rates to reduce the cost of loans to investors.

(e)- On the other hand, the weak degree of coordination between the two policies could have negative effects on both policies in particular, and on the macroeconomic level in general. The weak coordination between the two policies may lead to each authority designing and implementing its goals in isolation from the other policy, which leads to conflict Objectives, for example, when the economy experiences a decline in aggregate demand (stagnation), and a high level of unemployment, fiscal policy tries through its tools (expenditures and revenues) to raise the level of aggregate demand to a point of equilibrium by reducing taxes or increasing spending and the like, at the same time working Monetary policy through the objective of maintaining the price level unchanged to the reduction of the money supply through its quantitative and qualitative policy tools, and therefore monetary policy measures will lead to the weakening of fiscal policy measures in achieving its goal of raising the level of aggregate demand.[3]

THIRD: COORDINATION BETWEEN PUBLIC DEBT MANAGEMENT AND MONETARY POLICY

The government's financing policy is closely linked with the monetary policy, and if the borrowing was done at an interest rate cost equal to zero, and without harmful effects on the economy, it would have been logical for the government to choose this path. Since the cash flow associated with government borrowing has daily effects on liquidity in the money market, the exchange of information and coordination of activities among decision makers related to monetary policy and debt management becomes essential [4]

These institutional arrangements differ from one country to another. For example, in America, France, Italy and Germany, both monetary policy and debt management policy are managed by a different institution. Monetary policy is the responsibility of the central bank, while debt management remains under the responsibility of the Treasury or the Ministry of Finance.

Table (1) A comparison between the objectives of public debt management and money management

money management	public debt management
It aims to achieve domestic and external stability of - .the national currency	,It minimizes the interest rate cost of deficit financing -1 while relying for government financing on voluntary and .market-based means
Contribute to reducing the inflationary impact of deficit .financing	Contribute to reducing the inflationary impact -2 .resulting from deficit financing

Contribute to the development of the money market - and the capital market, and thus to the ability of the Central Bank in the future to formulate open market .policies	It contributes to the development of the money and -3 capital markets, and thus to the government's ability in .the future to finance its operations
Contribute to avoiding short-term imbalances in the financial markets, resulting from the accumulation of public debt and large changes in the debt that has not .been paid	Contribute to avoiding short-term imbalances in the -4 financial markets, resulting from the accumulation of public debt and large changes in the debt that has not been .paid
Develops and uses market-based tools for money .management	Provides the Central Bank with the necessary tools to -5 .implement open market policies
Preventing the occurrence of a systemic crisis in the - financial sector, **resulting from isolated events that .occur in the real sector or in the financial sector**	It ensures that the public sector is lent at rates that fully -6 .consider the opportunity for resources

Source : Sergio Peraletti, Coordination between Public Debt Management and Money Management, Finance and Development Journal, IMF , march 1993 **.**

Table (2) The components of the internal debt in Iraq (million Iraqi dinars (I.D.).

The total of the internal debt	Other creditors holding treasury bills		Debt from government banks			Debt from the central bank		years
	pension funds	private banks	loans	bond	treasury transfers	Ministry of Finance	Discounted remittances	
9522	2752	562	0	0	3752	2456	0	2014
32144	2200	364	10461	15th	10523	2356	6225	2015
47381	4728	587	10564	1697	11224	2356	16225	2016
47696	3245	471	10564	2682	12353	2156	16225	2017
41823	2650	70	9501	1953	10768	1956	14925	2018
38332	2593	379	8652	1921	8906	1756	14125	2019
52240	1243	172	14,669	1909	4239	1556	28452	Aug-20 20

Source : Central Bank of Iraq, Department of Statistics and Research, annual statistical bulletins

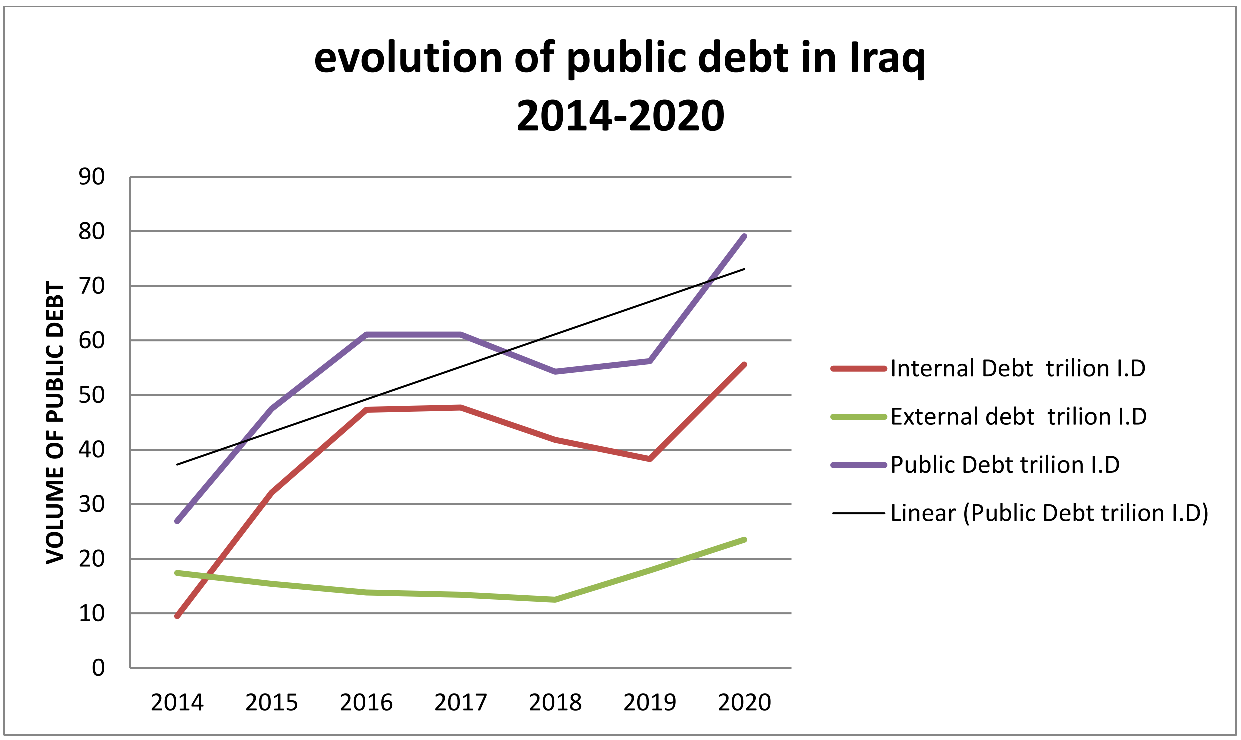
It is clear from Table 2 the jumps that occurred in the internal debt, which contributed mainly to financing the government deficit of the general budget. Government banks, the Central Bank and the Pension Fund contributed mainly to the first crisis 2015-2016.

Then the internal debt returned to decline in the period 2017-2019 as a result of the financial abundance that was achieved from oil revenues before the Corona crisis occurred in 2020, which led to an almost doubling of the internal debt and bearing the burden of government assistance this time by the Central Bank, which doubled its discounted transfers from Before government banks, the Iraqi economy would have overcome a great ordeal that could have surrounded it.

Table (3) The evolution of the public debt and its components in Iraq for the period 2014-2020 (trillion Iraqi dinars)

Public debt	external debt	internal debt	years
26.9	17.4	9.5	2014
47.5	15.4	32.1	2015
61.2	13.8	47.4	2016
61.1	13.4	47.7	2017
54.3	12.5	41.8	2018
56.2	17.9	38.3	2019
79.1	23.5	55.6	2020

Source : Central Bank of Iraq, Department of Statistics and Research, annual statistical bulletins , different years.



.Source: The work of researchers based on the data in Table 3

CONCLUSION

At the end of the research, several conclusions were reached, the most important of which are the following:

1- The oil-producing countries such as Iraq, by relying on oil revenues to finance government expending, lead to occurrence of practices that allow to financial dominance,(even if there are no laws) over the independence of central banks.

2- Iraq was able in 2004 to pass a special legislation for the Central Bank known as Law No. 56 of 2004 that enhances its independence and limits the financial dominance of monetary policy and prevents the monetary authorities represented by the Central

Bank of Iraq from lending directly to the government so that there is no excessive funding by issuing cash .

3- During the research period from 2014-2020, Iraq has changed its financial policy by relying on internal debt instead of external debt, which shows the cooperation between the financial and monetary policies in this field to overcome the double economic crises that the Iraqi economy is exposed to.

4- The government's lenders changed during the two crises discussed in the research, thus changing the structure of the internal debt. In the 2015-2016 crisis, several agencies participated in lending besides the central bank and government banks, including private banks and the pension fund, while in the last crisis, the Corona crisis in 2020 carried The Central Bank of Iraq and some government banks account for the bulk of the burden of financing and filling the public budget deficit, which has suffered due to the collapse of global oil prices and the decline in public revenues to one third.

RECOMMENDATIONS

Therefore, we can make a major recommendation is continuation of coordination between the fiscal and monetary policies, respect for legislation in text and application, to overcome any economic crisis that the Iraqi economy may be exposed to, which depends on the oil sector mainly to meet the needs of government public spending.

Finally, It is also necessary for there to be fiscal discipline on expenditures of the government, while providing alternatives to oil, such as focusing on improving tax system, improving the collection of electricity bills, and rationalizing subsidies so that they reach their true beneficiaries.

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