The Role of Monetary Policy in Facing the Repercussions of the Coronavirus (COVID-19) Pandemic on the Iraqi Economy

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Abstract

The research aims to identify the role of monetary policy in Iraq in light of the Covid-19 pandemic and the negative effects of this pandemic on various economic sectors. With regard to the repercussions of the pandemic on the Iraqi economy, Iraq's crude oil exports decreased by (38.81%) than they were before the pandemic, and this decrease in oil exports led to a decrease in oil revenues by (51.94%). The pandemic also contributed to raising the proportion of total public debt in Iraq by (12.67%) than it was before. In light of these consequences, monetary policy representative by the Central Bank of Iraq (CBI) had to meet in order to mitigate the consequences of this pandemic. The Central Bank of Iraq has intervened through a number of measures, the most important of which is reducing its reserves from 15% to 13%, as well as reducing interest on loans that expire at 20 million Iraqi dinars from 4.8% to 3.5%, between 21 million. Dinars to one billion dinars interest 4% after it was 6.3%, and other measures will be covered in this research.

Key words: Monetary Policy, Covid-19 Pandemic, Public Debt, Economic Growth, Foreign Trade, The Iraqi Economy.

Introduction:

The Iraqi economy underwent two shocks during the period between 2014-2018 (ISIS terrorist and low oil prices) and then rebalanced and recovered from the impact of those two shocks, but the Iraqi economy at the end of the first quarter of
2020 returned to suffer from a complex crisis, this time with three dimensions (Political-health-economic) The first was the resignation of Adel Abdul Mahdi's government without approving the country's general budget and entering into the cycle of the absence of a government and the lack of a general budget, which negatively affected the country's economic activity. The second health crisis represented by the spread of the Covid-19 virus, as the first infection with this virus was recorded in Iraq on February 24 in Najaf Governorate for an Iranian student (Iraqi Ministry of Health, 2020), and with the gradual increase in cases of the virus, the authorities implemented a set of measures to limit its spread, including the closure of borders, preventing travel (including international flights and local transportation), and closing schools and universities. As for the third crisis, it was represented by the drop in oil prices in international markets and the consequent decline in the revenues of the general budget.

1- Repercussions of the Covid-19 pandemic on some of the variables of the Iraqi economy

The Iraqi economy is considered one of the rentier economies that mainly depend on crude oil exports to supplement the general budget with revenues, as oil revenues contribute (93%) of the total general revenues to the budget (Iraqi Ministry of Finance, 2020), this means that any decrease in crude oil prices will negatively affect the state's revenue and then on various other sectors, this is what happened during the Covid-19 pandemic, which reflected its negative effects on various economic sectors. In this paragraph, the negative repercussions of the pandemic will be addressed as follows:

1-1- Repercussions of the Covid-19 pandemic on Iraq's foreign trade:

Several studies have confirmed that the Iraqi current account balance will suffer from a deficit of (6.3%) of GDP in 2020 due to the decrease in oil revenues by half against the background of low prices and the volume of production that has been determined by OPEC, and this matter led to the deterioration in The external situation of the Iraqi economy compared to the year 2019, when the current account balance achieved a surplus of (15,762.6) million
dollars (Central Bank of Iraq, 2019). Exports of services also decreased due to the international flight ban around the world, including Iraq. Most of the Iraqi services exports consist of religious tourism due to the holy sites. In the event that most of the Iraqi borders and ports are not reopened, imports will contract as the non-oil economy enters a recession, causing a more pronounced deficit in the current account. With increasing pressure on the budget, public capital spending is expected to decrease. This, in turn, will reduce the demand for capital imports. It is expected that Iraq will record a deficit in the current account in the medium term, before returning to a modest surplus in 2022 onwards in the event of high crude oil prices, because oil revenues represent (96%) of total merchandise exports (Central Bank of Iraq, 2019).

1-2- Repercussions of the Covid-19 pandemic on Iraq's revenues from crude oil exports:

The countries of the world are linked by a network between them of economic relations, which makes the crisis in any region in the world can be transmitted directly or indirectly to the rest of the countries, this is what happened in Iraq as it was affected by the spread of Corona virus in China and what caused the economic shut down there, in which had a negative impact on Iraqi oil exports, China which is the largest importer of Iraqi oil. Iraqi oil exports to China constitute about (40.7%) of the total Iraqi oil exported to other countries of the world (Central Bank of Iraq, 2020a). Iraqi oil exports to China before a pandemic were about (50.5) million barrels per month, they became (30.9) million barrels under pandemic (Kazem, Iman Abdul Rahim, 2020), and the rate of decline was (38.81%) which impact negatively on the oil revenues that contribute With (%93) of the general budget revenues, as shown in Figure 1. Accordingly any shock to the oil sector will have a significant impact on revenues and then on expenditures, and this is what happened during the Covid-19 pandemic.
Figure 1: Percentage of the contribution of oil and non-oil revenues to total public revenues

Figure 1 shows the reliance on oil revenues to finance the general budget in light of the Covid-19 pandemic. Oil revenues decreased by (51.94%) than they were before the pandemic. Revenues of exported crude oil before the pandemic achieved more than (44) billion dollars per month, but in light of the Covid-19 pandemic and the drop in crude oil prices in international markets, crude oil exports achieved revenues of only (21) billion dollars per month (Kazem, Iman Abdul Rahim, 2020).

1-3- Repercussions of the Covid-19 pandemic on the Iraqi public debt:

Public debt is one of the most important goals of economic policies. Public debt crisis does not differentiate between a growing countries, developed, capitalism, socialist state, or a mixed economy, its repercussions will be on the economies countries whether developed or growing countries. As a result of decrease in Iraq's crude oil exports to the importing countries due to the decline in global demand in light of the economic shutdown caused by Covid-19 pandemic, it was necessary to find a solution to finance public expenditure of the Iraqi economy, therefore public debt was resorted as an emergency solution in light of the pandemic. The total Iraqi public debt was (119) billion
dollars before the pandemic, during the pandemic it became (12.67%) to reach more than (134.4) billion US dollar(Central Bank of Iraq, 2020b) to be (71.16%) from gross domestic product in which is considered a very high percentage compared to the percentage approved by Maastricht Agreement in the European Union. It was agreed that the public debt ratio should not exceed more than (60%) from total local production(Piątkowski, 2014) as a sustainable, a percentage which is the ratio that the state can continue to service its debts without stop financially, or continue to be able to bear the public debt.

**Figure 2 : Total Iraqi public debt before and after the pandemic**

1-4- Repercussions of the Covid-19 pandemic on economic growth:

Economic growth is one of the most important economic indicators of the state as it contributes to increasing income, and also contributes to reducing the unemployment rate in the country, because economic growth helps in providing suitable job opportunities in various fields. According to the International Data Bank with regard to economic growth in Iraq, the economic growth rate was (3.7%) in 2019 before the pandemic Covid-19, but after the spread of virus Corona and economic shutdown in most countries of
the world, including Iraq, this closure had negative effects on the rate of economic growth. According to World Bank estimates, it is expected to be (4.7%) in 2020 (International Monetary Fund, n.d.-a), As shown in Figure (3).

![Economic growth before and after the pandemic](image)

**Figure 3**: Economic growth before and after the pandemic

2- Monetary policy measures to mitigate the repercussions of the COVID-19 pandemic

After the spread of the Covid-19 virus in Iraq since February 2020 and the subsequent economic stoppage and the imposition of a curfew throughout Iraq, the Central Bank of Iraq has taken several measures aimed at mitigating the repercussions of the epidemic, and these measures are (International Monetary Fund, n.d.-b):

3.1. Reducing its reserve from 15% to 13%.

3.2. Reducing interest on loans that end at 20 million Iraqi dinars from 4.8% to 3.5%, while loans that start from 21 million dinars to one billion dinars have an interest of 4% compared to 6.3%.

3.3. Providing banking facilities that work to reschedule bank loans with the private sector, especially those owed by small and medium-sized companies.
3.4. Announcing an increase in current and future loan repayment terms for the sectors most vulnerable to the repercussions of the Coronavirus, and reducing the cost of borrowing.

3.5. Stopping the payment of interest and bonds by small and medium enterprises covered by the initiative of one trillion Iraqi dinars.

3.6. Establishing a fund to collect donations from financial institutions as an initial donation of 20 million dollars from the Central Bank of Iraq and 5 million dollars from the Iraqi Trade Bank.

3.7. Encouraging the use of electronic payments to contain the transmission of the Coronavirus.

3.8. Instructing sellers to cancel commissions for these payments for a period of six months.

**Conclusion:**

This research focused on monetary policy efforts represented by the Central Bank of Iraq in facing the repercussions of the Covid-19 pandemic on the Iraqi economy, despite of fact that these measures are temporary solutions and not radical solutions to address the negative repercussions of the pandemic. Therefore, we recommend that we have to work to correct the imbalances that the Iraqi economy suffers from by activating the role of other productive sectors such as the agricultural sector and the industrial sector in order to reduce dependence on oil as a main resource in financing the general budget also developing the tax system, increasing its effectiveness, and striving to adopt economic policies aimed at establishing investment projects in partnership with the private sector to increase the productivity of this sector and supplement the state's general budget revenues. Work on the rationalization of unnecessary expenditure and the trend towards investment expenditure and progress so as to ensure economic growth. Establishing a sovereign fund aimed at saving surplus funds in the event of recovery and not squandering these funds, and then the occurrence of any future shock to the Iraqi economy may be mitigated by its effects if sufficient funds are available to face it.
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