

# Monetary Policy and Its Impact on Income Distribution in Iraq for the Period 2003-2022

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**Abstract:** The problem of inequality in the distribution of income is one of the important economic variables that have been focused on in economic studies and research, and the study and analysis of the impact of economic variables in the redistribution of income is of great importance, whether in developed or developing economies, as justice in income redistribution can have important economic effects. This study goes to estimate the impact of some monetary indicators on income distribution in Iraq for the period 2003-2022, where this impact was estimated using the Joint integration according to the self-regression model of distributed slowdown (ARDL) and bound test the results of the test confirmed the existence of a significant impact of the monetary policy indicators represented by the exchange rate, the broad money supply and the interest rate in the redistribution of income in Iraq.

**Keywords:** (monetary policy, income distribution, Gini index, poverty rates).

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## INTRODUCTION

Monetary policy and the effectiveness of its indicators are important factors that affect the indicators of economic inclusion of the country, as monetary policy plays an active role through its ability to control the money supply, interest rates and the exchange rate of the national currency and direct it to the direction that leads to reducing inflation rates and affecting the volume of cash liquidity and credit, and on this basis the monetary authority in the country can achieve vital goals, including the impact on the redistribution of income in society through what When the interest rate falls, for example, it can lead to an increase in the volume of investments, including to increase consumption rates and activate demand, which leads to the promotion of economic growth, which will reflect positively on the incomes of individuals, and to show the effectiveness of these monetary indicators in the distribution of income in Iraq, this requires briefing in understanding the mechanism of the work of these indicators and the extent of Its impact on financial inclusion indicators and the way it affects income distribution in the Iraqi economy.

### The Importance of Research:

We can see the importance of research by trying to highlight the magnitude of the suffering facing a segment of the population, represented by high poverty rates and the economic, social and cultural repercussions resulting from poor income distribution.

**Research Problem:** The research problem stems from the weakness of weakness in economic policies in general, including monetary policy, through the following questions:

- Does monetary policy have an active role in redistributing income in society?
- Does monetary policy have an active role in reducing poverty rates?

**Research hypothesis:** The research proceeds from the hypothesis that there is a positive impact of monetary policy indicators on income redistribution

**Research Objective:** The research aims to identify the effectiveness of monetary policy indicators in financial inclusion indicators, including poverty and vinegar distribution.

**Research Methodology:** The research adopted the deductive approach in analyzing and describing the variables of the study and supporting this approach by quantitatively.

### The First Topic: Analysis of Some Monetary Policy Indicators in Iraq

The theoretical framework of effective monetary policy implemented by monetary authorities in order to achieve economic objectives with high efficiency requires determining the nature of that

economy (Battal, Mahdi, 2018: 108). To achieve success in managing monetary policy, this requires a careful assessment of the impact of the indicators of this policy on the economy and thus choosing the appropriate indicator for monetary policy (Primus, 2016: 4), and on this basis the effectiveness of monetary policy indicators can be determined or not according to the ISLM model. The steeper the LM curve and the steep IS curve, the more effective monetary policy will be (Qwaider, 2010: 28).

The issuance of the Central Bank of Iraq Law No. 56 of 2004 greatly strengthened the independence of the Central Bank, monetary policy became more free from the constraints of the public budget and financing its deficit, and the role of monetary policy became more effective in influencing macroeconomic variables (Thuwaini, 2012: 3). Since the Iraqi economy is a rentier economy, the asset side of the balance sheet of the Central Bank of Iraq tends a lot in its components to foreign assets at the expense of domestic assets and because the goal of monetary policy in Iraq Achieving stability in the general level of prices The policy of stabilizing exchange rates was targeted as an important indicator and supported by a trading speed of 3.2 times in 2019 and as a result of the increase in the narrow money supply M1 by 11.5% Domestic liquidity represented by the broad money supply M2 recorded an increase of 8.4% in 2019 In implementation of the objectives of the monetary policy, the Central Bank continued the process of granting credit to banks at interest rates as follows:

- Initial credit 6% p.a.
- Subordinated credit 7% p.a.
- Last Shelter Loan 7%

(Monetary Policy Report of the Central Bank of Iraq, 2019: 2-20), and the most important indicators of monetary policy in Iraq after 2003 are: -

### 1- Money Supply Index

**Table (1): Evolution of the M2 Broad Money Supply for the Period 2003-2022 (Billion Dinars)**

Annual growth rate	M2 Wide Cash Supply	Sunnah	Annual growth rate	Broad Money SupplyM2	Sunnah
16.73	85561	2013	-	6953	2003
1.14	86540	2014	76.23	12254	2004
2.33-	84527	2015	19.83	14684	2005
7.03	90466	2016	43.56	21080	2006
2.64	92857	2017	27.87	26956	2007
2.73	95391	2018	29.54	34920	2008
8.44	103441	2019	30.12	45438	2009
15.92	119907	2020	32.90	60386	2010
16.66	139886	2021	19.53	72178	2011
20.2	168202	2022	1.56	73301	2012

**Source:** Annual Statistical Bulletin, Directorate General of Statistics and Research, various issues.

### 2- Exchange Rate Index

The exchange rate is a great indicator in highlighting the competitiveness of different economies by linking them by means of the balance of payments

Through the study of the money supply in the Iraqi economy during the study period, we note that there is a continuous development in the broad money supply M2 with a compound growth rate of 14.2%, and this development can be attributed mainly to the significant expansion in current government spending and coupled with the significant increase in the size of the currency within banks after the annual increase reached 13.2% annually Ibrahim, 2021:81).

The money supply is one of the most important indicators used by the monetary authorities in Iraq to affect the macroeconomic variables represented by the broad money supply M2, and Table (1) shows us the most important changes that occurred in the broad money supply during the study period and its annual growth rates, where it is noted during the period 2003-2014 The general trend of the time series of the broad money supply was an upward trend and with varying annual growth rates, and this can be attributed to the transformations in the economic system in Iraq and the resulting From the issuance of the new Central Bank Law No. 56 of 2004, which gave a strong impetus to the effectiveness of monetary policy by obtaining a degree of independence, as well as replacing the old currency with a new currency, not to mention the large increases in public expenditures after the improvement in oil prices, while the broad M2 money supply in 2015 witnessed a decline and a negative annual growth rate of -2.33 The reason for this is the security situation witnessed by Iraq and the departure of a number of governorates from the control of the state with the collapse of oil prices, while the period 2016-2022 witnessed a return to rise in the broad money supply at a higher pace than before, and the reason for this could be the significant increase in the basic components of the narrow money supply M1 and quasi-money, not to mention the issuance of medium-term securities and borrowing to meet the needs of the budget deficit.

(Moussa, 2018: 62). It can be said that the success of monetary policy in Iraq after 2003 and the issuance of the new Central Bank Law No. 56 of 2004 and to some extent in controlling and relative stability of the

exchange rates of the Iraqi dinar and after the success of this policy and for the first time in its history of reducing the exchange rate of the dinar and by 23% during the study period and this is an achievement of the monetary authority, but this decline in the exchange rate generated a lot of fears of inflationary waves that could hit the Iraqi economy after The inflation rate increased in late 2022 to 8.5%, which widened the gap between the official exchange rate and the parallel exchange rate (Saleh, 2023: 2).

The countries (2) developments of the exchange rates of the Iraqi dinar in the official market and the parallel market during the study period after the exchange rate of the Iraqi dinar in the official market in 2003 1896 dinars per dollar offset by the exchange rate in the parallel market by 1936 dinars per dollar and a large difference was 40 dinars and caused by the collapse of the Iraqi state and the consequent almost complete cessation of the work of the banking system, not to mention the security situation All that and others was the cause of the widening gap Between the two prices. The period 2003-2009 witnessed a significant improvement in the exchange rate of the dinar in the official market

and its general trend was downward, as it became 1170 Iraqi dinars per dollar in 2009, as well as the case for the exchange rate in the parallel market, which fell to 1182 dinars per dollar and the gap between the official and parallel rates shrank to 12 dinars, and this can be attributed to several reasons, the most important of which is the replacement of the old Iraqi currency with a better currency, as well as the issuance of the Central Bank Law, not to mention the improvement in oil prices. The period 2009-2019 witnessed remarkable stability in exchange rates and for the official and parallel markets with a clear decrease in the gap between the two prices, and the reason for this is the intervention of the monetary authorities repeatedly in the exchange market and controlling it through the currency sales window, low inflation rates and an increase in foreign monetary reserves, and with the emergence of the Corona pandemic and the accompanying significant decline in the level of economic activity and the deterioration of oil prices, which reflected negatively on the exchange rate of the dinar, as it was reduced by the authorities Cash from 1182 dinars per dollar to 1450 dinars per dollar in order to meet the budget deficit and provide the necessary amounts for its implementation.

**Table (2): Evolution of the official and parallel dinar exchange rate for the period 2003-2022**

Annual growth rate	Parallel exchange rate	Annual growth rate	Official exchange rate	Sunnah
-	1936	-	1896	2003
24.95-	1453	23.00-	1460	2004
1.31	1472	0.96	1474	2005
0.20	1475	5.63-	1391	2006
14.10-	1267	12.51-	1217	2007
5.05-	1203	3.70-	1172	2008
1.75-	1182	0.17-	1170	2009
0.25	1185	0.00	1170	2010
0.93	1196	0.00	1170	2011
3.09	1233	0.34-	1166	2012
0.89-	1222	0.00	1166	2013
0.65-	1214	0.00	1166	2014
2.72	1247	1.37	1182	2015
2.25	1275	0.00	1182	2016
1.33-	1258	0.17	1184	2017
3.90-	1209	0.08-	1183	2018
0.58-	1202	0.08-	1182	2019
12.40	1351	10.32	1304	2020
8.14	1461	11.20	1450	2021
1.38	1482	1.37	1470	2022

The source is from the work of the researcher based on: the Central Bank of Iraq, annual bulletins, annual statistical bulletins, Directorate General of Statistics and Research.

### 3- Interest Rate Index

The interest rate is one of the important monetary tools used by countries that have a significant impact on macroeconomic variables, and despite the importance of the interest rate index, this indicator was not adequately added to meet many of the challenges faced during the study period, due to the policy of administrative determination of interest rates taken by the monetary authorities (Al-Shendi, 2006: 16).

Table (3) shows us the developments of the official interest rate and the real interest rate and their annual growth rates after the Iraqi economy witnessed in 2003 radical developments, where the hands of banks were released in determining interest rates after the decision of the Central Bank in 2004 to fully liberalize the interest rate and the Central Bank of Iraq resorted to activating the policy rate in order to achieve the highest efficiency or effectiveness by relying on the Taylor rule,

which makes the policy rate directly proportional to the price gap and output. Gross domestic (Dagher, 2017, 132).

After the policy rate was 6.25 in 2003 as in Table (3), it fell to 6 in 2004, after which the Central Bank set the official interest rate for the period 2005-2007 respectively 7.0%, 16.0%, 20.0%, with the aim of stimulating bank savings and maintaining a good level of deposits with the banking system, as well as reducing the burden of government spending, which was the reason for banks to adopt the deflationary method of interest rates, which was offset by a significant increase in real interest rates, and the period 2008-2010 witnessed a decrease In the bank's interest rate from 16.75% to

6.25%, offset by a limited decrease in the real interest rate for the same period and beyond, as it witnessed successive cuts to the bank's interest rate in order to match the inflation rates that were prevailing and give strong signals to the financial market and banks to adjust their interest rates, which ensures good returns for the public of savers at banks and reducing the gap between saving and investment, as interest has become a real phenomenon in addition to being a monetary phenomenon and with the continuation of the policy of reducing interest rates The bank by the Central Bank for the period 2016-2022 to 4.0% provided a greater impact on monetary policy to face the emergency conditions to which the Iraqi economy is exposed, such as low oil prices and the economic recession it causes.

**Table (3): Evolution of the Official Interest Rate for the Period 2003-2022**

Real interest rate	Nominal interest rate	Sunnah	Real interest rate	Nominal interest rate	Sunnah
13.39	6.0	2013	6	6.25	2003
12.4	6.0	2014	6	6.0	2004
12.29	6.0	2015	7	7.0	2005
12.38	4.33	2016	16	16.0	2006
12.57	4.0	2017	23.3	20.0	2007
12.34	4.0	2018	23.3	16.75	2008
12.28	4.0	2019	13.4	8.83	2009
12.13	4.0	2020	12.4	6.25	2010
12.50	4.0	2021	8.4	6.0	2011
11.6	4.0	2022	9.2	6.0	2012

**Source:** From the work of the researcher based on the annual bulletins of the Central Bank, statistical bulletins, annual bulletins, Directorate General of Statistics and Research.

#### 4- Income Distribution and Poverty Index

Since the last two decades of the last century, the Iraqi economy has suffered from poor income distribution and high poverty rates due to wars and security conditions that ravaged the country, which greatly reduced investment spending and increased current spending, which was the reason for an increase in inflation rates to reach 378% in 1990, which negatively affected.

The purchasing power of individuals with limited income and the depth of disparity in the distribution of vinegar (Central Bureau of Statistics, 2004: 150). We will express the income distribution index with a measure of the Gini coefficient, which is one of the most important scientific measures that measure the disparity in income distribution with numerical indicators, and the value of the Gini coefficient usually ranges between one integer and zero, the more the value of the Gini coefficient is close to one integer, the higher the percentage of disparity in income distribution, and on the contrary, whenever The value of the Gini coefficient was closer to zero the lower the inequality in income distribution (Lambert, 1993: 13).

From Table (4), we can see the disparity in the distribution of income in Iraq according to the Gini coefficient and for the period 2003-2023, after the value of this coefficient was 0.35 in 2003, it rose to 0.41 and

0.42 for the years 2004 and 2005, respectively, and the reason for this can be attributed to the high unemployment rates due to the demobilization of the army, the dissolution of the security services, and the cessation of many economic activities, not to mention acts of sabotage and forced displacement, all of which was a direct cause of the high rates of inequality in the distribution of income. The general trend of the Gini coefficient during the period 2006-2015 was a downward trend, with the exception of the year 2009-2010, which witnessed a slight increase in the value of the Gini coefficient, while the year 2015 recorded the lowest level of the value of the Gini coefficient during the study period, amounting to 0.23 The reason for this competitive trend can be explained by several factors, including the relative improvement in income redistribution after the improvement of oil revenues and the achievement of some financial surpluses in the general budget, so that the values of the Gini coefficient returned again to rise during the period 2016-2020 from the time of The study after unprecedented security conditions hit the country and the accompanying economic repercussions globally due to the Corona pandemic, which had a direct impact on the standard of living of the population and the increase in poverty rates, while the last two years of the study period 2021-2022 witnessed a significant improvement in the value of the Gini coefficient after it decreased to 0.30, supported by the improvement in oil prices and the receding effects of

the Corona pandemic, in addition to the improvement in security conditions.

**Table (4): Gini coefficient rates of income inequality for the period 2003-2022**

Gini coefficient indicator	Sunnah	Gini coefficient indicator	Sunnah
0.27	2013	0.35	2003
0.25	2014	0.41	2004
0.23	2015	0.42	2005
0.24	2016	0.38	2006
0.27	2017	0.33	2007
0.29	2018	0.31	2008
0.30	2019	0.32	2009
0.34	2020	0.32	2010
0.31	2021	0.31	2011
0.30	2022	0.29	2012

**Source:** From the work of the researcher based on the Ministry of Planning, Central Organization for Statistics and Information Technology, Directorate of National Accounts, scattered numbers.

**The third topic: the results of standard tests**

**1- Characterization and construction of the standard model**

The stage of characterizing the standard model is the first and most important step in building the model, based on the description of the variables included in the model and the description of the relationships between economic variables in mathematical formulas and in line with the logic of economic theory, and in order to measure, analyze and interpret the relationship between the variables and display the results, the self-regression model for distributed slowness ARDL has been adopted, and accordingly the model will be :described according to the following equation  

$$\text{Gini} = a + \beta_1 \text{Log Exm} + \beta_2 \text{Log M2} + \beta_3 \text{Log I} + \mu$$

**2- Dickie Fuller Extended Test Results**

Table (5) shows us the results of the stability test of the time series of the study variables represented in the exchange rate, the broad money supply, the interest rate and the Gini coefficient according to the expanded Dickey Fuller test, where it is noted that the calculated t-statistic is less than its critical value at a significant level of 1%, 5% and 10%, and this means that the semen chains of the study variables are unstable and suffer from the presence of the unit root at level I0 Whether it is the presence of the fixed limit or the fixed limit and the direction or without a fixed limit and direction and here we accept the null hypothesis, but after taking the first difference of the time series it was found that it has stabilized and for the three cases and became integrated of the first degree I1 at a significant level of 1%, 5% and 10% and here we reject the null hypothesis and accept the alternative hypothesis.

**Table (5): Unit Root Test Results Dickie Fuller Developer**

ADF		At the level			In the first teams		
Variables		protest	Direction and interception	Any	protest	Direction and interception	Any
Damn	Statistic T	-1.8613	2.2914-	0.4128-	7.4325-	7.0832-	17.2118
	*Often result	0.4532	0.5138	0.9673	0.0000	0.0000	0.0000
		No	No	No	*	*	*
M2	Statistic T	1.0534	1,8327-	1.9416	19894-	2.3436-	1.2164-
	*Often result						
		No	No	No	No	No	No
me	Statistic T	-1.8453	2.3157-	0.3286-	6.7348-	7.5643-	7.0957-
	*Often result	0.3452	0.2532	0.4342	0.0000	0.0000	0,0000
		No	No	No	*	*	*
Jenny	Statistic T	-1.3601	2.9443-	0.7327-	8.6366-	7.0521-	6.0613-
	*Often result	0.7254	0.6562	0.4483	0.0002	0.0000	0.0000
		No	No	No	*	*	*

**Source:** Prepared by the researcher and based on the outputs of the Eviews 12 program.

**3- Results of estimating the relationship between monetary policy indicators and income distribution A – The results of the preliminary assessment of the model**

Table (6) shows us the results of estimating the Gini coefficient function, which shows the relationship

between the dependent variable and the independent variables, using the self-regression model for distributed deceleration (ARDL), where the explanatory power of the estimated model R-Squared = 0.99, which means that 99% of the changes in the dependent variable are caused



by the change in the independent variables, while it was 10% of the changes in the dependent variable are caused by external variables that are not hindered by the

model, as well as the corrected coefficient of determination 99%, while the F test indicates that the model was significant and at the level of 1%.

**Table (6) Estimation Results for Gini Coefficient Function According to ARDL Model**

R-squared	0.990331	F-Statistician	688.5961
Adjustable R box	0.997334	Durbin Watson	1.799452
Probability (F-statistical)	0.00000		

**Source:** Prepared by the researcher and based on the outputs of the Eviews 12 program

**B. Boundary test results for co-integration**

To test the existence of a long-term equilibrium relationship between monetary policy variables as explanatory variables and the distribution of income expressed in Gini coefficient as a dependent variable, the boundary test was used, according to which the calculated value of the F statistic is compared with the upper limit and the lower limit of its given tabular value, where it is shown from Table (7) that the calculated F

value of 7.522 was greater than the value of F Tabular and for the upper and lower limits at the level of significance 10%, and this means rejecting the hypothesis of nothingness and accepting the alternative hypothesis, which indicates the existence of a long-term equilibrium relationship heading from monetary policy indicators towards income distribution in Iraq, and this is consistent with the hypothesis of the study.

**(7) Table: Boundary test results for the estimated model**

Statistical Test	Value	K
F Stat	7.522724	3
Importance	(I0) binding	(I1) binding
10%	2.97	3.74
5%	3.38	4.23
2.5%	3.8	4.68
% 1	4.3	5.23

**Source:** Prepared by the researcher and based on the outputs of the Eviews 12 program

**C. Results of the response of the long- and short-term parameters and the error correction parameter**

Table No. (8) shows us the results of the error correction model within the framework of the ARDL model through the negative value of the error correction coefficient, which was less than one integer (-0.03) and its very high significance (0.000) and this means that there is a common integration relationship between the studied variables and reflects an adaptation process of 03%, and this means that 03% of the imbalances in the

previous period are corrected in the current period, and the parameters were all statistically significant in the short term, where the parameters were a function The goal is logical. In the long term, the relationship between the distribution of income and its determinants was estimated, as it was found that the independent variables represented in the broad money supply, exchange rate and interest rate had an adverse and significant impact on the redistribution of income.

**Table (8): Results of Estimating the Response of Short- and Long Term Parameters to Modeling**

Co-merger model				
variable	coefficient	Sexually transmitted diseases error	T-Statistician	Often
D(RP)	-0.745328	0.133425	2.337659-	0.0112
D (SR)	-5.663429	1.404453	3,887463-	0.0000
D(CW)	0.033217	3.338789	2.007834-	0.0334
Who is it	2.784435	0.066342	3.775638	0.0000
D (IR)	-0.886556	0.453421	12.64354-	0.0000
Currency equivalent (-1)	-0.032416	0.015547	10.11546-	0.0000
Long-term transactions				
variable	coefficient	Sexually transmitted diseases error	T-Statistician	Often
riyal	0.023896	0.002524	9.466458	0.0000
RB	-71553.39	12845.17	5.570449-	0.0001
CW	2.150554	1.018700	2.111087	0.0532
What	-254.8581	368.0962	0.692368-	0.5000
Infrared radiation	92204.14	16308.36	5.653795	0.0001
C	88293.22-	454803.4	0.194135-	0.8489

**Source:** Prepared by the researcher and based on the outputs of the Eviews 12 program.

**4- Diagnostic tests for the model**

The results of the analysis of the standard tests showed that the estimated model has exceeded the standard problems, after the following tests were used:

**A- Test ARCH**

It is clear from Table (9) that the model is devoid of the problem of serial correlation between the

remainders and therefore we accept the null hypothesis and reject the alternative hypothesis because the value of both F- statistic and R-Squared were respectively 0.094637 and 0.097173 and were non-significant and since it is greater than the level of significance 5% and therefore the model is free of the problem of serial correlation.

**Table (9): Results of the Heterogeneity Test for the Model**

Heterogeneity test: ARCH			
F-Statistician	0.094637	(1.71)Prob.F	0.7593
Note* R-squared	0.097173	(1)Kay Square	0.7552

**Source:** Prepared by the researcher and based on the outputs of the Eviews 12 program

**B- Autocorrelation test results**

It is clear from Table (10) that the results of the heterogeneity test were insignificant, and this shows us

that the model does not suffer from the problem of autocorrelation.

**Table (10): Autocorrelation Test Results**

LM Test for Serial Link Breuch-Godfrey			
F-Statistician	1.155509	(2.50)Prob.F	0.2332
Note* R-squared	3.269202	(1)Kay Square	0.1950

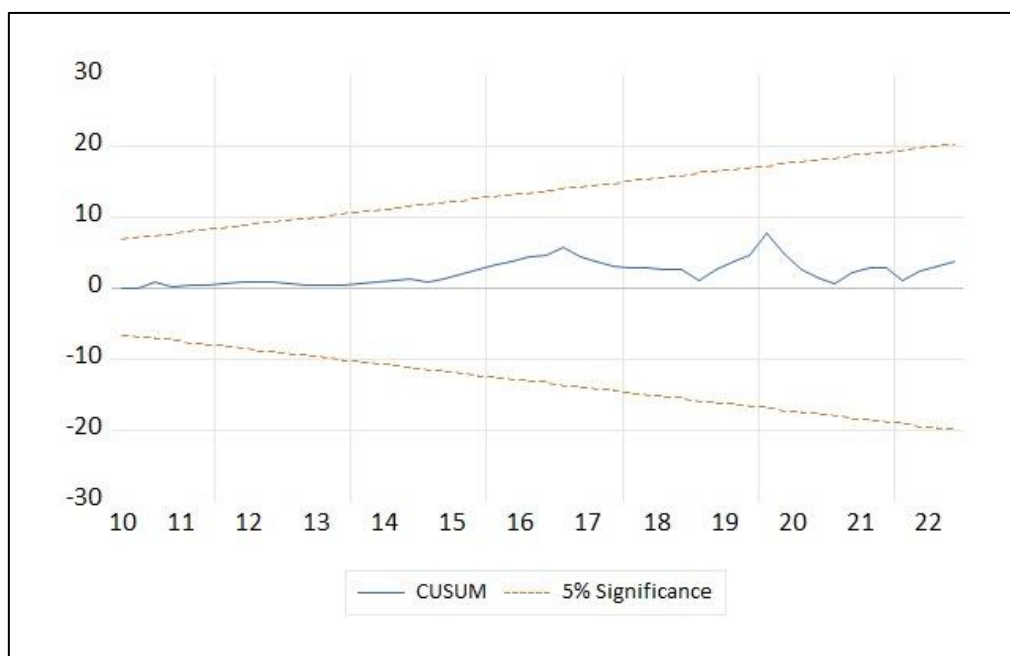
**Source:** Prepared by the researcher and based on the outputs of the Eviews 12 program.

**C- Model Stability Test**

**C- Structural stability test for model coefficient**

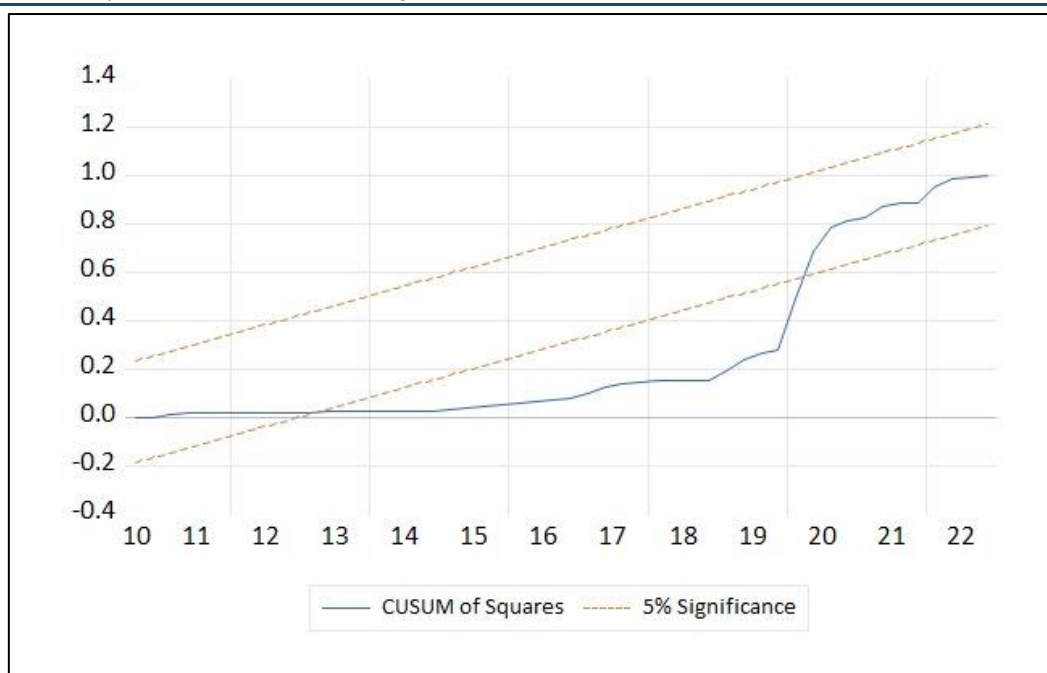
It is clear from Figures (1) and (2) that the estimated structural stability test for the short and long-term relationship is usually done using both the cumulative sum test of the sequential residuals and the cumulative sum test of the squares of successive

remainders, if the graph of each of the two tests is within the framework of critical limits and at the level of 5%, we accept the null hypothesis, which states that all the estimated parameters are static and from the two figures it is clear that the two tests are within the critical limits, and this means the stability of the long and short parameters is stable. Term for the estimated model.



**Figure 1:**

**Source:** Prepared by the researcher and based on the outputs of the Eviews 12 program



**Figure 2: Cumulative sum of squares of residuals**

**Source:** Prepared by the researcher and based on the outputs of the Eviews 12 program.

## CONCLUSIONS

1. Monetary policy through its indicators has an important and effective role in the distribution of income by supporting low-income people with loans and subsidies.
2. The need for coordination between economic policies, especially monetary policy and fiscal policy, to reduce the waste of financial resources.
3. The urgent need to achieve human development and increase the efficiency of the workforce, which improves the level of income of individuals.
4. Develop clear plans and strategies to combat poverty and low standard of living and work to achieve the objectives of these plans within a specific time.
5. The results of the unit root test proved the stability of the time series of economic variables when taking the first difference during the study period.
6. The results of the standard test proved the existence of a co-integration relationship through the use of the autoregressive vector methodology for distributed deceleration during the study period.
7. The results of the benchmark test proved the effectiveness of monetary policy through its indicators in the positive impact on income redistribution.

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