



A Contribution to Develop the Financial Sector Role

in Economic Development of Iraq

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Abstract :

This work address the role of the Iraqi financial sector in developing the economy. Both tools, monetary and financial policies, set by the Central Bank of Iraq, CBI. It assumes an essential role of CBI in the role in economic development. One of the essential aspects of the country's nature, an Islamic Society. The paper links three main aspects, usual mentality reforms, requiring development through practical decisions, and an auto-financial policy is proposed as a development.

Many important facts, pensions of Parliament and Provincial Councils, in front of ignorance of real estate services for low-income families. The CBI has ignored the rules of Islamic law in economic wellbeing. It concluded a reluctant need to new Financial Policy, 'Zero Interest Rates', incentives for agricultural and housing investments. A remedy to maximize motives for instructions, rescuing Muslim people from conflicts in Islamic faith.

Keywords:

Economic Development, Economic Growth, Fiscal Policies, Islamic Regime, Central Bank.

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1. Introduction

The study of the relationship between development of a financial sector and economic growth has received increasing interest in developing and developed countries in recent years. The most prominent indicators of developing the banking sector are the percentages of domestic liquidity, credit granted to the private sector (both, ratios from GDP), and the market value of stock exchanges (Al-Juweni and Muash, 2020). This study deals with the trend of the credit index in Iraq.

Empirical studies have pointed to a significant relationship between the development of the financial sector and economic growth. This relationship was either positive or negative depending on the nature of the economy, different indicators of the financial sector, and their effects on productivity, investment, and economic growth. (Ben Naceur et al.: 2017, p. 8; Durusu-Ciftci et al. 2017, p 291–292; Stojkoski and Kocarev 2017, p. 13-14)

Most of the finance and economic policies followed by policymakers in Iraq, over the last three decades were: centrally planned, with assign, and put for execution and evaluation. The fiscal regime has successfully contained current spending and preserved budgetary sustainability. On the other hand, it has also failed to implement the ambitious investment program (IMF 2008: p 7). The finance sector, besides banking activities, has been limited mainly to public economic activities for the state sector as opposed to the business sector, whilst helping to create areas of trust between them.

The whole performance of most of the financial activities in Iraq has remained limited under the CBI policies, although the state made considerable efforts to keep the stability of the value of the local currency during the years (2005-2020). It has also continued to accompany the public sector activities and their performance. For financial reasons, the Finance Minister had *asked* the CBI a decrease in the value of the dinar by a *quarter*, for an exception of applicability for the end of December 2020 performance criteria. May be, as happened due to the central government fiscal deficit and the government's then spending bill (IMF 2011, p 20).

In fact, the decision to devalue the dinar was taken by the Ministry of Finance, not the Central Bank of Iraq, in consultation with the ruling parties. This was a violation of the competence of the ICB, in an attempt to fill the deficit in the general budget 2021, with all the consequences of the reduction, especially on the poor people.

As a result, the working commercial banks remained restricted in pursuing local market activities. Consequently, twenty years after 2003 and beyond, all attempts of reconstructing and rehabilitating the economy had only an insignificant gain and missed a plausible starting point for development and growth. One of the consequences – among many – was an absent interaction between CBI policies and development plans to guide

economic policies towards a visible and clear role in improving its role itself in motivating economic development (Taleb 2018, Ch. 5). The current study claims that there are reasons led to a fact that the most important role of the ICB has declined in developing resources, i.e. savings and activating their role in economic development.

Most of local development experiments in Iraq, as per the related literature, inform us the possibility to summarize the main aspects of development processes in three facts. First, there is sufficiency of available financial resources but opposed by mismatched economic policies for stability, employment, and growth; the contradiction between fiscal policies and quittance opportunities in society; and absence of the essential foundations of actual development, especially in the public municipal services. Moreover, the situation has shown no optimistic expectations for running a private investment boom.

The work, briefly reviews the financial economy of Iraq in the first section, then, analyzes the role of the financial sector in economic development. It required addressing specific aspects such as the provisions of Islamic banking, the importance of reforms for growth, and urgent decision making. It deals with examples of financial reforms such as the pensions of parliamentary and local councils between the economy and the law in exchange for real estate loans for low-income families in a rentier economy.

2. The Iraqi Financial Economy

The immense financial sums and programs in the annual public budgets proved fruitless because of:

- problems with the movement of the local production mechanism,
- chronic pain of unemployment of the labor force, and all other natural resources as well,
- disparities in income distribution between the social classes, and
- aimless development, due to the lack of security and a safe investment environment.

Contemporary controversy from time to time is turning around the cause and effect of unemployment and lack of security, despite of the large budgets annually allocated for all economic and social sectors. Therefore, the paper aims at contributing to the foreseen ranges for developing the role of the financial sector in economic development for Iraq, a oil-rich Muslim country, accompanied by many attempts that ignored the *Islamic finance incentives*.

It is necessary to explore previous experiments in Islamic countries with the finance sector, particularly the role of the central bank in leading monetary policy. However, since the 1990s, the Iraq economy has witnessed many crucial and specific transitions.

First, structural and economic reforms have converted government corporations into public firms staffed by administrative councils to operate and earn their profits besides central finance for nominal salaries. In this case, per capita profit should depend on the financial resources as hedonic incentives, called periodic annual profits after distribution. These marginal motives were a step to encourage initiatives and innovations. That was a stage of a series of transformations from central finance to self-finance, from the public to the private sector, covering the required casual wages and regular salaries.

That beginning has overcome challenging circumstances and prevailed through many conditions, namely the international economic blockade on Iraq in the nineties of the previous century; destructive and deteriorated infrastructure of the country; severe decline in the material base of the state hitting the financial basis and the balance of payments; and permanent and aggravate financial deficit led the state to print currency without monetary cover, and hence, so-called finance by inflation, before 2003. That retreat left the most potent effects on all sectors of the economy. Those have remained in the form of the poor performance in efficiency, inadequate resource allocation, and high inflation and unemployment rates.

The work assumes: “The slow and weak progress in the financial regime in Iraq was partially, and is still a serious factor in deepening the limits of letting the economy remain far from setting new foundations of development or rehabilitating the traditional process prevailed with those conditions.” One of the strongly recommended required foundations is a new financial base of tools to adopt.

Banking activity is the financial basis of the Iraqi system, while the market for banknotes and shareholders occupies a very limited proportion of it. The total government expenditure of the GDP for the year 2005 amounted to about 78%. It rose to reach 85% in 2019 and beyond. It corresponds to 74% for the United Arab Emirates for the same year, 92% for Kuwait, and 98% for Saudi Arabia, with the fact that Iraq's GDP is increasing rentier (Figure 1).

Figure 1: Iraq's GDP 1990-2020 (trillion dinars) at constant prices



Source: World Bank,

<https://data.albankaldawli.org/share/widget?indicators=NY.GDP.MKTP.KN&locations=IQ&start=1990>
width='450' height='300' frame Border='0' scrolling='".

This activity in Iraq is still lagging in technical terms, most notably the transitions towards market economy for many reasons such as having no private intranet, or a stated policy for plans or programs. Thus, despite the CBI's role which virtues in absorbing economic shocks, encouraging saving, and relatively financing many public strategic projects, it comparatively sounds missing an active financial market like developed environments, in various profiles of investment, innovations development, and also in prediction of investment risks or managers profits and the like.

Many Arab finance markets in Lebanon, Egypt, Jordan, and the UAE, have sizable well-known impacts on economic activities. However, in Iraq, it sounds as if it has no possible or notable effect on the real economy. While positive influence on economic activity is expected on banking and finance market. Studies on Iraq have concluded that developing countries have largely focused on money markets beside linkages and affects more than they do with the role of the banking sector and the impact on the economic growth (Khyareh and Oskou 2015, p. 52-62). The relationship between money markets and the banking sector was complementary rather than competitive (Bayar, Kaya, and Yildirim, 2014, p. 93). Nonetheless, this may be due to the nature of the finance policy with which the interpretation of the CB's role is a national philosophy, while the financial regulations seem to encourage investments and stimulate the growth of savings.

A distinction between sustained performance and the evaluation of efficient policies in resource allocation may be the most suitable policy for the economy. Most of these policies, may be due to an effective role in the fiscal policy for the ICB. The following sections will highlight the positions of the local economy in Iraq; the relevant rules of Islamic banking; reforms and development, and advancing the financial role in development. The study has reached many conclusions and developed suggestions.

The main base of the financial system in Iraq is banking whereas the money and finance market is still technically underdeveloped, and one can find more than one view about what is favorable for economic growth. From mid-2003 to the end of 2005, the Iraqi economy suddenly became open worldwide on commercial and monetary markets. The proposed structural transformations cut the requested time and hastened substantial changes in the structure of both the economy and society. These requested changes for consolidating economic growth did not flow in the right direction of improving economic development, rather leading to negative effects in it. The official figures show a fluctuated performance of economic growth in Iraq. The averages recorded were about -7.2% for 2000-2002, and -41.4% for 2003, but 46.5% for 2004, and 2.6% for 2005. Therefore, the directions had non-serious influences and caused several participating factors shaping the overall position of the economy. Perhaps the more important features are (IMF 2011, p. 1):

1. Absence of the private businesses and activities in each of the main productive sectors being industrial, agricultural, and services, whereas actually their contributions deteriorated and failed to meet local needs. Hence, this role was limited to some service activities, mainly banking and finance transitions, beside the internal and external commercial and genealogical investments.
2. Semi-complete deterioration of the public sector at the beginning of 2003, especially in the productive and electric industries except for some that managed to return to their activities with low efficiency like those of cement, textiles, and medical products. The role of the State was very limited in the macroeconomic performance and ceased to active in essential sectors such as education, health, and basic services. The continuous existence of that role was namely to subsidize in financing food card program and activities related to producing, marketing, and distributing crude oil and oil products and gas, although not covering demand.
3. Underdevelopment of the banking sector in the process of developing human resources and the local finance market with a shortage in implementing databases or recent technology in automating the work of the financial and banking services, and then in contributing to development or legislative modern laws and motivations to activate the role of the financial sector in the economic growth.
4. The agriculture sector has infected with semi-complete paralysis with the deterioration of the state's role in presenting financial facilities. Nevertheless, it supports production and maintains obsolescent infrastructures in the rural sector and financial resources to develop it.

In 2004, the state pursued submitting agricultural loans, assisted the prices of seeds delivered to farmers, and moderately assisted agrarian mechanization. This has been the norm over the years because planting grains depends highly on seasonal rain in the

country's northern parts. Therefore, this policy has always prevented the possibility of permitting inflicting losses of farmers during the past years in the light of poor usage - and high costs - of water, as was the case in the agricultural season of 2007-2008. Moreover, the costs of debt service on loans have restricted incrementing agricultural investments. Nevertheless, the agricultural sector suffered from an absence of private financial foundations, having the public sector become the only main source for finance. However, such financing loans were based on interest, contrary to the Islamic Sharia term.

These factors led to limiting the role of financial sector to lagged behind economic growth, and the proposed structural changes may become a possible method to improve the mentioned performance. The trend of the financial sector in Iraq has been specified to have the following characteristics:

[a]. There is an existence and spread of specialized public financial agricultural banks in villages, but a lack of private financial banks or a dependency on wide associated investment funds, especially in the processes of *participation deals* instead of - or complementing - operations of lending and borrowing.

[b]. There is the concept of breaking the activities of saving to investment rates across most societies. This situation emerged after the issuance of certain laws and rules, so the penetrative legislation that prevailed after 2003 recorded negative governance indicators. Costs of living have raised with inflation rates peaking in 2005 through 2006. The ratio of the inflation level grew to 70 percent at the end of 2006 and retreated slightly afterwards, but it was synchronized with high rates of unemployment that reached 50 percent of the labor force and exceeded in some instances. This situation continued, especially at the beginning of 2008, despite increased public sector jobs.

[c]. Costs of transactions have dramatically increased in parallel with financial corruption. So, this became its foundation, which destroyed the business environment altogether with a serious retreat in the security circumstances and a high coefficient of risk for investment and employment.

[d]. More than three billions dollars were smuggled to Jordan, twice of this sum to Syria besides about four million Iraqi migrants abroad, with a large ratio of them having a high level of education.

Despite moderate successful efforts by the state to preserve local currency stability rates and strengthen its value (i.e. the rates of exchange of US \$ against the Iraqi Dinar) from 2005 till 2019, the above features, in addition to other factors, like political stability, government inefficiency, and weak accountability, proposed many financial and economic treatments, as follows:

- (1) Instead of subsidizing agricultural prices, there was a prevention of interest rates (Al Riba) from being charged on agricultural loans, by the source of the Islamic legislation on finance. This motivated farmers to continue with agricultural initiatives, especially in a fertile country such as Iraq.
- (2) Increasing the specialized agricultural bank branches, and the industrial finance banks for small projects, which contributed the creation of job opportunities in circumstances of dominant investment climates, and establishing of investments funds that have to do with participation and profiting, which are concepts known as Murabaha and Musharaka (Kapici 2018, p. 43-61).
- (3) An urgent need to create legislation for a modern and qualified market for the banknotes to facilitate the political execution of financial and monetary administration, like open market operations (OMO) and to help enhance the performance in growth and the banking regime at the same time to make a base for the competitive markets.
- (4) Growing and establishing joint investment funds.
- (5) Increasing the interests with the more modernized and sophisticated administrative information systems, along with the advanced communications through the country.
- (6) Confirming and assisting the establishment of good governance principals and structural, comprehensive, and economic reforms.

3. Provisions of Islamic Banking

Although the Islamic banking industry, due to Islamic Shari'ah, prohibits Riba (i.e., interest rates) and forbids its treatment, it will develop rapidly with benefits and returns to all investment participants (Haiwad 2008, p. 299-309). The industry grew at 35 percent per year. Financial institutions' assets reached \$600 billion in 2007, and the number of Islamic banks in 2007 reached 470, increasing from less than 300 in 2005. That growth was rapid and might briefly become a victim of its own success because the marketplace is low on employees who are trained in Shari'ah-compliant banking systems. It means that there should be more investment in training and education for Shari'ah-compliant finance (Aydin 2015, p. 491-507).

Moreover, Muslim investors from the Middle East tend to target investment abroad in other societies, such as Latin America. For example, two Bahraini firms and a Kuwaiti investment company have launched a Shari'ah-compliant \$500 million Latin American Real Estate Fund. The fund targets real estate assets in eight Latin American countries and initially have a five-year term. They look to take advantage of the real estate and commodity boom that has seen regional trade grow at ten percent in the last few years, as well as a population increase. The venture also reflects the Middle Eastern confidence in the economy in that part of the world. It is now thriving after a few false starts in the

past (Asutay 2008, p. 1). Experiences of the industry confirm the benefit of such an investment as can be seen in the case of the Islamic financing of the Chelsea Barracks, the largest real estate deal of its kind (Hayat and Adeel 2014: p. 24; Sa'eed 2011, p. 3-4).

The West confirms the proper values that Islam conveys to the world. "Islam purports to be relevant in all walks of life, not just in the spiritual realm. The Prophet Mohammed (SOW) and his successors are considered religious leaders and worldly rulers. Islam promotes theocracy, as some Muslims state: "Many Muslim countries, practically do not distinguish between worldly and religious governments" (Voigt, 2005, p. 67). However, the same author may almost fall with contrast default between religion and secularism, and says: 'The separation of church and state is a characteristic of the West and has been identified as one of the reasons for its advanced economic development.'

The Islamic principle, a well-known alternative in the case of a prohibition of interest rates 'Riba', on borrowing funds, is the principal of M&P between borrowers and/or savers and beneficiaries (investors). There are many considerations for various types of *Murabaha* and a helpful analysis of multiple kinds of *Musharaka* that one may encounter (Khan and Al-Sheikh 2008, Ch. 3).

They consider the progress that the industry has made, its co-operation with the conventional finance industry, and the change in attitude towards Islamic finance of, for example, major the Middle East family-owned companies, with a discussion of whether the industry needs to move away merely from the conversion of conventional products to Islamic alternatives (Khan and Al Sheikh 2008, Ch. 3). Most efforts in the Islamic financial sector were due to the work of Islamic banks via monetary policy and indices undertook to build a proper banking system. (Al Baraka Banking Group 2020, p. 2-3)¹.

The principles of Islamic finance adhere to Islamic law, known as Shari'ah, as noted above. It prohibits investment in specific industries, for example, gambling or alcohol. The most fundamental features for the Shari'ah include requirements that investors and borrowers share in the risk of a venture and a ban on dealing by rates of interest.

Supposing the International Finance Corporation, IFC helps shift the growing Muslim world's financial resources toward development challenges. would it be convenient to build expertise in Islamic finance coinciding with the existence of Shari'ah

¹ A preferable working paper reviews the experiment of the Al-Barakah Dellah Banking group. Referring to the contemporary obstacles and challenges facing the Islamic banking industry. In addition, there's an excellent helpful constitution of the role of central banks in monetary policy, the undertaken indices by the international organizations for establishing the right and proper bank system, and the role of Arab organizations in the developing bank sector.

as striving to introduce new financial products in emerging markets? Indeed, IFC works to deepen the development of Islamic finance (International Finance Group 2014, 26), however, the Holy Qur'an submits an order that is clear and acute guidance in prohibiting Riba, i.e., haram (The Holy Qur'an, 2: 275).

More valuable sources of usefulness, Baraka and Halal are what will be gained from working, building up savings and current accounts, as well as employing money for charity, i.e., *Sadaqah* as well as the donated surplus of wealth, *Zakah*, in oil-rich nations.

3.1. Reforms, Development, and Decision

It would be an important need for comprehensive economic reform in Iraq to pull any authority of monetary policy from the government and give it to the central bank. This would ensure a suitable procedure for the economy, not to implement it as a tool for the benefit of the politicians and parties in an election. Such transformation may focus on the nature of the Iraqi economic system that should control local monetary policy. A specific suggestion is that the central bank must be independent in targeting and controlling inflation with prescribed limits to increase the overall performance of the economy rather than all economic activity handled by the government.

The economy experienced a unique case of inflation during 2003-2008 coincided with the decline in exchange rates of the Iraqi dinar in contrast with the hard currency, i.e. US dollars, while the public level of prices has doubled by about four times between 2004 through 2008. Then, exchange rates moved from ID 1500: \$ US 1 to ID 1150: percentage US 1 between July 2005 and August 2008, by the Central Bank Policy, direct selling of petro-dollars in the domestic market.

A policy of stabilizing the dinar's value by the CBI, was implemented and the dollar prevailed in the market with direct selling at 150 to 200 million dollars per day until the end of 2019. Then, due to the conditions of the Covid-19 pandemic, the Iraqi government chose to fund the fiscal deficit of the state's 2020 public budget with inflation. Therefore, the Iraqi government lowered the dinar exchange rate to 1450 dinars: US \$1.

4. Developing The Financial Sector Role

In the Western world, particularly in non-Muslim countries, development financing from governments has been restricted for many reasons stemming from market problems, resulting in a lack of permanent matching that ensures a smooth flow of funds for lending and borrowing. This may be due to one of two phenomena. The first is the global financial crisis, and the second is the continuing mismatch between the market and society's outlook. The most prominent example of this is the 2008 global crisis caused by the

mortgages crisis, which increased the deficit of financial banks. On the other hand, the case of the unequal persistence distribution of income among members of society, with the existence of various forms of poverty, manifested in unemployment rates between 10% to 12% of the labor force, in addition to maintaining a diagnostic margin for persistent inflation rates between 7% to 10%.

The alternative system is Islamic finance. Many types of asset-based products act under Islamic finance, such as mortgage-based security, Ijarah, and many types of Sukuk (Ali, 2005, Sec. 3.2; Ganti, 2022, p. 5). There are products far from problems of conventional asset-based securities. The focus of the capital finance regime is on the value of money itself, while the focus of the finance system in Islam is on the value of money's function and its implementation. Within 57 Muslim Countries, there is a well-known unique case of deterioration in the recent economic history of wealth-rich countries that is for the Iraqi economy. The question is: Can Iraq's economy catch up?

The point is about finance and development for most developing countries. For Iraq the issue is development. Some introduce business executives and civil-society activists in developing and developed countries in addressing the question of how to boost financing development. They discuss things such as microcredit and large-scale project finance; gender and poverty; and bridging (Rubio-Fabián et al. 2001, P. 89-94). Many nations suffer from financial crises, like the Asian financial crisis in mid-1997, which differed from the Mexican Tequila crisis in 1994 or the Russian economic crisis in 1998. Those ended within the same year that they happened. In variable degrees, the economies of Thailand, Indonesia, and the Philippines (TIP) countries continued to grapple with a huge overhang of corporate bad debts and bankruptcies. (Atkinson 2001, 99). Whereas wealthy nations did not.

For Iraq, households contribute to the capital accumulation of the whole economy through private constructing housing by self-help building,. In developing nations, there is an "extending of the uses to Special Drawing Rights, SDRs which can put results from the growing demands on the international financial system to respond to the development of finance needs" (Aryeetey 2004, 90). In Muslim countries, there will be a subscript needed to treat financing the housing sector and the mortgage markets. In most developing countries, especially the Islamic ones, the abundance of real estate loans was the decisive choice for the household head in entering the housing construction market.

So, the households' contribution depended on the role of the State, more specifically on the on the Real Estate bank that gives out loans with zero interest rate. In this case, prohibiting Riba allows Muslim governments to forbid mortgages, and bear the

responsibility of developing finance regulations. That responsibility consists of two leading roles: food security and fright security through the Will of Allah (The Holly Qur'an: 106:4) and His order. For rich-oil countries, and other wealthy countries like Iraq, there will be no urgent problem, while for the developing countries, governments should bear the responsibility in front of Almighty Allah by applying the principal rule of Zakah, the primary tool of economic development (Kamel, 1987: Ch. 2). The situation in Iraq continued for intermittent periods.

In Iraq, there were no stable policies of other government funding by a clear trend of a method during the last four decades of the 20th century. Like other Muslim countries, it does not 'comply' with Islamic Shari'ah, like Oman, Egypt, Jordan, in various economic sectors. In Iraq, housing real estate is a close instance, one can note:

1. At the beginning of the 1970s, there was a tendency to prohibit interests. However, the policies after the Iraqi oil nationalization required it to face the foreign economic blockade that led the Iraqi government to issue Survival Bonds to pull liquidity from markets and impose loans interests.
2. The role of launching state loans without interest rates during the sixties of the last century the period of nationalization of industries, and also in the eighties, i.e. the period of the Iran-Iraq war.
3. The second half of the 1970s witnessed the 'huge economic plan' with a large finance budget while interest rates were still valid in several banks.
4. In the mid-1980s, interest rates on housing loans were prohibited until Iraq entered international problems and wars from 1989 through to 2003, when Iraq became under US occupation.

This policy indicated that raising interest rates prevailed during abnormal economic conditions for the Iraqi economy and was imposed during periods of economic prosperity.

5. After the American occupation of Iraq in the current century, the Governing Council and then the Transitional Government commenced awarding loans to citizens in both private and public sectors with a new name to interest; 'Managerial Expenditures.'

- 6- The housing sector from 2005 to 2008 suffered from three problems:

- a) There were no funds to loan for both new residential construction and the maintenance of existing buildings, despite large budgets.
- b) The economic environment had seriously deteriorated due to acts of violence and terrorism.

c) The continuation of the natural population growth rate, with one difference being the increase in public sector salaries.

d) A seizure of housings by the displaced and immigrants, and also by members of political parties, with and without rent. Additionally, there was the phenomena of looting of all buildings and properties of the former government regime in all provinces.

These notes mean that the state abandoned the housing sector with or without interest. Also, these matters led to two main results: the first was represented by increasing the housing crisis, and the second by destroying the material base of a capital asset, among other types of investments in the Iraqi economy.

However, the housing loan policy in clause five above was the first loan in Iraq in 2004, an equivalent of US\$10,000 (ID 12,000,000), deducting the administrative expenses of US\$600 at the start of the loan. According to the proportion of new residential construction, it is paid upfront in three installments. This financing policy left people in a confused position regarding Islamic law. Those expenses are equivalent to 5% of the loan amount and cover 95% of Iraq's Muslim population. Some religious scholars considered it forbidden, i.e., haram, because it represents a fixed percentage of 5% of the total (600/12,000) thousand dinars.

Past interest rates seemed in a different mold. According to the rule of warding off corruption and taking precedence over bringing benefit, i.e., forbidding benefit before avoiding harm, scientists found an excellent solution for Muslim families. On the contrary, they will be in more complex housing and socio-environmental problems, comprising complex sub-conditions, poverty, unemployment, and poor lifestyle. It is Under a foreign invader.

Interest, called Riba that is unpermitted in Shari'ah for Muslims to pay or receive loans with rates. One of the most heightened post-invasion phenomena was a drastic increase in crime rates and the disappearance of well-qualified persons by immigration..

The macroeconomic theory says that the higher the interest rate, the lower the motive for investment, which leads to income deflation and savings decrease and vice versa. So, zero interest rate should be the core of action in one of many successful economic policies for the State of Iraq.

On the other hand, although the annual Iraqi oil resource surpassed \$US100 billion for 2010-2021, the Iraq Fund for Development remained under the supervision of the International Monetary Fund until June 2013, when Iraq was still under the item 7 of the UN's decree. Hopelessness is what prevailed on the whole scene of the Iraqi economy.

In light of this, as the starting point of all economic activity is the existence of human beings, meaningful financial procedures required securing food for people of an oil economy and this may become the beginning of wellbeing. The missed statement of life could be sustained by keeping infrastructure and its services in good condition. Both cases are interdependent and complementary in Iraq (Al-Jamil et al. 2018, p. 8). First of all public services was the electricity, then roads and communications, good drinking water, and sanitation are essentials, as well as building accumulation.

In other words, a decline happened in the basic needs and as actual figures show, food security and public security, notwithstanding shelter and safe life in Iraq. This decline can be overturned by establishing a bilateral economic policy, including rehabilitation of both housing and industrial sectors, and agricultural sector reform. Whenever and whatever the rules and the laws and legislations adopted, most policies should start with the reallocation of a suggested sum of \$US 50 billion to rebuild the economy not before establishing the good governance rules required for assuring suitable and assured financing.

A well-known fact is the lower the interest rate, the higher the level of stimulus investment. So, if interest rates are at zero, maximum induced investment will be a result. This in turn serves economic development and is consistent with the purposes of Islamic law. Therefore, the primary responsibility will be on the CBI and its role in economic life, implementing its monetary policy. Alongside the regulation of financial policy, the Al-Barakah group indicated, a decade ago, that the banks' activity had become an old industry (Al-Barakah 2012). Policymakers can easily use the CB's experience in monetary policy and establish a sound bank system for economic development through the banking sector.

4.1. Fiscal Program:

The budgetary program of Iraq was successful in containing current spending and preserving fiscal sustainability but fell short in implementing the desired, not at least ambitious investment program as an arrangement and cancellation of the prevailing structure mentioned (IMF 2008, 7), and after two years, in 2010, Iraq requested the IMF the waiver of applicability of the end-December 2010 performance criteria because of the central government fiscal deficit and the governmental current spending bill, for which data were not available (IMF 2011, 1).

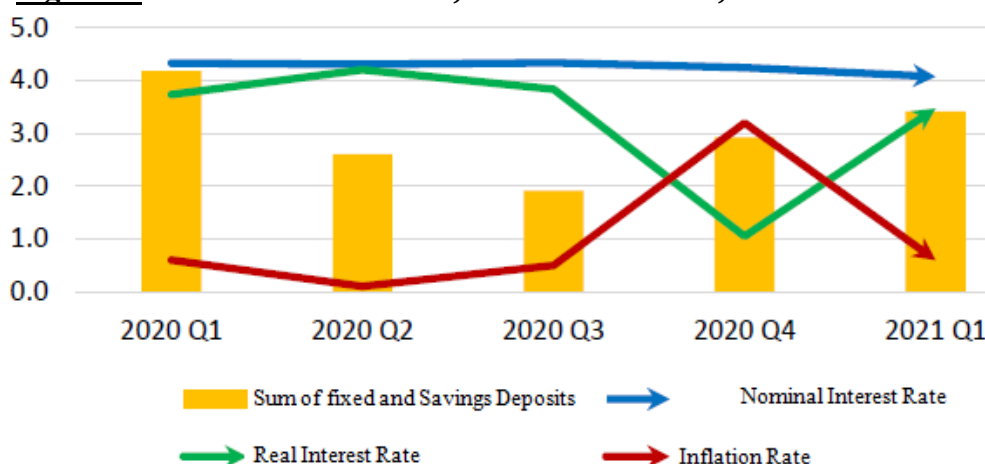
The macroeconomic performance in 2010 was considered by the government of Iraq as optimistic, and the fiscal policy was viewed better than planned, while the same government aimed to limit the budget deficit to 15.7 trillion Iraqi dinars- about 13.5 percent of GDP - for 2011 (IMF 2011, 5). Actually, within many essentials of the financial sector, nothing happened regarding economic development. The functioning banking sector remains viewed as essential for the development of a robust private sector. Therefore, the CBI began to embark on the banking sector reform strategy and referring to the financial intermediation, which is at a superficial level, in addition to the interest rate policy that keeps the rate positive in real terms, measured against core inflation to maintain a low rate of inflation (IMF 2013, 4).

The situation continued like this until 2021 without change, but the CBI had successfully kept inflation under control by managing the exchange rate and keeping a favorable interest rate policy in real terms. As a result, the international reserves increased from \$44 billion at end-2009 to \$50 billion at end-December 2010. The interest rates that have gradually reduced also remained at 6 percent in real terms.

During the 2020 seasons, there was a decrease in the real interest rate (far from the fixed nominal interest rate). Which resulted in a rise and then a decrease in the inflation rate, and the total fixed and variable deposits in the Central Bank of Iraq tended to rise. Then the trends changed without planned investment directions. The reason for interest fluctuations is that monetary policy is subject to market fluctuations, and the construction and agricultural sectors are affected (Figure 2). The zero interest rate makes these two important sectors insulated from that changes.

However, the Iraqi economy today needs, more than ever before, to develop the Islamic finance framework and start development in terms of the challenges arising from conflicting rules with the traditional financial systems—one being, for example, pensions for the Iraqi parliament and provincial & counties boards.

Figure 2: Nominal Interest Rate, Real Interest Rate, and Inflation Rate



Source: Central Bank of Iraq, Early Warning Report for the Banking Sector, First Quarter 2021, Fifteenth Issue, 8.

4.2. Parliament & Provincial Assemblies, Pensions between Economics and legislation

The issue of enormous pensions for members of parliament and provincial councils has often sparked condemnations among intellectuals within Iraq and abroad. More than two hundred and forty thousand dollars a year for the representative, in addition to allowances and salaries for twenty bodyguards, go to the representative's private account, in addition to government funding for electoral advertising expenses for each candidate, whether they win or not in the elections, also as leaks about 55 million dinars (about 40,000 US dollars). At the same time, it is assumed that one of the primary sources for improving the budget is to bring in efficient elites to advance public and private individual interests. Unfortunately, what has been happening is the exact opposite from 2003 to 2021.

The local economy is still reeling under the weight of widespread poverty. More than one-third of the members of society are poor and extreme poverty burdens over one-sixth of the number of families. The argument is not about 5 percent or 10 percent, but about 30 percent of the economically disadvantaged, the so-called income poverty, and 15 percent of the deprived of a living, the deprivation of basic needs. Unemployment, among members of Iraqi society, as the Iraqi Institute for Economic Reform (IIER 2012, Web Page) stated was still increasing until the third decade of the current century, and also according to the Iraqi Institute for Strategic Studies on Iraq (IISS 2021, Web Page).

Throughout the history of the Iraqi state, it was well known that the minimum retirement period for public employees was fifteen years of service. The work in the Iraqi Legislative Council is voluntary work serving society. A member of Parliament is

referred to retirement with a salary of seven million dinars (5 thousand US dollars) after four or eight years even if he or she served for a few days or was exempted from work.

In a functional principle, the task, Parliament Membership is a public service, in which years of work were to be added to the pension service. If they are a government employee, they are supposed to receive an allowance of a member of Parliament according to the internationally recognized approach. If they are not a government employee, i.e., private sector, their parliamentary work is recognized with a reward. This should not be a material privilege and financial gain to get rich. What is happening in Iraq is a way to create wealth.

Therefore, the mission in principle is not an executive service, even if it has extended longevity, and the years of work will be added -for retirement- to their original position. So, under retirement, each franchise material and financial support from the latter area will be classified in money compromised from views of legislation, citing, convenience, and regularity.

From the point of view of financial legislation, it is a temporary service. Parliament had legislated these pensions in one of its previous sessions for deputies and council members. It applies to all parliamentary sessions, while the salaries of state employees in the salary scale range from \$200 to \$2000. These income disparities are far from social justice or Islamic law and need to be reviewed by legislators. Among the recommendations of the Transformation Mechanism Forum for Islamic Banking Services in Saudi Arabia, one of the papers highlighted the need to introduce non-Muslims to Islamic banking and its role in economic and social development. The autocratic regime of Iraq seemed isolated from Islamic mentalities, even though the parties that govern it are Islamist.

4.3. Real Estate Loans for Low-Income Households

A pressing issue that worries most residents of Iraq, and many other Islamic countries, is real estate financing for housing low-income families. Non-interest-based loans to these families, or families in general, are not always available in Iraq, sometimes without interest while sometimes at 5% interest. Muslim families are distressed with the continuing need to borrow at the interest rate, which is forbidden, i.e., Haram under Islamic law. On the other hand, there is not enough and common culture about whether there is a difference between the two types of borrowing:

The first relates to the borrower from citizens, self-help building, prevalent in Iraq, who borrow from individuals. The second relates to the head of the family, who needs a

real estate loan to buy housing. Finally, owning a residence means not paying rent. The first type is falling into usury, the forbidden according to the consensus of Islamic scholars. The second is a move away from usury from an economic, scientific, and legal point of view, as an exceptional point of view, both economically and legislatively.

Economically, if one considers the cost of an employee working in a government job for a hundred months administrative expenses, he will find it much more than the cost. The borrower may incur a monthly or periodic payment to come to the bank for eight years. This payment system is a traditional method, and is still followed. But the cost soon rose to more than 5% of administrative expenses, and many economists have scientifically concluded that not all interests are usurious (El Gamal 2012). The cost of capital at the macroeconomic level does not intersect with Islamic law. "There is a cost constrain of borrowing, and its impact on consumption of households, in addition to border controls on usury" (El Gamal 2006). usury

Legislatively, 'managerial expenditures' is a sufficient basis for the approval of housing loans. There is Fatwa (advisory opinion) of the Sheikh Dr. Youssef Al-Qaradhawi for the Fiqh (jurisprudence). Fatwa of the Individual Fiqh Forum: "Raqba for Islamic Financial Consultations" (Al-Qaradhawi 2006, Web Page). The site of the peremptory *Fatwa* of Sheikh Rafi', the *Grand Mufti* of Iraq's homes, on Sama Mosul Satellite Channel 2017, is within the limits of metaphor and dimensions (Al-Rifai 2011, Web Page; Islam Way 2022).

The average ratios of private investment to total investment during the assessment period $(Pr/T)I = 0.201$ only. The work estimate a direct relation between the interest rate and the case of non-interest rate with Private Investment. The need to invest in new private housing with agriculture loans by households.

It has found that the impact of the interest rate, i_{old} on Private investment (residential and agricultural, $PrI_{Agr+Hous}$) is positively and completely insignificant:

$$(1) PrI_{Agr+Hous} = 84178932 + 25988334 i_{old} \\ (0.59) \quad (3.42) \\ n = 30 \quad S = 508534131 \quad R-Sq = 28.7\% \quad R-Sq(adj) = 26.3\% \quad F = 11.69$$

An approximate variable, assumable for the same period on the interest rate is the *administrative expenses of the bank*, which do not exceed 0.02 of the value of the total loans (as an average of all loans). The fixed section (intercept) is negative, meaning that the absence of interest does not, financially support public investment for the community, but in fact it supports a social need (residential and agricultural) for families.

$$(2) \text{PrI}_{\text{Agr+Hous}} = -3.11 + 2.050 \text{ AdminExp} \\ (-3.52) (4.06) \\ n = 30 \quad S = 480968064 \quad R\text{-Sq} = 36.2\% \quad R\text{-Sq}(\text{adj}) = 34.0\% \quad F = 16.49$$

The absence of interest rate and confinement to bank expenses for loan management is a significant positive variable, explaining R-Sq = 36.2% of private investment changes on housing and agriculture.

There is still an urgent need for a Finance Council for Iraq to discuss such issues publicly and inform people via knowledgeable information regarding the economy, citizenship, and awareness for rehabilitation and reconstruction. Those participants should create interactions based on trust and ways to achieve all types of stability that lead to an economically stable country and economy. As the IMF recently concluded, 'There is a growing interest in fiscal councils' role in promoting sound fiscal policies, as in the European Union states, Australia, Canada, and Kenya. The Fiscal Compact explicitly refers to the monitoring of compliance with national fiscal policy rules by an independent body in each Euro area member state, and a draft regulation (part of the so-called two-pack), to establish an "independent fiscal body" tasked with producing "independent macroeconomic forecasts" to be used for budget preparation.' (IMF 2013, 35). A Council of Iraqi scientists in collaboration with the suggested Council of public finance in Iraq, it is argued here, will be able to resolve such problems doctrinally and financially.

5. Conclusions

This study has grasped a critical finding. The lower the interest rate on agricultural and real estate loans, the more it is possible to stimulate agricultural and real estate investment, thus maximizing production returns and housing construction returns. When the minimum end (graphically and mathematically) of the interest rate line is zero interest rate, then the top end of the returns on the economy is achieved. With this trend, the maximum treatment of the problem of usury in an Islamic country, Iraq, is simultaneously performed. Furthermore, the best-reliability case is also performed to cover the costs compensating for interest from oil revenues of a rentier country.

The financial sector, with banking activities are limited by public economic activities for many sectors: the state sector, the business sector, and the trust transactions between them. Besides the role of the Central Bank, finance activities remained restricted by the accompaniment of the public sector activities alone. Then commercial banks remained determined in pursuing the activities of the market. Therefore, the financial sector in Iraq missed the opportunity for the best performance for economic growth and had been

absent from guiding monetary policies via a significant and clear role or suggesting the importance of improving its role in economic development. The essentials for strengthening the position of the central bank are:

1. In collaboration with the Islamic University in Baghdad, the CBI needs the issuance of a law to create the necessary environment for transformation to Islamic banking and build an investment climate. The suggested environment is an *academy for Islamic banking education*. It should be hand in hand with the CBI to prepare a curriculum for training on Islamic banking. It will be the core responsibility of undertaking the financial affairs that the Executive Authority with which intervenes in the missions of Legislative Authority have. This would lead to one of the essential areas of authority's isolation; so-called 'separation of powers.'
2. In Iraq, a Fiscal Council needs to promote fiscal responsibility, notably by raising the reputational costs of unsound policies and broken commitments for public finance. The essential task follows up from the budget process, from the provision of unbiased budgetary forecasts, in the light of many variables: oil price revenues, acts of violence, and pipeline and electric bombings, to scoring of specific policy initiatives, the preparation of long-term sustainability analyses, the monitoring of compliance with fiscal policy rules, and nonpartisan assessments of budgetary outcomes. As the IMF recently stressed, the Fiscal Council can increase budgetary transparency and improve the public debate on fiscal policy quality by providing unbiased technical inputs to the budget process.

To be on safe side for a Muslim and wealthy country Iraq should focus on:

1. Prohibiting usury (*Riba, the interest rates*) on loans awarded by the state authority to both citizens and development enterprises in housing, as a step on the way to prohibiting it from all latest treatments in agriculture and industry. This policy may convey the employment of fiscal, human resources, and different sector movement, targeting easy productivity growth toward well-being of the economy, via extending participation and profiting.
2. Cooperation in setting laws taken from Islam; legislations in qualifying markets for financial and investment climate and helping qualification of growth and the banking regime that stimulates the competitive markets.
3. Confirming the assistance and establishment of rules for good governance on the path of comprehensive and structural economic reforms in finance corruption control through prequalifying systems of auditing and watching.

By no means does the economic-ethic legal system of Islam seem to favor associations. The government should consider the free and independent policies of the

CBI in economic development plans. The more conclusive one, among many, is the zero interest rate, which is halal by the will of Almighty Allah. The halal is clear, and the haram is clear, and between them, there is some suspicion. When presented with a choice, Prophet Mohammed, peace be upon him, warned against falling into the second category; he who descended in it fell in haram. He said too: all of you governing executives means *Raa'i*, keep observe, that's to mean 'each of you is responsible for his people', *his Ra'iyah*, i.e. his people (Al-Bukhari: 1910; Al-Termithy: 1126). The Holy Qur'an also says: (to guardians, i.e., the state government), "O you who believe, fear Allah and give up what remains of Riba if you are believers. But if you do not (give up), then listen to the declaration of war from Allah and His Messenger...." (The Holy Quran, 2: 278-79).

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