

The role of the Central Bank through the currency auction in influencing some economic stability variables in Iraq for the period (2003/2022)

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Abstract : The study aims to analyze the role of the Central Bank of Iraq through the currency auction and its impact on indicators of economic stability represented by (inflation, unemployment, and economic growth). In order to achieve the objectives of the study, the researcher studied and analyzed the relationship between the foreign currency auction and indicators of economic stability represented by (inflation, unemployment, and economic growth).

The problem of the study was represented by the following question: Does the central bank achieve economic stability through the currency auction?

The importance of the role played by the central bank varies from one economic system to another and from one country to another in the same economic system, and this difference is governed by many factors, the most important of which is the surrounding environment in which the bank carries out its activity, as well as the powers it possesses in exercising its main tasks, which are reflected in The monetary resources obtained by the Central Bank, and the uses of these resources in areas that work to achieve the goals of economic stability, based on the annual statements of the Central Bank and achieving the goal of the study.

The study adopted the inductive and deductive approach in describing the impact of the foreign currency auction on indicators of economic stability by collecting data and annual reports of the Central Bank, the research sample, for the period (2003-2022), as well as using a statistical analysis program for the study, through the (Eviews 12) program and the Excel 2010 program. To facilitate the process of extracting financial and statistical analysis results.

The study reached a set of conclusions, including The central bank plays an effective role in directing, monitoring and refinancing commercial banks and providing the appropriate amount of liquidity to ensure the continuation of their banking activity.

Introduction: The Central Bank of Iraq, under Law No. 56 of 2004, is the institution responsible for monitoring and directing the banking system in our country, and this responsibility comes with the aim of maintaining the stability of the general level of prices through monetary and financial stability and contributing to promoting economic development and reducing unemployment.

The banking system in any country is the body responsible for supplying economic projects with their short-, medium and long-term needs for funds. The banking system carries out its functions and services through a group of banks that vary in number and type in the country by implementing the role of economic policies, including monetary policy, which is one of the important macroeconomic policies, without which the process of creating economic balance and stability in a country remains an incomplete process, as it is A protocol policy has the ability to control the most important and dangerous economic variable It is money that is considered a stop at the country's economic reforms, and the economies of developing and developed countries alike stand helpless if they neglect this important stop for supplying the economy.

The three military wars, in record time, destroyed the infrastructure of the Iraqi economy and delayed the process of economic and human development for several decades due to the great depletion of the natural and human resources that Iraq enjoyed. This placed Iraq in many economic and social problems, including, but not limited to, administrative and financial corruption, loss of investment opportunities, and the emergence of... Speculation and parallel markets, the change of the political regime in April 2003 and the abolition of legislation and laws that govern the professionalism of monetary policy in dependence on the decisions of the central state.

It is worth noting that monetary policy is an important and effective policy in achieving economic stability and cannot be bypassed in developing the required economic plan. This does not mean that it has the full ability to do so because it is part of the major economic policies that work together to achieve the goal sought by economic policy theorists

and planners The country is economically stable, and this requires an economic vision and philosophy in which monetary policy plays a major role.

The first topic

Scientific methodology of the study

This section includes the scientific methodology of the study, which is considered a basic rule of scientific research upon which the researcher relies in defining the importance of the study, its problem, its importance, and its hypotheses, for the purpose of arriving at an accurate answer to the questions raised by achieving the goal of the study. It also addresses both the theoretical and practical method of conducting the study and the time limits. And spatial, means of collecting data and information

First: The problem of the study:

The problem of the study stems from the role of the central bank, as it lacks a diversified and efficient monetary policy that achieves a return on financial obligations of various terms, whether short, medium or long-term, through the formation of efficient sources of financing aimed at enhancing the viability of the central bank, and with the increasing budget deficit. Public debt increases, and this means more burdens accumulated on the financial resources that the state must commit to and fulfil in the future, which leads to the lack of systems and negatively affects them, so the study attempts to answer the following questions:

Does the central bank achieve economic stability through currency auctions?

Secondly, the importance of the study:

The importance of the research lies in showing the important role of the central bank through the currency auction and its impact on achieving economic stability, as follows:

1. The role of the Central Bank through the currency auction and the reasons for the decline in economic stability indicators in Iraq.
2. The central bank's funding sources are of particular importance in terms of the way it measures banks' money reserves and their impact on achieving economic stability.
3. The importance of studying the direct impact of the central bank on the state's financial policy by controlling the money supply to banks, and studying the direct impact regardless of economic variables in achieving economic growth for the state.

Third: Objectives of the study:

The study aims to achieve the following:

1. Determine the nature of the relationship between the central bank and the currency auction.
2. The role of the central bank and its effect through the currency auction on some economic stability variables.
3. Identify the role of the central bank and its influence through the currency auction.

Fourth: Study hypothesis:

Based on the research problem, the research hypothesis can be formulated with the following main hypothesis:

There is a significant effect of the central bank through the currency auction on economic stability for the period (2003-2022) and it is divided into two sub-hypotheses:

1. There is a significant impact of the Central Bank through foreign currency sales on economic stability for the period (2003-2022)
2. There is a significant effect of the Central Bank on indicators of economic stability (economic growth, inflation, unemployment) for the period (2003-2022).

Fifth: Study variables

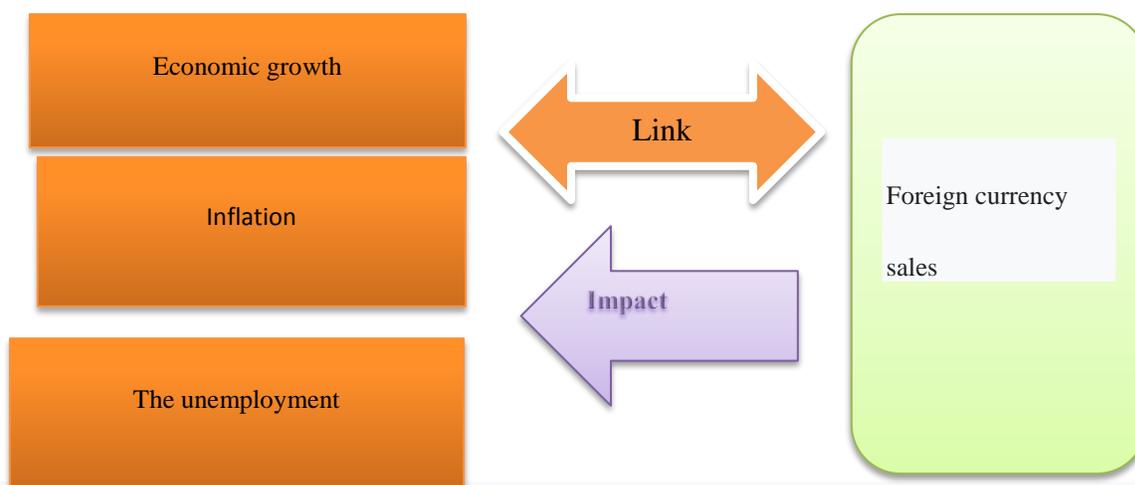
In light of the problem of the study, its importance and objectives, and within the theoretical and practical framework, a hypothetical diagram is designed that expresses the logical relationship between the variables of the study:

1. Independent variable (foreign currency sales)
2. Dependent variable (indicators of economic stability, economic growth, inflation, unemployment)

Figure (1) shows the hypothetical diagram of the study variables:

Economic stability indicators

Independent variable



The source is from the researcher's work

Figure (1) The relationship and impact between foreign currency sales and economic stability indicators

First: The concept of the central bank:

The term Central Bank consists of two words (Bank) of European origin and derived from the Italian word Banca (which means desk or table, as it means nothing more than a rectangular seat on which the merchant or financier used to sit), or wooden offices called (Banca) put money on it and carry out the process of buying and selling various foreign currencies (Al-Amiri, 2013: 22).

The word "central" describes the bank as it occupies a pivotal position in the banking and monetary system in the country (Shehab, 2005: 23).

The Central Bank is also known as (a government institution that supervises and controls the rest of the banks and manages the monetary system through monetary policy tools (Al-Atiyat, 2009: 47).

secondly. Characteristics and functions of the central bank

Central banks differ depending on the political, administrative, economic and financial systems in the countries in which they are established, but despite their differences, they follow characteristics that make them close and unified that distinguish them from other banks, perhaps the most important of which are: -

1. There is one central bank in every country in the world except for the United States of America, where there are (12) monetary issuing institutions subject to monetary authority represented by the Federal Reserve Board.

Central banks are mostly owned by the state, which undertakes their management and supervision through laws that determine their goals and duties (Kazim, 2014: 10).

The responsibilities and general functions of the central bank are similar in most countries in the world, but the general framework within which it performs its functions differs somewhat from one country to another because it is affected by various factors, including:

A- The stage of general economic growth of the country.

B- The amount of available financial resources

C- The extent of expansion and development of the money market and the money market.

D- The composition of the prevailing credit structure in the country.

E- The type of monetary system under which the central bank operates.

Standard side

The reality of the currency sale window for the period (2003-2022)

Development of the foreign currency auction in Iraq:

It is considered one of the indirect monetary policy tools affecting the monetary basis. The Central Bank of Iraq began working on it on (10/3/2003) to sell the foreign currency, the US dollar, and through it aims to achieve the following:

1. Achieving stability in the Iraqi dinar exchange rate.

2. Controlling the volume of cash flow.

3. Financing private sector trade in goods and services needed by the Iraqi market as a major source of providing foreign currency to merchants and commercial companies.

By following Table (4), we find that foreign currency sales were (293) in the year (2003) and increased from (6,008) billion dollars in the year (2004) to (10,462) billion dollars in the year (2005), at an annual rate of change of (74.15%). It continued to increase, reaching \$25,868 billion in 2008 due to the increasing demand for foreign currency (the US dollar) to cover the demand for imports, as well as maintaining the exchange rate of the Iraqi dinar against the US dollar. These increases in sales contributed to increasing the value of the Iraqi dinar to reach 119 dinars to the dollar, as we noted in examining exchange trends. These increases also contributed to increasing the total supply of goods and services, bringing the size of the gross domestic product to (157,026,062) million dinars. In return, the value of The Iraqi dinar and the positives of the currency auction have created a positive atmosphere for increasing public spending to reach 55,209,353 million dinars and a deficit for the general budget (3,155,733) million dinars, as in the appendix.

Development of the foreign currency auction in Iraq for the period (2003-2022) (billion dollars)

the years	Foreign currency sales	Annual rate of change %	Foreign currency purchases	Annual rate of change %
2003	293	-----	910	-----
2004	6,008	71.65	10,802	0
2005	10,463	74.15	10,600	(1.87)
2006	11,175	6.80	18,110	70.84
2007	15,980	42.99	26,700	47.43
2008	25,869	61.87	45,500	70.41
2009	33,992	31.40	23,013	(49.42)
2010	36,171	6.41	41,003	78.17
2011	39,798	10.02	51,000	24.38
2012	48,649	22.23	57,001	11.76
2013	53,231	9.41	62,000	8.77
2014	51,728	(2.82)	47,515	(23.36)
2015	44,304	(14.35)	32,450	(81.70)
2016	33,524	(24.33)	25,653	(20.94)
2017	42,201	25.88	40,355	57.31
2018	47,133	11.68	52,229	29.42
2019	51,125	8.46	58,851	12.67
2020	44,080	(13.77)	30,730	(47.78)
2021	37,094	(15.84)	45,997	49.68
2022	33,586	26.18	33,874	13.49

Source: Central Bank of Iraq, Directorate of Statistics and Research, annual bulletins for the period (2003 - 2022)

This led to the impact of the monetary basis on the sales of the central bank and an increase in public spending and its connection to the budget deficit

It is noted that it reached (293) billion dollars in (2003) and also increased from (10,802) billion dollars in (2004) to (10,600) billion dollars in (2005) at an annual rate of change of (1.87%), then it increased reached (45,500) billion dollars in the year (2008) due to the increase in crude oil exports and the continuous rise in crude oil prices, which reached (88.8) dollars per barrel, as well as trade openness with the outside world and increased demand for goods imported from abroad, but it decreased (23,013) billion dollars In 2009, one million dollars at an annual rate of change of (49.42) due to the reversal of the effects of the global financial crisis and the mortgage crisis. The Central Bank's purchases of foreign currency witnessed an increase in the years (2010, 2011, 2012, 2013) in succession, reaching (41,003, 51,000, 57,001, 62,000) billion dollars, with annual rates of change of (78.17, 24.38%, 11.76%, 8.77). %) On continuously.

In the years (2014, 2015, 2016), it witnessed a decline to (47,515, 32,450, 25,653) billion dollars, respectively, at annual rates of change of (-23.36%, -31.71%, -20.95%), respectively, due to the continuous decline in oil prices. Crude oil on the global market, which was reflected in the decline in oil revenues and the budget deficit, as well as the deterioration of the security situation and political problems in the country after the entry of terrorist groups into Iraqi territory, but it witnessed an increase to (40,355, 52,229, 58,851) billion dollars in the years (2017, 2018), 2019) respectively At annual rates of change of (57.31, 29.42%, 12.68%), respectively, due to the rise in crude oil prices in the global market, which led to an increase in oil revenues and the achievement of a budget surplus, as well as an improvement in the security situation in the country.

In the year (2020), foreign currency sales witnessed a decline to (44,080) billion dollars, at an annual rate of change of (13.78), and purchases of the same currency also decreased to (30,730) billion. Dollars, at an annual rate of change of (47.78). This is due to the decrease in the volume of imports from abroad as a result of the dual crisis to which the Iraqi economy was exposed, the decrease in crude oil prices and the spread of the Corona pandemic (as a result of the

complete closure that the world witnessed in general and Iraq in particular, which led to the cessation of the window's work (Buying and selling) during April and selling only to enhance balances abroad to meet the demand for medicines, medical supplies and food. In the year (2021), sales increased to (37,094) million dollars, and in (2022) sales decreased to (33,586) million dollars.

Development of economic stability indicators in

Development of economic stability indicators in Iraq for the period (2003 - 2022)

It is defined as achieving full employment of available economic resources and avoiding major changes in the general level of prices while maintaining an appropriate real growth rate in the national product.

First: The development of the gross domestic product in the Iraqi economy for the period (2003 - 2022):

Gross Domestic Product (GDP) is the sum of goods and services produced within the Iraqi economy during the year, and it consists of several sectors, most of which are made up of (the oil sector), with the presence of other non-oil sectors, including (the industrial and construction sector, the agriculture, forestry and fishing sector, the transportation and communications sector). , the tourism, hotels and restaurants sector, the trade sector, the communications sector...etc.) contribute to a small degree to the formation of the gross product. It is a quantitative indicator that expresses the economic growth of the country and depends on the oil sector, with a contribution rate of more than (50%) of the gross domestic product (Central Bank of Iraq, 2007)

Table (5)

The development of the gross domestic product in the Iraqi economy for the period (2003 - 2022) (Million dinars)

the years	Gross domestic product at current prices. (1)	Annual rate of change % (2)	GDP at constant prices. (3)	Annual rate of change % (4)
2003	29,585,788	----	26,990,200	-----
2004	53,235,358	79.93	47,959,000	77.69
2005	73,533,598	38.12	64,000,000	33.44
2006	95,588,954	29.99	109,389,941	70.92
2007	111,456,813	16.60	111,456,813	1.88
2008	157,026,062	40.88	120,626,517	8.22
2009	130,642,187	- 16.80	124,702,075	3.37
2010	162,064,565	24.05	132,687,029	6.01
2011	217,327,107	34.09	142,700,217	7.54
2012	254,225,490	16.97	162,587,533	13.93
2013	267,395,614	5.18	174,990,175	7.08
2014	266,420,384	-0.36	175,335,399	0.19
2015	199,715,699	-25.03	182,051,372	3.83
2016	203,869,832	2.08	199,476,600	9.57
2017	225,995,179	10.85	201,528,215	1.02
2018	251,064,479	11.09	199,129,298	-1.19
2019	262,917,150	4.72	213,528,484	7.23
2020	198,774,325	-24.39	188,112,265	-13.51
2021	301,439,513	51.64	202,468,281	7.63
2022	383,064,152	24.07	212,408,657	4.90

Source: Column (1, 3) Central Bank, Annual Bulletins of the Directorate of Statistics and Research for the years (2003-2022)

Column (2, 4) was prepared by the researcher based on the following formula:

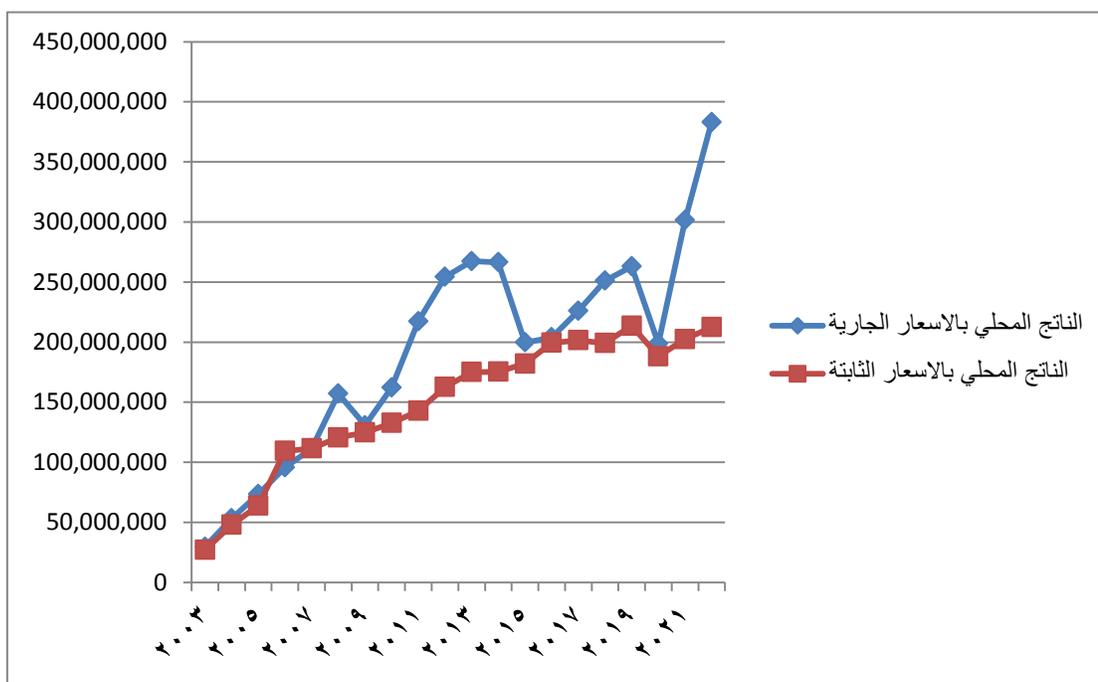
The annual rate of change % = value of output in the current year - the value of output in the previous year x 100%

It is noted from Table (5) and Figure (3) that the gross domestic product at current prices has increased (29,585,788, 53,74.95, 73,533,598, 95,588,954) million dinars, respectively, for the years (2003 - 2006) at annual rates of change of (38.12%). , 29.99%, 16.60%, 40.88%) respectively. The reason for this is the rise in crude oil prices global The gross domestic product at constant prices recorded an increase to reach (26,990,200, 47,959,000, 101,845,26, 103,551,403, 109,389,941, 111,456,813, 120,626,517) million dinars respectively for the years (2004 - 2008). Annual rates of change An amount of (77.69%, 33.44%, 70.92%, 1.88%, 8.22%) respectively due to the oil sector's contribution to increasing the gross domestic product as a result of the rise in crude oil prices in global markets, While the GDP at current prices recorded a decrease to (130,642,187) million dinars in (2009) at an annual rate of change of (16.80%) due to the decline in crude oil prices in global markets, while the GDP at constant prices recorded an increase to (124,702,075) million dinars at a rate A change of (3.37%) due to the effects of the implicit deductor of GDP

2010, 2011, 2012) ended with a very high gross domestic record of (162,064,565, 217,327,107, 254,225,490) million dinars, with an annual rate of change of (24.05%, 34.09%, 16.97%) due to the purchase of oil prices in world trade, which was set for an indefinite period. The name of increasing production and export of crude oil,

(2014-2015) succeeded in recording the gross domestic figure at current prices only to reach approximately (266,420,384, 199,715,699) million dinars, respectively, and at rates of annual change of (0.36%, -25.03%), respectively, due to the decline in crude oil prices in global markets and the deficit. As a result, the general trend, as well as the development of the situation to another as a result of ISIS gangs partially entering Iraqi territory, led to the disruption of oil in the north (Central Bank, 2014: 45).

While the gross domestic product at current prices recorded an increase to (203,869,832, 225,995,179, 251,064,479) million dinars for the years (2016 - 2019), with an annual change rate of (2.08%) due to the Central Bank of Iraq's tendency to support and support the Iraqi economy. Then it continued to rise to reach (262,917,150) million dinars in (2019) due to the state's efforts to support and revitalize the economic sectors to raise the growth rates of the Iraqi economy, while it recorded a decrease to (198,774,325) million dinars. The year (2020) with an annual rate of change of (24.39%) due to the double shock witnessed by the Iraqi economy, which was represented by the decline in crude oil prices, the deficit in the general budget, the spread of the coronavirus pandemic, and the imposition of a comprehensive curfew in the country, which led to difficulty in producing goods and services. It recorded an increase to (301,439,513) million dinars in the year (2021), with an annual change rate of (51.64%) due to the rise in crude oil prices and the achievement of a surplus in the general budget



Source: Prepared by the researcher based on the data in Table (5).

Figure (3)

The development of gross domestic product at current and constant prices in the Iraqi economy.

Second: The development of inflation indicators in the Iraqi economy for the period (2003 - 2022):

Inflation: It is a significant and continuous rise in product prices for a relatively long period, and thus inflation leads to a decrease in the purchasing power of money. Inflation leads to instability in price levels, which affects saving due to individuals' lack of confidence in price levels, which leads to a decrease in the volume of investments in the country.

It is one of the variables of economic and monetary stability in the Iraqi economy, and it is the indicator that measures the changes occurring in the prices of goods and services in the Iraqi economy from one year to another.

Table (6)

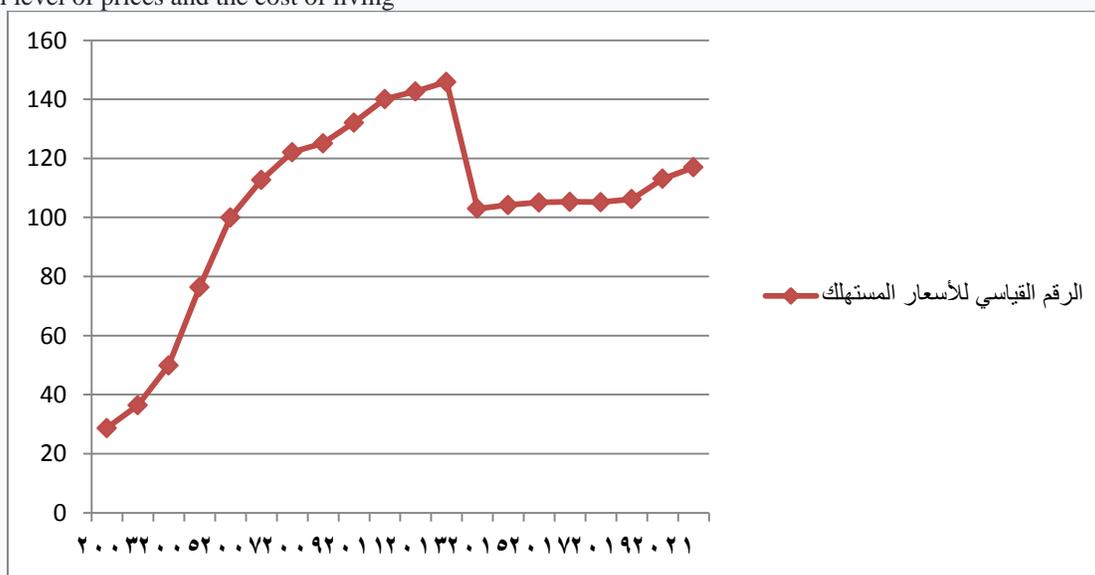
Development of the consumer price index in Iraq (point)

the years	Consumer Price Index (100 = 2007)	Annual rate of change %
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2003	28.7	----
2004	36.4	26.82
2005	49.9	37.08
2006	76.4	53.10
2007	100	30.89
2008	112.7	12.7
2009	122.1	7.69
2010	125.1	2.45
2011	132.1	5.59
2012	140.1	6.05
2013	142.7	1.85
2014	145.9	2.24
2015	103	-29.40
2016	104.2	1.16
2017	105.1	0.86
2018	105.3	0.19
2019	105.2	-0.09
2020	106.2	0.95
2021	113.1	6.49
2022	117.0	3.44

Source: Prepared by the researcher based on the annual bulletins of the Central Bank of Iraq, for the years (2003-2022)

It is noted from Table (6) and Figure (5) that the consumer price index, which expresses the inflation rate, rose from (28.7) points in (2003) to (36.4) points in (2004) due to the lifting of economic sanctions imposed on Iraq before (2003), then it rose to (76.4) in (2006) due to stopping imports and the deterioration of the security situation, which led to the difficulty of transporting goods and products between governorates. Then it continued to rise to reach (125.1) points in (2010) due to increased government spending. It also witnessed a successive increase to reach (145.9) points in (2014) due to the continued increase in demand for consumer goods and the improvement of the living conditions of citizens, while it recorded a decrease to (103) points in (2015) with an annual change rate of (-29.40%) due to The procedures followed by the Central Bank of Iraq represented by reducing the money supply, and it also witnessed an increase in the years (2020 - 2022) to reach (106.2, 113.1, 117) points respectively due to the Central Bank of Iraq raising the US dollar against the Iraqi dinar to finance the budget deficit. General, which led to an increase in the general level of prices and the cost of living



Source: Prepared by the researcher based on the data in Table (6)

Figure (5)

Development of the consumer price index in the Iraqi economy for the period (2003 - 2022)

Third: The development of the unemployment

It is a social and economic phenomenon that most countries suffer from. It is the presence of a labour force that is able and willing to work at the prevailing wage without finding work. It appears in times of economic recession and decreases in times of prosperity.

Unemployment is one of the important economic indicators and is one of the main problems that have repercussions on the economic and social conditions, which leads to the deterioration of the economic and social situation of individuals and a decrease in the standard of income and living. The problem of unemployment in Iraq has economic and social dimensions (Al-Janabi and Yas, 2010: 51).

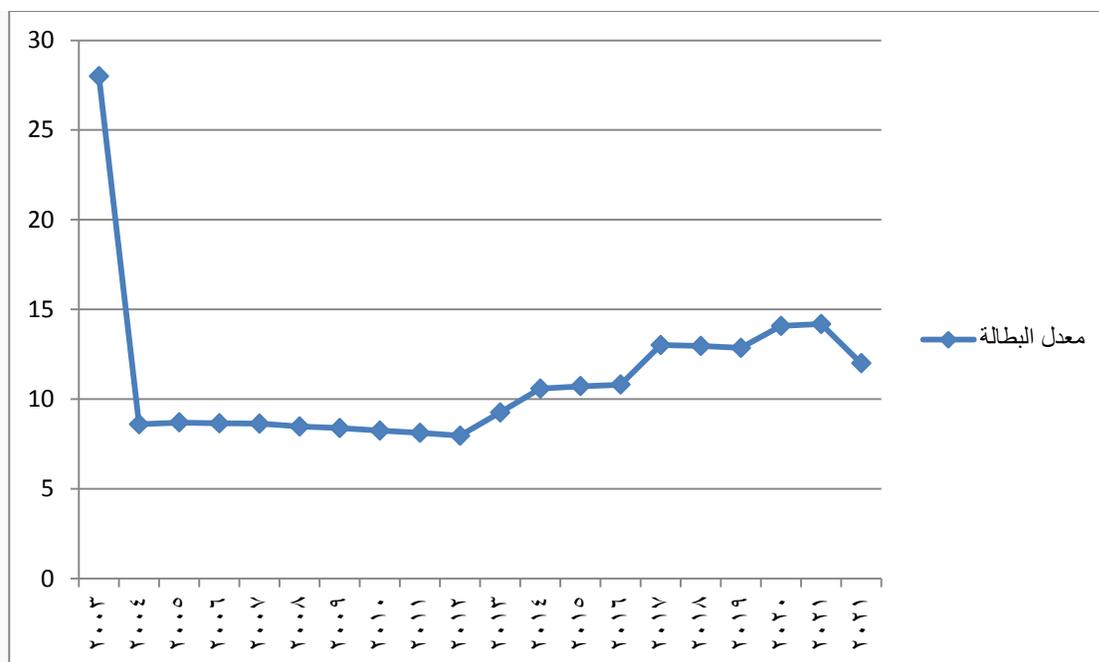
Table (7)
Development of unemployment rates in the Iraqi economy for the period (2003 - 2022)(percent)

the years	Unemployment rates
2003	28
2004	8.60
2005	8.70
2006	8.65
2007	8.64
2008	8.48
2009	8.39
2010	8.25
2011	8.12
2012	7.96
2013	9.26
2014	10.59
2015	10.72
2016	10.81
2017	13.02
2018	12.96
2019	12.86
2020	14.08
2021	14.19
2022	12.0

Source: Iraqi Ministry of Planning, Central Bureau of Statistics and Research, for the years (2003 - 2022).

It is noted from Table (7) and Figure (6) that unemployment rates decreased from (28%) in (2003) to (8.60%) in (2004) due to the lifting of economic sanctions on Iraq and the rise in crude oil prices in global oil markets. It rose from (8.60%) in (2004) to (8.70%) in (2005) as a result of the circumstances that Iraq went through after the occupation in (2003), which caused a deficit in the production system as a result of its exposure to destruction, vandalism, and plundering of all state property, while it recorded a decrease to (8.65%) in 2006, then it continued to gradually decline until a year

(2012) to reach (7.96%), while it recorded an increase to (9.26%) in (2013) due to the increase in government spending to finance investment spending and support productive projects. While it recorded a decrease to (10.59%) in (2014), and it continued until (2017) to reach (13.02%), it decreased to (12.96%, 12.86%) for the two years (2018, 2019), while it rose to (14.08%) in (2020) due to the spread of the Corona pandemic and the imposition of a comprehensive curfew, which led to the closure of local stores and markets and disrupted the movement of citizens in all cities of the country. While it witnessed a decrease to (14.19%, 12.0%) in the two years (2021 - 2022) due to the rise in crude oil prices in global markets, which led to an increase in oil revenues and the achievement of a surplus in the general budget,



Source:

Prepared by the researcher based on the data in Table (7)

Figure (6)

The development of the unemployment rate in the Iraqi economy for the period (2003 - 2022).

Standard side:

First: Description of the standard model:

What is meant by the standard model is an economic model expressed in mathematical symbols that represents the nature of the economic relations of the phenomenon studied in a manner closer to accuracy, using the factors that are specific or influencing the behaviour of the phenomenon partially or completely, including the non-specific factor represented by the random variable (Random Variable). At this stage, the variables of the model will be determined, and here the researcher relied on the available information about the phenomenon in question, and the relationship between the independent variable and the dependent variables can be clarified as in the following equation.

$$Y1 = b0 + b1X1..... (1)$$

$$Y2 = b0 + b1X1.....(2)$$

$$Y3 = b0 + b1X1.....(3)$$

Since:

Y1: The first dependent variable (GDP).

Y2: The second dependent variable (inflation).

Y3: The third dependent variable (unemployment).

X1: Independent variable (foreign currency sales).

B0: fixed limit.

B1: The marginal slope of the variable parameter, which represents the amount of change occurring in the independent variable and its effect on the dependent variable.

Table (8) shows the most important variables used in the standard model:

Standard model variables

Variable	His type	Its symbol is in English	nature of relationship
Foreign currency sales	Independent	X1	
gross domestic product	Continued	Y1	Expulsion
Inflation	Continued	Y2	Reversible

The unemployment	Continued	Y3	Reversible
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To estimate the model, we used annual quarterly data for the model variables for the period (2003 - 2022) using the statistical program (E Views 12).

Conclusions

- 1- The most important function of the Central Bank is to monitor the economic situation, anticipate economic problems before they occur, and take appropriate measures to avoid them, treat them, or mitigate their consequences.
- 2- Oil has been the main engine of the Iraqi economy since the establishment of the Iraqi Republic. The economy, on the one hand, is completely dependent on oil revenues, even though Iraq was an agricultural state before it was oil-based, there has been no clearly defined agriculture since the establishment of the modern Iraqi state.
- 3- The Central Bank of Iraq plays an important role in developing the Iraqi economy by addressing inflation indicators, exchange rates, and interest rates, and developing its balance of payments

Recommendations

- 1- The economic reform policy is a must. The Iraqi government must find clear, transparent plans and strategies that are appropriate to the Iraqi economic and social reality, not the direct application of the prescriptions of international institutions.
- 2 - Solving the problem of unemployment by building productive projects and employing the unemployed in them, especially advanced agricultural projects, as they are the cornerstone of transformational industries.
- 3- The Iraqi government, through various social support programs, can mitigate the effects of implementing reform programs on the Iraqi citizen, especially in the short term, but these programs are not a substitute for creating suitable job opportunities for unemployed workers.

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