

AN ANALYTICAL STUDY OF THE IMPACT OF THE INDEPENDENCE OF THE CENTRAL BANK ON THE FEDERAL BUDGET DEFICIT THE INTEREST RATE NOMINAL AND REAL AND INFLATION IN IRAQ 1990-2015

ADEEB QASSIM SHANDI

Professor, Faculty of Administration and Economics Wasit University Wasit, Iraq

ABSTRACT

The aim of research to analysis the impact of the independence of the central Bank to budget deficit and inflation and interest rate and real the conclusions at this study.

- The independence of central bank could not be the central bank one model as the economic, political and social circumstance and other selected is the basis to the extent of the independence of central bank.
- The period since 2004 in particular with the promulgation of act NO.56 of 2004 on the higher degree of autonomy in comparison with the period that preceded it the independence of central bank reached (%64.3) degree a declaration accordance with measure (CWN) and(%62.5) accordance with the measure (GMT).
- The changes in the budget deficit was not so much the independence of the central bank have any vole in it, while contrast this influence of inflation index showed the relationship between negative interpreted (%44) an nominal interest (%50) the real interest rate has been interpreted (%55)

KEYWORDS: Economics

INTRODUCTION

The subject of the independence of central bank become in the forefront of the concerns economics and politicians.

The independence of central bank decision makers mean free monetary from the political influence of direct government.

However despite the freedom of action and wide choice in central bank report to access to its obi dives does not mean that the bank can choose its objectives, but the contrary in democratic system that appropriate political authorities to fully develop the objectives and then headed the bank to continue to be achieved this means that the central bank is indepent his tools and not indenpent objectives.

Although the view that the central bank that economic institution to some extent political institution but the subject that weare dealing with is the subject of philosophies and regulatory aspects economically and certainly carries in and applied.

Research Problem

The problem of the research in the form of the relationship between monetary authority of central bank in freedom

in the report of how to reach its objectives, on the one hand and try to impose some decisions which would have a negative impact in achieving economic stability and growth on the other.

Research Hypothesis

Research starts from the hypothesis that the presence of the independence of the central bank of Iraq after 2003 reflected in positive impact on the budget deficit and inflation and interest rates nominal and real

The Concept of Independence of Central Bank

Applies the concept of autonomy in accordance central bank to any three Samuelsson with the opinion of the non-dependence branches of government legislative executive and judicial branch and work on the formulation of monetary policy in accordance with of its view which is dictated by the national economic interest of stat usually patchy official central bank directly in front of the legislative authority (samuleson:2001 :563) Allen binder define the independence at central bank applies to two things:

- Central bank free Dom in the report of how access to its objectives.
- The decisions taken by central bank is difficult disabled by the government (Allen Binder 2008.5) started the independence of the central bank of Iraq after 2004 when Iraqi bank issued by law no.56 of 2004 which provides for grouting of this bank independence.

The Quantitative Measuerments to the Central Banks Indpendence

This kind of metrics used the method of calculating the points privately central bank institutional or uses the questionnaire read experts estimate are divided in to the following (algaliby:2015:116)

- **Gvilli Mascandaro, and Tabellini (GMT)Measure(GMT)**

This Measure is measured of the dependence level by eight criteria:

- Is that the governor appointed by parliament?
- Is that the length of service the governor more five years?
- Is that the members of the policy board appointed by the government?
- Is that the length of service the members of the policy board more five years?
- Is there mandatory participation of the government representative in the policy board?
- Is that the government approval is required on monetary policy?
- Is there a legal requirement for the central bank to achieve stability of several other goals?
- Is there legal provision support the central bank position in the event of disagreement with the government?

The independence of the central bank is measured through the collection of eight standards equal weigh to give one point for each one of them in the form which supports independence and to give zero each if supports government intervention to gather the final total reflects the number which is the independence of the central bank.

- **Ejffinger and Schaling (ES) Measure (ES)**

The design of the measure is similar to the measurement of (GMT), from where it was adopted on the same grounds of central bank in selecting and final objectives but it differs in potentiometer instead of eight where in included only Thereof and the relationship with the government.

- **Cukierman, Weeb, and Neyapti (CWN) Measure (CWN)**

This measure consists of criteria are:

- The legislative measure include four clusters located in schedule (1) put in seven clusters and cluster.
- The actual measure through the answer to questionnaire to a sample of the specialists in the monetary policy.

Schedule 1: Illustrative Example Central Bank by Hypothetical

Variable	Weight %	Variable Profil	Force Arrangement	Average	Final Weight
governor	20	The length of service :more eight years	1	1	20
		His appointed: by the bank council	1		
		Isolation: 15 not provided by legal	1		
		The governor of other government job: not allowed	1		
The Formulation of Monetary Policy	15	To formulate it: by the bank itself	1	1	15
		To solve the council: by the bank itself	1		
		The vole of the bank in budget : active	1		
objectives	15	Price stability in the goal main and only the bank has the final world in the event of conflict with the government.	1	1	15
Lending limits	50			1	50
	15	Direct credit : not allowed	1		15
	10	Lending to papers : not allowed	1		10
	10	Lending condition : the power for the bank	1		10
	5	The borrowers government _ level : central government only	1		5
	2.5	The definition of the borders of lending by the government of money	1		2.5
	2.5	Loan recovery in six months	1		2.5
	2.5	Interest rates : higher than the minimum	1		2.5
	2.5	Does not allow the bank to buy and sell government securities : yes	1		2.5

Source: Abdulhuesin.j _ Algaliaby_ Central Banking, Theory and Policy, 2015, p.122

Schedule 2: The Independence of Central Bank of Iraq in Accordance with Measure (GMT)

	Gaugnom	Total Question	Independence Index
1	Is that the governor appointed by the government	yes	1
2	Is the length of service the governor more five years	No	0
3	Is that the members of the policy board appointed by the government?	No	0

Schedule 2: contd.,			
4	Is that the length of service the members of the policy board more five years?	No	0
5	Is there amendatory participation the government representative in the policy board?	No	1
6	Is that the government approval is required on the monetary policy?	No	1
7	Is there a legal requirement for the central bank to achieve stability of several other goals.	Yes	1
8	Is there a legal provisions, support the central bank position in the event of a disagreement with the government?	Yes	1
	Total Independence index		5
	Total Independence degree		62.5

Source: The Researcher Based on the Measurer (GMT)

Schedule 3: The Independence of Central Bank of Iraq in Accordance with Measure (CWN)

Averable	Weight	Actual Weight
Governor	%20	%10.4
The formulation of monetary policy	%15	%5.5
Objectives	%15	%8.4
Lending limits	%50	%40
Total Independence Degree	%100	%64.3

Source: The Researcher Based on the Measurer (CWN)

On the basis of that what was suggest was reached as a result of the Iraq central bank has a degree of independence reached (%64.3) in accordance with the measure (CWN), and now amounted to (%62.5) in accordance with the measure (GMT).

Schedule 4: The Standard Model Results

Regression Analysis of Federal Budget Deficit	
Analysis Indicator	The Results of the Regression Analysis
Equation	$T=13.5+0.03c_{bi}$
Constant	13.51415
C _{bi}	0.03431
R ²	0.0083
F	0.00643

Regression Analysis of Nominal Interest Rate	
Analysis Indicator	The Results of the Regression Analysis
Equation	$M_r = 48.22 + 24.25c_{bi}$
Constant	48.22225
C _{bi}	24.25123
R ²	0.49554
F	0.15203

Regression Analysis of Real Interest Rate	
Analysis Indicator	The Results of the Regression Analysis
Equation	RR=32.75-19.38cbi
Constant	32.75522
Cbi	-19.38785
R ²	0.55452
F	10.87643

Regression Analysis of Inflation	
Analysis Indicator	The Results of the Regression Analysis
Equation	I=107.32-79.97cbi
Constant	107.32135
Cbi	-79.97854
R ²	0.443545
F	3.271954

Model and the Results of the Econometrics Analysis

The impact of the independence of the central bank (CBI) as an independent variable in some economic variables as an dependent variables s by:

T: Federal Budget Deficit.

MR: Nominal Interest Rate.

RR: Real Interest Rate.

I: Inflation.

Since the independence of the central bank is the percentage measured in a given year according to the law bank there are no time series those independence will resort to the the use of dummy variable (CBI) give the number (O)for the the years that preceded the Iraqi central bank act No'56 of 2004 under which the bank received its independence and give the number

- For the years after the issuance of this law (al jobory;2015,109) the use of the technique of simple linear regression and use of statistical program (eview7)

$$T=BO_BICBI+EI$$

$$MR=BO+BICBI+EI$$

$$RR=BO_BICBI+EI$$

$$I=BO-BICBI+EI$$

CONCLUSIONS

The Study has got to Important Result the Following Statements

- The independence of central bank could not be the central bank one model as the economic political and social circumstance and others selected is the basis to the extent of the independence of central bank.

- The period since 2004, in particular with the promulgation of act no.56 of 2004 on the higher degree of autonomy in comparison with the period that preceded it the independence of central bank reached (%64.3)degree declation accordance with measure (CWN)and (%62.5)accordance with the measure (GMT).
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