

Article

Quantitative Easing and Economic Stimulus Policies: Potential Benefiting from Them in Iraq

Halah Hashim Kadhim^{*1}, Alaa Abbas Dakhel²

1,2. University of Al-Qadisiyah, College of Administration and Economics

* Correspondence: halah.hashim@qu.edu.iq

Abstract: Quantitative easing is an unconventional monetary policy used by some central banks to stimulate the local economy. The central bank prints a predetermined amount of money that will be used to purchase government bonds or financial assets to increase liquidity, this increases the excess reserves of the banking system, increases the prices of the financial assets that were purchased, and reduces their size. Banks are also forced to lower the interest rate, which leads to increased borrowing in the country and thus stimulates the economy. This policy is usually used when normal methods of controlling the money supply fail, that is, when the bank interest rate, discount rate, and interbank interest rate are at or near zero. Through its mandate, the Central Bank of Iraq seeks to support the development process and stimulate economic growth in Iraq by supporting the liquidity of specialized banks with financial initiatives that enable them to provide industrial, agricultural, and housing loans to support economic activity and create job opportunities. It also provides financial initiatives to private commercial banks to finance small and medium-sized enterprises, the bank has taken several steps and provided facilities, including banking facilities through rescheduling bank loans to the private sector, particularly those owed by small and medium-sized enterprises, as well as extending the repayment period for existing and future loans, Continuing to support real activities through the lending policy adopted by the Central Bank and in cooperation with banks operating in Iraq to drive development.

Keywords: Quantitative Easing, Economic Stimulus, Central Bank

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1. Introduction

Faced with persistent macroeconomic challenges, including inflationary pressures, volatile oil revenues, and unbalanced growth in non-oil sectors, policymakers are increasingly exploring a mix of monetary and fiscal tools to stabilize demand and promote sustainable development. Quantitative easing (QE) and targeted economic stimulus policies represent two broad categories of such tools. QE involves central banks purchasing long-term securities to inject liquidity into financial markets, lower borrowing costs, and encourage lending and investment while restricting conventional interest rates. Complementary fiscal stimulus measures—such as public infrastructure spending, tax relief, social transfers, and temporary support—aim to boost aggregate demand, support employment, and stimulate productive activity. Applying these models to Iraq requires careful attention to the country's distinctive institutional, fiscal, and financial landscape. Iraq's economy remains highly vulnerable to oil price fluctuations and volatility in public revenues, while its banking sector and financial markets are still developing in depth and breadth. The channels through which monetary stimulus will impact real economic activity depend critically on the credibility of the central bank, the depth of domestic financial intermediation, and the ability of credit markets to channel liquidity toward productive investment. Similarly, fiscal stimulus must be balanced against fiscal

sustainability, governance challenges, and the need to translate spending into tangible improvements in public services, infrastructure, and non-oil private sector growth.

2. Materials and Methods

Importance of the Research

The importance of the research lies in the role of quantitative easing and economic stimulus tools used by the Central Bank of Iraq to enhance economic development, create job opportunities, and achieve sustainable economic growth.

Research Problem

The research problem is represented by the following question: Do quantitative easing and economic stimulus policies play a role in enhancing economic development in Iraq?

Research Hypothesis

The research is based on the hypothesis that quantitative easing and economic stimulus policies play a positive role in promoting economic development in Iraq.

Research Objectives

- a. To understand the theoretical aspect of quantitative easing and economic stimulus policies.
- b. To analyze the reality of quantitative easing and economic stimulus tools in Iraq.
- c. To demonstrate the role of quantitative easing and economic stimulus tools in promoting economic development in Iraq.

3. Results and Discussion

The Concept of Quantitative Easing and Economic Stimulus Policies

a. The Concept of Quantitative Easing

Quantitative easing is one of the steps taken by the central bank with the aim of stimulating the economy. The countries that follow quantitative easing are the countries whose economies are suffering from recession or economic stagnation. Quantitative easing is defined as "the process of injecting money into the market in the form of financial assets. The goal is to flood the market with money and increase liquidity. The central bank achieves this by lowering interest rates to encourage banks to borrow (Mahmoud, 2019, p. 8).

Quantitative easing stimulates the economy in the following ways (Al-Maksousi, 2021, pp. 20-25):

- a. New money is created and used to purchase financial assets for institutions.
- b. These institutions receive a new infusion of cash, which they use for investment and spending.
- c. Additional funds flow from all these institutions into the economy, increasing the money supply.
- d. Financial asset prices rise due to the new demand, while asset returns fall.
- e. Institutions purchase assets from other institutions, which increases prices and reduces the returns paid.
- f. When less money is paid in interest, institutions have more money to spend, lend, and invest.

b. The Concept of Economic Stimulus

The concept of economic stimulus refers to a set of policies and measures taken by governments and other actors to promote economic growth and mitigate the impact of recessions and economic contractions. Stimulus aims to improve the standard of living by increasing productivity and gross domestic product, thereby achieving economic prosperity.

There are many different tools and strategies that governments use to stimulate the economy. One such tool is fiscal stimulus, which uses a variety of measures to stimulate the economy, including:

- a. Increasing government spending on infrastructure projects and public services, which creates new job opportunities and thus stimulates economic growth.
- b. Reducing taxes on companies and individuals to increase consumption and investment.
- c. Investing in infrastructure such as roads and bridges, which stimulates growth.
- d. Providing incentives to companies.

The second stimulus tool is monetary stimulus, and there are three measures for it (Al-Dumay, 2010, pp. 104-106):

- a. Adjusting interest rates by lowering these rates, making borrowing cheaper and thus encouraging businesses and individuals to invest and spend more.
- b. Expanding credit money by the central bank increasing the amount of money circulating in the economy, which in turn leads to increased liquidity.
- c. Controlling inflation by the central bank taking measures to limit it.
- d. The final tool for economic stimulus is to encourage private investment by providing sufficient guarantees to protect investors and incentives to encourage them to invest, in addition to enacting laws that protect their rights.

Quantitative Easing as an Unconventional Measure

Monetary policy typically uses tools to influence economic activity as it sees fit. It either targets the interest rate by using tools that raise or lower interest rates. When the interest rate changes, the effect is transmitted to aggregate demand, and subsequently growth, employment, and unemployment rates. Monetary policy may also target the amount of money circulating in the economy, but monetary authorities may lose the opportunity to use these tools if, in times of recession, central banks work to reduce interest rates, perhaps reaching zero. When they reach this level, these tools become ineffective and paralyzed. Therefore, central banks resort to other new, non-traditional tools, including quantitative easing (Mahmoud, 2019, p. 23).

Japan was the first country to use quantitative easing policy in 2001, but it failed to combat the local economic recession at that time, so this policy was considered ineffective. Then the United States of America used quantitative easing in 2008 to confront the economic conditions resulting from the global crisis, in an attempt to boost levels of economic activity and exit the recession. This policy was also used by the World Bank the European Central Bank and the following table detail the use of quantitative easing by these countries and the results achieved.

Table 1. Shows the countries that have adopted quantitative easing and the results achieved.

Country	Year of use	Results achieved	Influential or ineffective policies
America	2008	It was used by the Federal Reserve during the global crisis, and this policy succeeded in pulling the American economy out of collapse.	Yes, it is an effective policy, and America is moving towards turning the page on stimulus after the return of strong growth to the American economy, leaving market mechanisms to drive the wheel of growth without intervention from the Federal Reserve.

Japan	2013	The quantitative easing policy did not yield the desired results, and officials have yet to achieve the targeted results.	An ineffective policy, the Bank of Japan used it again in 2014 to expand quantitative easing.
Europe	2015	Pushing the euro further down against major currencies, thus supporting exports, increasing production, and raising inflation.	It has a positive impact on the Eurozone because it will lead to a decrease in the value of the currency, and the decrease in the value of the currency will in turn increase European exports, create new job opportunities, and thus increase economic growth.

Source: Prepared by researchers based on <https://ar.wikipedia.org>

The main task that the central bank carries out is to control the volume of credit using traditional monetary tools through which it can implement the policy it wants to achieve, in addition to the type of credit and its price. However, these tools are sometimes ineffective. For example, the open market operations tool, if used alone, is ineffective. Therefore, the central bank resorts to using them in conjunction With the rediscount rate tool, when monetary policy is expansionary, the central bank's purchase of securities increases the reserves of commercial banks, which may use part of them to pay off their debts to the central bank, or they may have a surplus in their reserves, so they acquire more assets Revenue, which causes bond prices to rise, thus lowering interest rates. Here, the rediscount rate must be used as a policy to support open market operations. (Al-Ghalbi, 2015, pp. 212-213)

In this case, the government and central banks find themselves forced to resort to unconventional tools in order to stimulate economic activity, because traditional tools have not succeeded in stimulating economic activity. Therefore, a policy of quantitative easing is followed by minting money and offering it in the market and purchasing a wide portfolio of securities and assets in banks. The central bank then By purchasing government treasury bonds that banks have invested in, this leads to an increase in their price and a decrease in their returns. This makes banks realize that investing in treasury bonds is not profitable due to their low returns, which forces them to return to their core activity of lending to individuals and companies. (Al-Ani, 2002, pp. 290-296)

The Impact of Quantitative Easing on Stimulating the Economy

a. The Impact on Credit

Quantitative easing is an unconventional monetary policy that central banks rely on during financial crises and recessions, when interest rates are close to zero. Therefore, quantitative easing is used to increase liquidity within the financial system, which in turn stimulates the economy. Credit is one of the tools used by quantitative easing Which affects the economy, through increasing liquidity and decreasing interest, which enhances the banks' ability to lend and thus increases the demand for loans, which supports economic activity. We will show the effect of credit in the following points: (Al-Ani, 2002, pp. 34-36)

- a. Lowering long-term interest rates: Purchasing bonds in large quantities leads to higher prices and lower yields. This lower yields lead to lower interest rates on long-term loans, which encourages individuals and businesses to borrow. Examples include mortgage loans and business loans.
- b. Increasing bank liquidity: When the central bank purchases large quantities of financial assets (bonds) from banks, these banks acquire additional assets, which enhances their lending capacity. This is because their reserves are large and can be

used to provide loans. This in turn causes long-term interest rates to decline, which reduces the cost of borrowing for individuals and companies.

- c. Improving bank balance sheets: Rising prices of financial assets (bonds) increases the value of banks' portfolios and reduces financial risks. This makes banks more willing to take risks and grant loans.
- d. Increased lending to individuals and businesses: Increased liquidity and lower interest rates stimulate demand for loans, prompting individuals to borrow for consumption or real estate purchases. It also encourages businesses to borrow for investment and expansion, which positively impacts economic growth.

b. The impact on interest rates

The second tool used by quantitative easing is the interest rate. This is achieved by lowering long-term interest rates, which positively impacts aggregate demand and economic growth, thereby impacting the overall economy. The impact of interest rates can be demonstrated through two points: (Al-Dumay, 2010, pp. 79-87)

- a. Increased lending to individuals and businesses: Lower interest rates lower the cost of borrowing for individuals and businesses, which encourages individuals to increase spending and reduce savings. It also prompts investors to shift toward higher-risk, higher-yield assets. Ultimately, this stimulates consumer and investment spending.
- b. Declining bond yields: Under the quantitative easing policy, the central bank purchases large quantities of long-term government bonds, leading to higher prices and lower yields, i.e., lower interest rates. Lower interest rates also impact various long-term financing instruments, such as consumer and investment loans and mortgages.

Possibilities for Adopting Disciplined Policies for Quantitative Easing and Economic Stimulus in Iraq

a. The Nature of the Iraqi Economy

The Iraqi economy is unique among other economies because it relies heavily on oil revenues, with oil accounting for more than 90% of its public revenues and nearly 60% of its gross domestic product. Consequently, Iraq faces structural challenges in adopting unconventional monetary policies such as quantitative easing. This places monetary policy in a unique position compared to fiscal policy, which is governed by oil revenues. These challenges include:

- a. Limited financial market: When using quantitative easing, the Central Bank of Iraq purchases financial assets from the secondary market. However, financial markets in Iraq are weak, which hinders the possibility of large-scale purchases of financial assets.
- b. Monetary policy is based on the exchange rate: To maintain monetary stability, the Central Bank pegs the Iraqi dinar to the US dollar. This limits the Central Bank's freedom to lower interest rates.
- c. Weak banking sector: The lending channel is one of the most important channels for quantitative easing. However, this channel is characterized by its weakness because government banks control the market, while private banks face restrictions on providing loans, which in turn affects the easing policy.
- d. Inflation and liquidity control: Using an easing policy means issuing large amounts of money into the market. If the economy is suffering from supply and imported goods bottlenecks, this causes significant inflationary pressures.

Under the current circumstances, the use of quantitative easing policy in Iraq is not possible without implementing comprehensive structural reforms such as reforming the financial market, especially developing the government bond market and enhancing transparency, supporting the role of the central bank by reforming monetary policy tools such as financing facilities and rediscounting, and strengthening the banking sector, as this

will help consolidate the effectiveness of monetary policy. The last reform is to diversify the economy, which will expand monetary policy.

b. Analyzing the reality of quantitative easing and economic stimulus tools in Iraq.

The reality of quantitative easing and economic stimulus tools in Iraq can be demonstrated by analyzing their indicators. Quantitative easing can be measured through several tools, most notably the policy rate followed by the Central Bank, as well as required reserves and their surplus, in addition to certificates of deposit and existing facilities. As for the reality of stimulus, the economic outlook can be understood through an analysis of the initiatives introduced by the Central Bank since 2015, as shown below:

1. Analysis of the Central Bank's Policy Rate Index

Table 2. Monetary Policy Rate in Iraq for the period 2015-2023.

Year	Policy rate %
2015	7
2016	5
2017	4
2018	8
2019	4
2020	4
2021	4
2022	4
2023	7.5

Source: Prepared by researchers based on the Unified Annual Economic Report for the period 2015-2023.

From Table 2, we note that the Central Bank reduced the policy rate from (6) to (4) to narrow the gap between interest paid and collected, thereby increasing credit granting rates to the private sector to stimulate economic activity (Monetary Policy Report, 2023, p. 19).

Initiatives presented by the Central Bank of Iraq to stimulate the local economy:

Table 3. Central Bank of Iraq Initiatives for the period 2015-2023.

Year	Initiatives
2015	5 trillion dinars
2016	6 trillion dinars
2017	18.6 billion dinars
2018	31.2 billion dinars
2019	71.4 billion dinars
2020	-----
2021	15.4 billion dinars
2022	4 trillion dinars
2023	4 trillion dinars

Source: Prepared by researchers based on the Unified Annual Economic Report for the period 2015-2023.

From Table 3, we note that the Central Bank provided in 2015 an amount of 5 trillion dinars for the purpose of providing industrial, agricultural, real estate and housing loans in support of economic activity and providing job opportunities. As for 2016, the

development project of the Central Bank of Iraq was launched, which included the allocation of 6 trillion Iraqi dinars To finance small and medium enterprises in order to expand the local production base and move the wheel of the economy, as well as to produce the project of electronic trading of government securities in the secondary market and through the CSD and RTGS systems. In 2018, the Central Bank announced the launch of 31.2 billion dinars to support projects, the number of which is 947 projects (Economic Report, 2018, p. 56). In 2019, and in confirmation of the Central Bank's developmental role through its policy aimed at stimulating the real sector, the bank granted private banks an amount of 71.6 billion Iraqi dinars to support small and medium-sized enterprises and provide bank credit with the aim of stimulating the development process (Economic Report, 2019, p. 36). In 2022 and 2023, the Central Bank provided 4 trillion Iraqi dinars each year to enhance economic development and stimulate the national economy.

c. Iraq's Financial and Monetary Measures

Maintaining Iraqi economic stability in the face of various challenges, including inflation, interest rate volatility, and social and economic pressures, requires fiscal measures by the government and the Ministry of Finance, and monetary measures by the Central Bank of Iraq. We will outline the measures for both policies:

- a. Financial measures: The most prominent of these measures are the government's implementation of tax reforms, particularly sales and income taxes, the development of budgets (expansionary/austerity) based on the country's circumstances, the rationalization of electricity and fuel subsidies, the strengthening of reliance on domestic debt by issuing government bonds to finance the deficit, and the planning of social protection programs, in addition to combating financial and administrative corruption.
- b. Monetary measures: The Central Bank of Iraq's measures include controlling inflation and promoting financial inclusion, such as supporting financing programs and expanding the use of electronic payments, maintaining a strong cash reserve to support monetary stability, managing the exchange rate by maintaining and preserving the stability of the dinar against the dollar, and finally establishing a fund to support small and medium-sized enterprises.

The Central Bank of Iraq and the Iraqi government have already made recent decisions in 2023-2024, including opening financing channels through the Central Bank's lending initiative, such as the (1) trillion dinar initiative for small projects. They also raised the dollar exchange rate in 2021 in order to reduce the financial deficit and increase government revenues, in addition to using the customs dollar at reasonable prices.

4. Conclusion

- a. The research hypothesis was proven that quantitative easing and economic stimulus policies play a role in Iraq in promoting economic development and achieving sustainable economic growth.
- b. Reducing the policy rate played a role in narrowing the gap between interest paid and collected, thereby increasing credit granting rates to the private sector to stimulate economic activity.
- c. The initiatives presented by the Central Bank have played a positive role in promoting economic development and creating job opportunities in the economic sectors (agriculture, industry, and real estate).
- d. The Iraqi economy is a rentier, oil-dependent economy, which makes fiscal and monetary policy highly sensitive to global oil prices.
- e. The Central Bank of Iraq has ample cash reserves, but its operational tools and channels are limited This limits the ability of quantitative easing to achieve its objectives.

Recommendations

- a. The government must adopt economic policies to enhance the role of the Central Bank in providing initiatives that create job opportunities and achieve economic development.
- b. Work to expand the production base, diversify sources of income, and avoid relying on a single source.
- c. The need to support small and medium-sized enterprises and provide bank credit to stimulate economic development.
- d. Reducing reliance on quantitative easing tools in the future by establishing a sovereign or national investment fund using oil surpluses to diversify the economic base.
- e. Restructuring the banking sector to encourage private banks to engage in real lending, rather than relying solely on trade and bills of exchange.

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