RES MILITARIS
REVUE EUROPEENNE D ETUDES EUROPEAN JOURNAL OF MILITARY STUDIES
Social Science Journal

Fiscal inclusion and its impact on monetary policy in Iraq's economy

By

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Abstract

Economic growth has become the primary goal for the advancement of societies, with tangible improvements in the fundamentals of life, and has been intended for all governments to be a critical destination for raising low living standards. Economic growth needed to infuse the spirit of diversity into the trade interaction movement. By diversifying markets and the economy, the need for financial inclusion has emerged through the mainstreaming of financial and banking services at a reasonable cost to the largest number of the public. In particular, low income segments, the employment of the banking business has stimulated activities, services and tasks to include bank accounts and introducing the ATM into the service, finding points of sale, as well as loans and settling the salaries of State employees, Remittances at the local and external levels have a significant impact on the modernization of the cultural, behavioral and social system of members of this Iraqi society. On the other hand, economic stability is one of the objectives of monetary policy, as it is the way to achieve economic growth in the country. The emergence of a new phenomenon, such as fiscal inclusion, affects monetary policy and enhances its effectiveness within the country, as fiscal inclusion increases the degree to which members of society respond to changes in monetary instruments. Fiscal inclusion would affect the totality of economic variables, including monetary policy rates. The two researchers found that there was a correlation between fiscal inclusion and the monetary policy of monetary policy rates.

Keywords: Financial Inclusion, Monetary Policy, Economic Stability, Electronic Payment Services, ATM.

Introduction

The global crisis of 2007 prompted a reassessment of the global financial system, the goal of which was to create a global financial system that enhances confidence and finances that led these G20 efforts where it created two meetings. Seoul (2009 Global Financial Inclusion Partnership) (Glopal Partnership for Financial Inclusion) To meet a global challenge is to ensure financial inclusion for about 2.7 billion people. About half the population of the working age (excluded from the formal financial system, and in 2010 the original financial inclusion plan was approved (FIAP) Fnancial Inclusion Action Plan from before the leaders of the G20 countries gathered in Toronto was the first ambitious plan for several years.

International experience has shown that financial inclusion enhances financial stability and contributes to growth.

Economic and financial efficiency, unlike the social aspect, in improving the living situation of members of society, especially the poor. Therefore, many countries have included financial inclusion as one of the objectives of their national strategies, and central banks' interest in financial inclusion has increased in order to raise awareness of financial inclusion, its objectives, and its relevance to the traditional objectives of central banks.

Search Problem

The problem of research is reflected in the answer to the main question of research (Is there a statistically significant effect of fiscal inclusion in monetary policy), with the following questions- :

A Is there a statistically significant impact of banking intensity on monetary policy?
B Is there a statistically significant impact of bank spread on monetary policy?
C Is there a statistically significant effect of the proliferation of ATM and electronic payment services on monetary policy.

Study Objectives

The current study aims to achieve the following objectives: -

-1 Clarify the concept of financial inclusion and its relationship with a country's economy.
-2 Analysis of the relationship between fiscal inclusion and monetary policy and the extent to which fiscal inclusion affects monetary policy rates.
-3 Measuring the relationship between financial inclusion variables of banking intensity, banking proliferation, ATM proliferation and electronic payment services.

Study hypothesis

The hypothesis is a preliminary guess that the researcher mandates, and we try to prove it through the applied offender to study or not to prove it, and to find solutions to the study's problem and questions.

-1 There is a statistically significant effect of banking intensity on monetary policy.
-2 There is a statistically significant effect of banking spread on monetary policy.
-3 There is a statistically significant impact on monetary policy for the spread of ATM and electronic payment services.

Financial Inclusion and its Relationship to Monetary Policy

Financial Inclusion (Definition - Importance - Objectives)
Definition of financial inclusion

Financial inclusion by the World Bank is defined as access to useful and affordable financial products and services for both individuals and companies in a manner that meets their needs (transactions, payments, savings products, credit facilities, loans and insurance services), and is provided in a responsible and sustainable manner. Financial inclusion is one of the 17 sustainable development goals (World Bank, 2022, page no)

It is also defined as a situation in which all people have access to a full range of high-quality financial services, provided at affordable prices, and in a manner appropriate to customers (Gatanar, 2013, p. 2).

Financial inclusion is also defined as the process of facilitating access to financial services to all segments of society through banks, other institutions and offices. (shahul, 2014, p. 188)

The Importance of Financial Inclusion

The importance of financial inclusion is divided into two parts for the individual and for the community. This can be illustrated by the following (Al-Tayeb, 2020, page 5): -

-1 Financial inclusion provides individuals with better opportunities to manage their finances safely, which opens opportunities for them to save, invest, establish enterprises and cope with financial shocks.
-2 Financial inclusion enables society to channel their savings towards investments, helping to establish enterprises, create jobs for members of society, and increase income, which helps increase economic growth rates.
-3 Financial Inclusion Goals: -

Financial inclusion aims to achieve what is coming (Arabian Monetary Fund, 2015, page 27):

-1 Protect and promote the rights of consumers of financial services by following policies and instructions provided by financial institutions to their clients.
-2 Improving citizens' living conditions by facilitating access to sources of finance.
-3 Familiarize citizens with the importance of financial services and how they can access and benefit from them to improve their living conditions for financial and social stability.
-4 Stabilization of the financial system, financial integrity and consumer protection to ensure coherence between the objectives set by financial institutions, which are important to reach users of the service.

Analysis of the relationship between financial inclusion and monetary policy

The study or analysis of the relationship between fiscal inclusion and monetary policy or monetary policy, which is a mirror of the effectiveness of monetary policy, did not address economic theory.

Interest in financial inclusion increased after the global financial crisis of 2008, because this crisis had the greatest impact on low-income people and unbanked people.

Financial inclusion affects not only economic growth, poverty levels, and the stability of the financial system, but also monetary policy, as it helps the monetary authority to control monetary policy and monetary stability, and enables the monetary authority to use the interest rate to achieve its goals.

We note from the figure below, which illustrates the relationship between financial inclusion and monetary policy, that financial inclusion, which can be applied by ensuring that individuals have easy access to financial services and working to improve the quality of these services, will increase the effectiveness of monetary policy with its variables, which include (Cash Offer - Monetary Policy Rate - Liquidity Rate - Lending Rate) Thus, monetary policy objectives of raising economic growth rates, stabilizing the overall level of prices, achieving full utilization, and balancing the balance of payments will contribute.

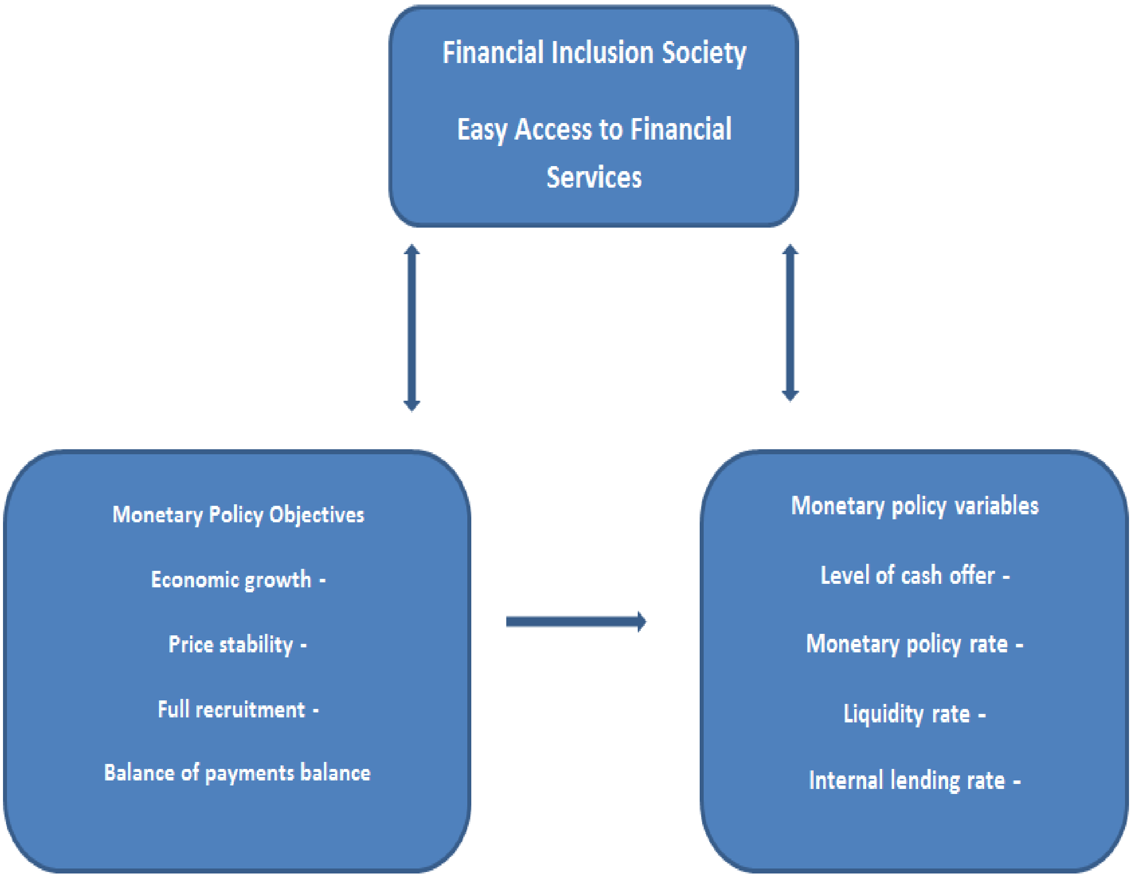


Figure (1) *Relationship between financial inclusion and monetary policy*

Measuring the relationship between fiscal inclusion and monetary policy

This research presents the main findings of the researcher by analyzing the overall impact among the research variables, i.e. between the Independent Financial Inclusion Variable (X1 banking density, X2 banking deployment, Proliferation Index for ATM and X3 electronic payment services) and the subordinate variable (monetary policy) through the use of the Smart PLS statistical program. It will be explained as follows: -

Main hypothesis: - There is no meaningful effect of financial inclusion X on Y monetary policy.

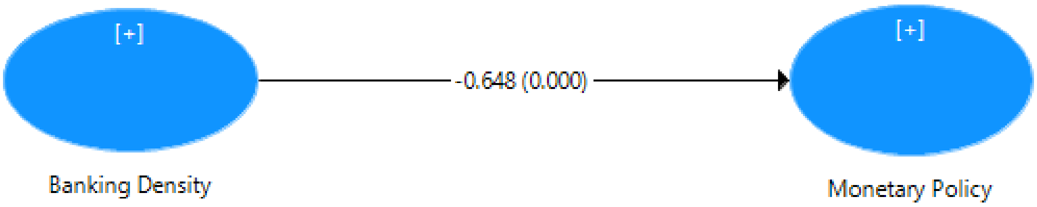
Three sub - hypotheses differ from this hypothesis: -
First sub-hypothesis: - No meaningful effect of banking density in monetary policy Y

Through table (1) and figure (2), we note that there is a moral adverse effect of the banking intensity in monetary policy, with impact (-0.648) at a moral level (0.000) and calculated T (4.456). The impact has increased the bank intensity in monetary policy expressed in R2 (0.723). The model explains 42% of changes in monetary policy resulting from the change in banking density, and the decision is therefore to reject the hypothesis of nowhere that there is a morally significant effect of banking density on monetary policy.

Table (1) *Total impact of banking intensity on monetary policy*

F	R^2	P values	T	total impact
0.723	0.420	0.000	4.456	-0.648

Source: Researcher's preparation based on Smart PLS



Form (2) *the overall effect of banking intensity on monetary policy.*

Source: Researcher's preparation based on Smart PLS

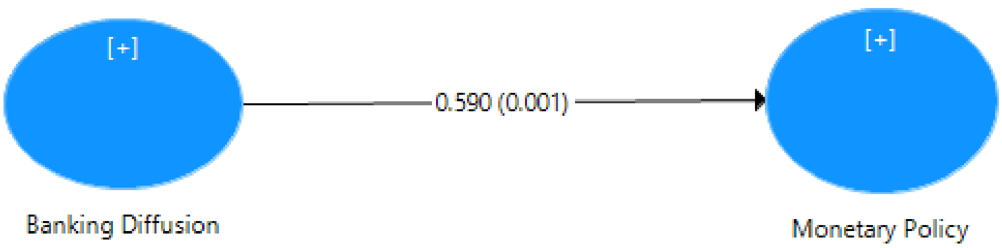
Subtype II: - There is no meaningful effect of banking spread on monetary policy.

Through table (2) and figure (3), there is a moral expulsion effect of bank spread in monetary policy, with impact at 0.590 at a moral level (0.000) and calculated T (3.548), and the impact strength of bank spread in monetary policy expressed in F (0.535). The model explains 34.8% of changes in monetary policy caused by changes in bank spread, and the decision is therefore to reject the hypothesis of nowhere, which has a morally significant effect on bank spread in monetary policy.

Table (2) *Total impact of bank spread on monetary policy*

F	R^2	P values	T	total impact
0.535	0.348	0.000	3.548	0.590

Source: Researcher's preparation based on Smart PLS



Form (3) *The Total Effect of Banking Spread on Monetary policy*

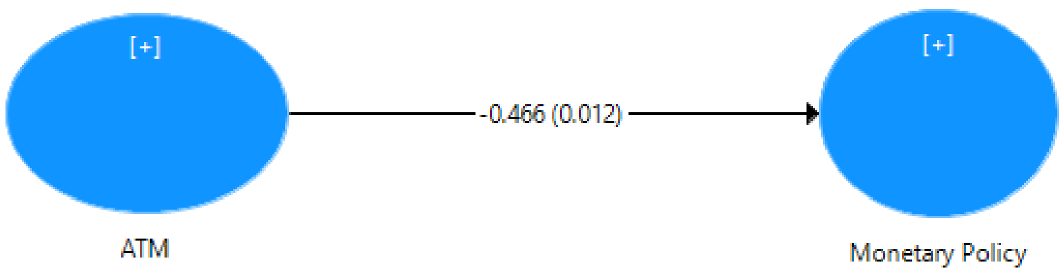
Source: Researcher's preparation based on Smart PLS

Sub - hypothesis III: - There is no meaningful effect of spreading to the ATM and electronic payment services in monetary policy.

Through table (3) and figure (4), we see a moral adverse effect of the spread of ATM and e-payment services in monetary policy at -0.466 at a moral level (0.020) and calculated T (2.325). The impact strength of the spread of ATM and e-payment services in monetary policy expressed in F (0.277). The model explains 21.7% of changes in monetary policy caused by changes in the proliferation of ATMs and electronic payment services, and thus the decision is to reject the hypothesis of nowhere that there is a morally significant effect of the proliferation of ATMs and electronic payment services in monetary policy.

Table (3) *Total Impact of ATM Spread and Electronic Payment Services in Monetary policy*

F	R^2	P values	T	total impact
0.277	0.217	0.020	2.325	-0.466



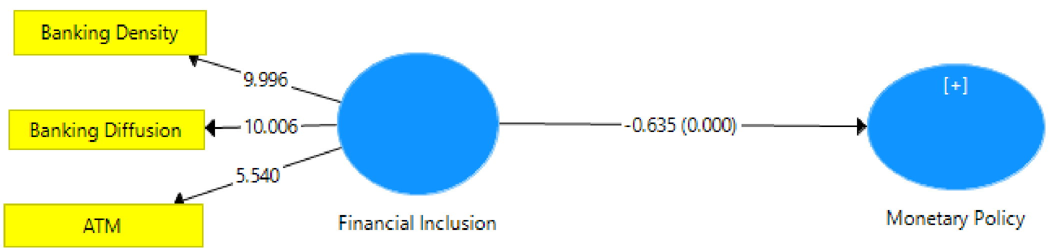
Form (4) *The Total Effect of Diffusion of ATM and Electronic Payment Services in Monetary policy*

This is illustrated by table (4) and figure (5). The total effect of fiscal inclusion in monetary policy (-0.635) is at a moral level (0.000). The model explains 67.7% of changes in monetary policy resulting from changes in fiscal inclusion.

From the foregoing, we find the rejection of the main hypothesis of non - morally significant effect of financial inclusion X on Y monetary policy.

Table (4) *Total impact of fiscal inclusion on monetary policy*

F^2	R^2	P values	T	total impact
0.677	0.404	0.000	3.856	-0.635



Form (5) *the overall effect of fiscal inclusion on monetary policy*

Conclusions

-1 Financial inclusion serves to provide affordable financial and banking services to members of the community through the proliferation of the ATM, as well as increasing the volume of loans, localizing employees' salaries.

-2 Financial inclusion is lower than with countries in the world or with Arab countries because of high interest rates, which leads individuals not to borrow from banks.

-3 Financial inclusion helps monetary authority control monetary policy rates and monetary stability and enables monetary authority to use the interest rate to achieve its goals.

-4 Statistical analysis has shown that there is an inverse correlation between financial inclusion and monetary policy.

Recommendations

1. Diversifying and developing financial products and services to provide innovative, low-cost services that are tailored to the needs of excluded groups, especially women and low-income people, it is essential to take into account customers' requirements when providing services and products to them.
2. Create new financial products that rely on savings, insurance, means of payment, not just lending, and financing.
3. Create comprehensive databases with historical credit records for individuals and SMEs, and develop rules and legislation aimed at facilitating banking procedures and creating a clear regulatory environment for SMEs.

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