

The Role of Fiscal and Monetary Policies in Attracting the Domestic and Foreign Direct Investment in Iraq

Fadhil Abbas Kadhim^a, Thamer Abdul Aaly Kadhum^b, ^aEconomics Department College of Management and Economics, University of Al-Qadisiyah, Alqadisiyah, Iraq, ^bAl-Qasim Green University College of Agriculture, Department Soil and Water Resources, Email: Fadhil.Kadhim74@yahoo.com, Thamerabd63@agre.uoqasim.edu.iq

The purpose of this study is to find out the role of monetary policy and fiscal policy on foreign direct investment and domestic investment in Iraq from (2004-2018), in this study two models were used, the first one is to measure the effect of fiscal and monetary policy on the investment domestically. This research explained that there is relation between outstanding balance of certificates & domestic investment, the study explained that relationship between domestic investment and re-discount rate is positive and a positive relationship between domestic investment and certificate of deposits. While the relationship between domestic investment and taxes showed negative and also negative relation between domestic investment and government capital spending which means the political efficiency of the fiscal effect is better as compared with the monetary policy on the domestic investment whereas the second model elaborates the effect of monetary and fiscal policy on the foreign direct investment. In this study, it was explained that the relation between outstanding balance certificate of deposits, rediscount rate and the obligatory cash reserve on foreign direct investment is positive whereas the relationship of taxes and government capital expenditures is negative because of the uncertainty of the government in Iraq.

Key words: *Foreign direct investment, Monetary policy, Fiscal policy.*

Introduction

In the beginning of 1990s, the developing countries have gradually opened, privatized and decontrolled their service sectors with a very warm contribution in the international economy. More friendly strategies on FDI have been protuberant element of this development. National policies on FDI are fascinating and discouraging the inflows. The policies to entice FDI like tax breaks, favorable regulatory action and subsidies of different kinds are typically concentrated in manufacturing. In the meantime, policies limiting inward FDIs are mostly focused withen the service industry. This bigger competition controlled other countries to their current situations before the shareholders with respect to the fiscal system, prerequisite of working strength and structure.

FDI is the instrument for financial retrieval and monetary growth.. They are liable for the technical flow in the economy, with the growth of labor efficiency and export effectiveness and the knowledge for transfer (Radulescua & Druica, 2014).

Monetary Policy in Iraq

Monetary policy is explained in Iraq by three elements and only two elements from these three elements are working under the supremacy of (CBI) and the first one is the foreign exchange inflows from oil, military expenses, donor and NGOs expenses and some of which they consumed locally and the second one is the sale, from which some of this the foreign currency return to the market in daily CBI FX auctions, the third one is the interest rate of dinar which is resultant from the operations of CBI's dinar.

The key purpose of monetary policy of CBI is to sustain the worth of the Iraqi dinar. The primary tool for attaining this goal is aiming to exchange rate of dinar against the U.S. dollars. The monetary policy relies on affecting on exchange rate controls the exterior value of the dinar directly and its local value indirectly. The price of dinar against U.S. dollar, the exchange rate, indirectly describes the price of dinar of American goods and services or somewhat exchangeable services and goods valued in dollars. Accordingly, in overall the price of exchangeable goods and services in dinars relies on American dollar value of those services and goods and the dollaer and dinar exchange rate. The inflation rate of dinar, at least as per exchangeable goods will incline to equivalent the dollar, inflation rate less with the rate of appreciation of the exchange rate (Coats, 2007).

Fiscal Policy in Iraq

Government expenses significantly surpass its national income. This change is financed through its oil export profits (round about 99 % of the total profit) and some extent of donor

capitals organized by the budget of the government. The inflow of all these foreign currencies, mostly in U.S. dollars are spent overseas to finance imports or locally for domestic manufactured services and goods. The local expenditures of government against its dollar revenue are finalized in the currency after selling the dollars to the central bank of Iraq. But the foreign currency is first changed in dinar or is disbursed directly and if it is disbursed locally it improves to local collective request. So, fiscal policy shows a generally significant part of the inflationary procedure in Iraq. The effect of government expenses and other capital invasions on local demand is an important reason in Iraqi budget choices, which it discourses with the help of IMF in the situation against the Stand-By Arrangement (SBA) through the IMF. (DFI) leftovers to deliver a protection between the oil revenue inflows and the government expenses but Iraq government is not yet recognized a official Oil Fund policy create mostly, a big oil exporting countries (Coats, 2007).

Fiscal policy and monetary policies are deploying to attain macroeconomic purposes in a nation. These aims comprise decrease in a debt of nations, sustainable growth, decrease in poverty , employment, and in the stability in inflation (Mugableh, 2018).

The fiscal policies and monetary policy are reflected one of the best policies which depends on the motivation which rely on economic activity that accept a unrestricted market policy, which used for the monetary policy to effect the financial and monetary activity by the rediscount rate policy and for mandatory cash reserve, It operated on the acceptance of open market processes by the outcome of deposit certificate, purchasing and selling to effect the financial activity, beside of this fiscal policy is applied by tax policies and the government expenditure to effect the financial activity, monetary consultant used the monetary policies in implementation foreign and local venture by rising rediscount rate, mandatory cash reserves, and selling deposit certificates to effect the cash reserve of the banks for limit the credit services to finance domestic and foreign investment and follow the compaction fiscal policy through rising tax and decreasing government expenditures, so this study prove the effect and efficiency, the tools of monetary and fiscal policy at the national and FDI.

Literature Review

Many current studies have explained the role of FDI on the economic growth and the factors which ar einvolved in the efficiency of foreign direct investment and mostly, identified the positive effect on the foreign direct investment (Sedhain, 2016).

In current years, the procedure of globalization and the regular removal of obstacles to capital activities, comprising FDIs, across the countries have controlled to the appearance of new problems. Through the foreign capital movement, the rate of corporate tax of a country and procedures about in what way taxes compensated in host country are measured at home

would effect FDIs. Actually, such effect was known from long period before by the joint contracts that were contracted to evade double taxation of revenue between the countries. Taxation guidelines at home affect the efficiency of tax inducements in the host state. Mostly FDI outflows create from OECD states, with different managements. Such as, foreign tax rewarded by US businesses can be appealed as a tax credit on US tax accountabilities (tax rate is more than 35%). In Japan and UK the tax practice and tax structure is similar, whereas other countries like Australia, France, Germany, Canada and Netherlands relieved more or less profit received abroad against the home taxation (Morisset & Pirnia, 2000).

Mostly, the studies engraved in the theoretical aspect of the problem of the monetary and fiscal policy but a to sum extent take the structure of the statistical model which describe this relation and examine it, like there is very limited studies which narrates this relationship. Anja and Koester (2011) explained the effect of the fiscal policy on monetary action against the business cycle suggestion through VAR analysis, the study examined the quarterly data (1976–2009) with a SVAR, they examined that high spending produces for a very short period fiscal multiplier of approximately 0.70, whereas fiscal multiplier causing from an upturn in tax and the social security influence is -0.66, additionally, get important suggestions for the optimum fiscal policy combination against different phases of business cycle.

(Cukierman, 2013) explained a detailed investigation of the behavior of monetary policy after, before, and during global financial crisis. The researcher claimed that an important tool in given that liquidity for the financial system was the capability of central banks to act being as lenders of last recourse in the banking system. However, there was a significant revolution during the 2008 financial crisis, when the FED gone aside its traditional part as lender of the last resort, and beginning to perform as market maker of first resort. Nevertheless, irrespective of a significant growth in the money supply, and the lower interest rates, the banking credit growth declined significantly.

Ndikumana(2014) examined the inferences of the monetary policies for local investment by its effects on the bank loan to the private zone and the interest rate in the sub Saharan African countries, the research consists of 37 of African countries from 1980 to 2012, it was examined that monetary policy impacts negative on local investment and indirectly by quantity channel and the bank lending channels and directly by the interest rates as well as the cost of capital channel.

Babaita, Abdulrasheed & Yusuf (2011) argued that the effect of the fiscal policy and the monetary policy in Nigeria on financial activity level, the standard of this analysis revealed the defficiency on the effect of a statistically important for the government present expenditure, tax revenue, and government capital expenditure on financial activity, and as well as the deficiency on the effect of the statistically important for the money supply on

financial activity in Nigeria and the study presented that tax revenue and capital spendings do not occur on financial action and, thus, does not have any effect on the financial growth.

Karim (2010) examined effects of the monetary policies on the investment of organizations in Malaysia, the search used vigorous framework in the ARDL model, the study presented the effect of the monetary policies on organizations' investment spending and the research also disclose the effect of the monetary policies channels for investment of an organizations are varied, so small organizations which confronted financial restriction replied more to the monetary contraction rather than big institutions.

Olweny & Chiluwe (2012) investigated the effects of the monetary policies on the private industry or investment in an African country Kenya from 1996 to 2009 by finding the effects of monetary policies by the transmission instrument to describe in what way investment replied to fluctuations in monetary, they established that the local debt of the government and the rate of treasury bills are in reverse concern to the private industry investment, whereas money supply and local saving have positive connection with private industry investment reliable with the ISLAM model.

Hadiwibowo *et al.*, (2010) observed the effect of fiscal policy on financial growth and investment in Indonesia and the results presented significant relations between investment and the variables of fiscal policy. Whereas, government growth expenditure upsurges the investment and financial growth.

Isaac & Samwel (2012) explained that the impact of the fiscal policies on the private investment and financial growth in Kenya from 1973 - 2009. In this study exposed that fiscal policies effect on investment and it shows major role in financial development in Kenya.

Akpo *et al.*, (2015) established the effect of the fiscal policies on investment expensis in Nigeria and the data from 1970 to 2010. They observed that the fiscal policy has a very significant effect on the investment spendings, GDP and it explained that the government spendings have significant effect on the investment.

Afonso & Sousa (2009) explained the macroeconomic impact on the fiscal policies in the Country of Portugal. The analysis was used a Bayesian SVAR. In this study a positive govt.spending effects negative on real GDP while positive govt.spending shocks have negative relation on GDP and it goes to down the price level.

Banga (2003) elaborated the effect of govt. policy and investment on the foreign direct investment inflows in which, the study explained that in what way the govt.policies impact on foreign direct invest from under developing coubtries to developed countries.As per this question , he contracts exactly morethan fifty countries from East and South Asia. In this

study create that no significant relation statistically between the fiscal policy and the foreign direct invest in the developing country to developed countries and showed that there is a greater effect of investment in developed countries as compared to the developing countries. Arbatli (2011) explained about the monetary policies and FDI Inflows. The study described that the external factors like, foreign trade, exchange rate, tax rate, and furthermore the external capital which explain a vital role in encouraging FDI. While the relationship is negative due to the internal factors and political constancy on the FDI.

Radulescu & Druica (2013) described the effect of fiscal policies on FDI in Romania from 2000 to 2011. In this study they explained about the significant relationship of the monetary factors like rate of inflation and interest rate on FDI. Although the effect of the fiscal policies with the tax policies is weak with FDI, but they propose to emphasis on political stability and infrastructures. Also, Solomon (2012) described a study in which he explained and investigate about the effect of Euro Area agreement on the fiscal and the monetary policy in Romania. They have shown two results from their studies. In the first category they extend the time period, they took the data from 2000 to 2011 and the second point the hypothesis made new one which were not used in previous studies and the results were plentiful consistency because of using complete scientific procedures.

Methodology of Research

This study enclosed the period from 2004 to 2018, the current study selected independent variables monetary policy tools which consist of obligatory reserve, rediscount rate and open market operation and this study as well as explained fiscal tools which consist of government capital expenditures and taxation, because they play an important part in the economy of Iraq, the data source is the Central Bank of Iraq.

Independent Variables

Monetary Policy Tools in Iraq

1. Open market operations- outstanding balance of deposit certificate in Iraqi dinars and the Central Bank of Iraq do buying and selling of treasury bills, bonds, other commercial and profitable papers, which effects directly on cash reserves in banks, window deposit, deposit certificates and repurchase arrangements comprise (Central Bank of Iraq).
2. Re discount rate- It is the rate of interest which a commercial bank borrows from the main bank of that particular country and also known as the financial securities discount processes in the main Bank (The Central Bank of Iraq).
3. Mandatory cash reserve - Lowest value which a licensed bank should retain with the main Bank to achieve the required cash reserves executed on securities with the approved banks value (Central Bank of Iraq).

The Financial Tools in Iraq

1. Taxes -Taxes include in Iraq on profits, income, taxes on services and goods, taxes on the trade and intercontinental transaction and taxes on financial transactions, (The Central Bank of Iraq).
2. Governmental Capital Spending - The spendings which are assigned for buying of long-lasting assets to generate and enhance money kind, such as, construction, main repairs and maintenance (The Central Bank of Iraq).

Dependent Variables

The first one dependent variable is Domestic Investment, It is the expenditure on the fixed capital goods additionally, change in the inventory (The Central Bank of Iraq).

Second one is FDI, It denotes the net amount of international investment in equity and reinvest the earning ,additionally, to any other responsibilities on organizations resident in (Central Bank of Iraq).

There are two models will be tested and these are multiple regression to check the impact of fiscal policies and the monetary policy on the FDI and domestic level.which are as follows.

First Modell: We will used the E-View software by applying the multiple linear regression method to check the effect of independent variables on the dependent variable domestic investment.

$$I = F (CD, RS, OB, T, EX) \quad (1)$$

While:

I: This is abbreviation of domestic investment and the value is taken in million in the currency of Iraqi Dinars for the year t.

CD: It is the abbreviation of certificates of deposits in millions of dinars in time year t.

RS: It is the rediscount rate which is controlled by The Central Bank in time year t.

OB: It explains mandatory cash reserves and amount is taken in millions in the central bank in time for a year t.

T: This is tax which is in million dinars and time taken year t.

EX: It stands for government capital spending and amount is taken in million dinars for time and year t.

According to the abbreviations and results, we can write this model by using multiple regressions equation that is below:

$$I = \alpha + \beta_1 \Delta CD (-2) + \beta_2 \Delta RS (-2) + \beta_3 \Delta OB (2) + \beta_4 T (-4) + \beta_5 (-4) + E \quad (2)$$

Thus β_1 to β_6 are used for the partial regression coefficients in the independent variables. We can recognize the trend and direction of the relations between the dependent and the independent variables.

Second Model- We will apply simple linear regression technique by using E-View software to study and check the relationship between dependent and independent variables, where the method below was constructed:

$$FDI = F(CD, RS, OB, T, EX) \quad (3)$$

We can find this equation as below.

$$= \alpha + \beta_1 CD (-1) + \beta_2 RS (-1) + \beta_3 OB (2) + \beta_4 T (-1) + \beta_5 (-2) + E \quad (4)$$

While β_1 to β_6 are the partial regression coefficients used by the independent variables, we can recognize the trend and direction of the relations between the dependent and independent variables.

Hypotheses

According to the previous literature, the current study creates the following alternative:
Hypotheses:

- H1:** Outstanding Balance of treasury Bills impact negatively on domestic investment.
- H2:** Rediscount rate impact negatively on domestic investment.
- H3:** Obligatory reserve impact negatively on domestic investment.
- H4:** Taxation impact negatively on domestic investment.
- H5:** Capital government expenditure impact positively on domestic investment.
- H6:** Outstanding Balance of treasury Bills impact negatively on FDI.
- H7:** Re-Discount rate negatively impact on foreign direct investment.
- H8:** Obligatory reserve impact on FDI is negatively.
- H9:** The relationship of taxation on foreign direct investment is negative.
- H10:** Capital government expenditure impact negatively on FDI.

Regression Analysis

First Model: Multi linear regression technique was used to research the effect of independent variables on the dependent variable local investment by using software E -views and the model was assessed and the findings are shown as follows:

$$I = 1340847.93 + 0.615971839 \Delta CD (-2) + 278892.384 \Delta RS (-2) + 0.395349965 \Delta OB (2) - 3.658196104 (-4) - 0.081460648618.1176 EX (-4).$$

Table 1: Regression model

<i>Dep.Ind.Variables</i>	<i>Coefficient</i>	<i>t-Statistics</i>	<i>Prob.</i>
<i>D (CD, 2)</i>	<i>0.615971839</i>	<i>1.695202</i>	<i>0.124276</i>
<i>D (RS, 2)</i>	<i>278892.384</i>	<i>0.543316</i>	<i>0.600109</i>
<i>D (OB, 2)</i>	<i>0.395349965</i>	<i>1.621604</i>	<i>0.139338</i>
<i>T (-4)</i>	<i>-3.658196104</i>	<i>-1.70351</i>	<i>0.122673</i>
<i>EX (-4)</i>	<i>-0.081460648</i>	<i>-0.902</i>	<i>0.390558</i>
<i>C</i>	<i>-1340847.937</i>	<i>-0.20329</i>	<i>0.843433</i>

Value of R- Squared: 65%

Value of adjusted R- Squared: 46%

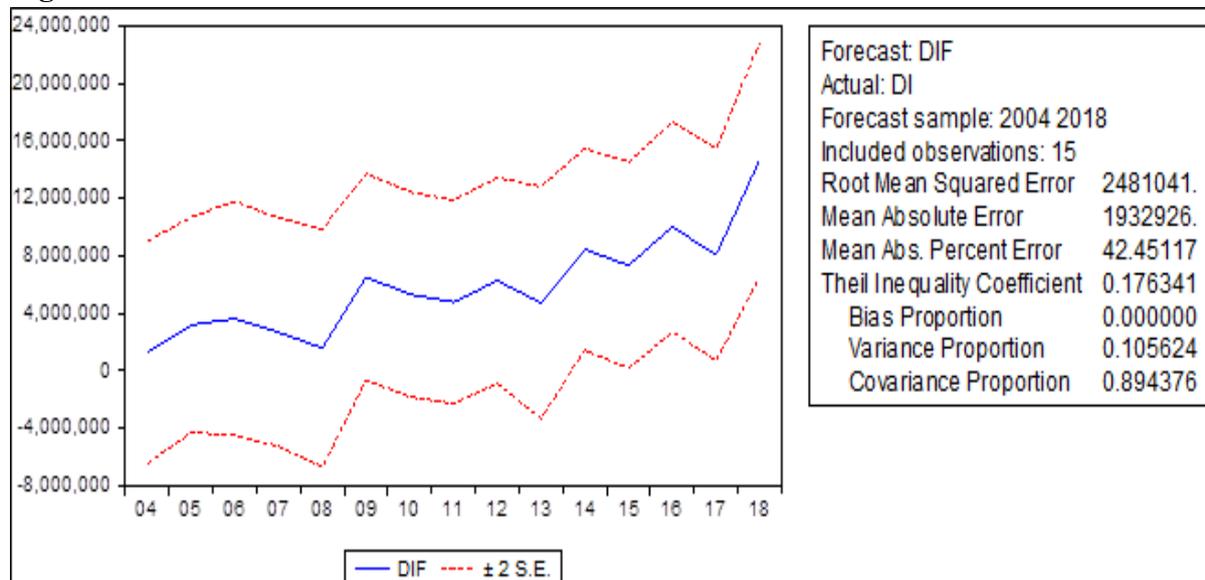
Value of F-Statistic: 3.40

Value of Prob. (F-statistic): 0.0528

Value of Durbin Watson stat: 2. 0399

In this model it is explained about the explanation of coefficient average (adjusted R Squared; 65 %) which demonstrates that the variations in the independent variables describe about (65%) of the variations in the dependent variable, whereas F-statistic is 3.40 and along with the possibility of Prob F-statistic and the value is zero, which concludes that the model is significant, and the value of Durbin Watson statistics was 2.0399 which means that the model is significant and suitable by statistically and no problem of autocorrelation. The researcher apply some other tests to determine the degree of stability test and other tests of the model which is shown in the below figure. In this figure value of the bias proportion was zero and the value of variance proportion round about by 1% and the value of covariance proportion was approximately 89% that explains that error is a random error in the model.

Figure 1.



Source: Self generated

According to the standard model, The results shows following:

1. The impact of the first hypothesis (The relation between Outstanding Balance of treasury bills and DI is negative).

It is clear from this model that the relation between the changes in the DI and the outstanding balance of certificate of deposits is positive, and the impact of this outstanding certificate deposit reached 0.615971839 . which means there is positive connection between the effect of a change in domestic income and the change in outstanding balance of certificate of deposits which determined a positive relation between domestic investment and the outstanding balance of certificates of deposit.

According to the T-Test result, statistically it is insignificant at the level of (5%) with the confidence level against this variable is not equal to (95%) and so reject the hypothesis that explains positive relation between the domestic investment and eoutstanding balance of certificate of deposit.

2. The effect of second hypothesis (Rediscount rate impact negatively on domestic investment).

It has explained that the relation between the change in domestic investment and the change in rediscount rate is positive and the value reached (278892.384) but it is not significant according to the statistically at the level of (5%), because of enhance the liquidity of banks in Iraq that explains that a weak tool to impact the domestic investment.

3. The effect of third hypothesis Obligatory reserve impact negatively on domestic investment.

From the model, it has shown that the relation between the change in domestic investment and the relation of mandatory cash reserve is positive and has reached (0.395349965), that means the relation is not negative between the effect of a change in domestic investment and the mandatory cash reserves and the purpose is to enhance the liquidity at the banks, which support to enhance the surplus reserves with the commercial banks in Iraq during the year of the research and also increase the credit facility to finance investment.

According to the T-Test statistics, the outcome is significant at the level of (5%) according to the confidence level is equal to (95%) thus hypothesis does not accept that means the relationship is between domestic investment and mandatory reserve.

4. The impact of fourth hypothesis (Taxation impact negatively on domestic investment).

It has observed the negative relationship between change in domestic investment and taxes is and had reached (-3.658196104), thus, there is an inverse relationship between change in domestic investment and change in taxes and result was reliable as per literature or economic and financial hypotheses which determined a negative relation between domestic investment and taxes. According to the T-Test, the outcome is significant at the level of (5%) which means that the confidence level is equal to (95%) and so the hypothesis is accepted which specifies a positive relation between domestic investment and taxes.

5. The effect of the fifth hypothesis (Capital government expenditures impact positively on domestic investment).

The model has shown the relation between change in domestic investment and capital government expenditure is negative as effect of capital government expenditures has reached (-0.081460648), that explains the relationship is negative between these variables and the result was reliable with the literature and financial hypothesis hypotheses, that create a positive relation between capital government expenditures and DI. According to the T-Test, the result has a insignificant result at the level of (5%) which means that the confidence level is equal to (95%) and so reject the hypothesis that means there is a negative relationship between the DI and capital government expenditure.

The Second Model: To check the relationship between independent variables and dependent variables foreign direct investment we use multilinear regression technique by using of E-Views software. This model is applied and the results shown below.

$$FDI = -1354500.373 + 0.293037493 CD (-1) + 184104.2345 RS (-1) + 0.131654445 OB (2) - 1.504720758 T (-1) - 0.029488647 EX (-2)$$

Table 2: The results

<i>Dep. FDI Variable</i>	<i>Coefficient</i>	<i>t-Statistics</i>	<i>Prob.</i>
<i>CD (-1)</i>	0.293037493	3.109548992	0.012527969
<i>RS (-1)</i>	184104.2345	1.382906698	0.200036139
<i>OB</i>	0.131654445	2.082150548	0.067031094
<i>T (-1)</i>	-1.504720758	-2.701756009	0.024323648
<i>EX (-2)</i>	-0.029488647	-1.259001323	0.239703437
<i>C</i>	-1354500.373	-0.791812894	0.448834997

Value of R- Squared: 74%

Value od adjusted R- Squared: 60%

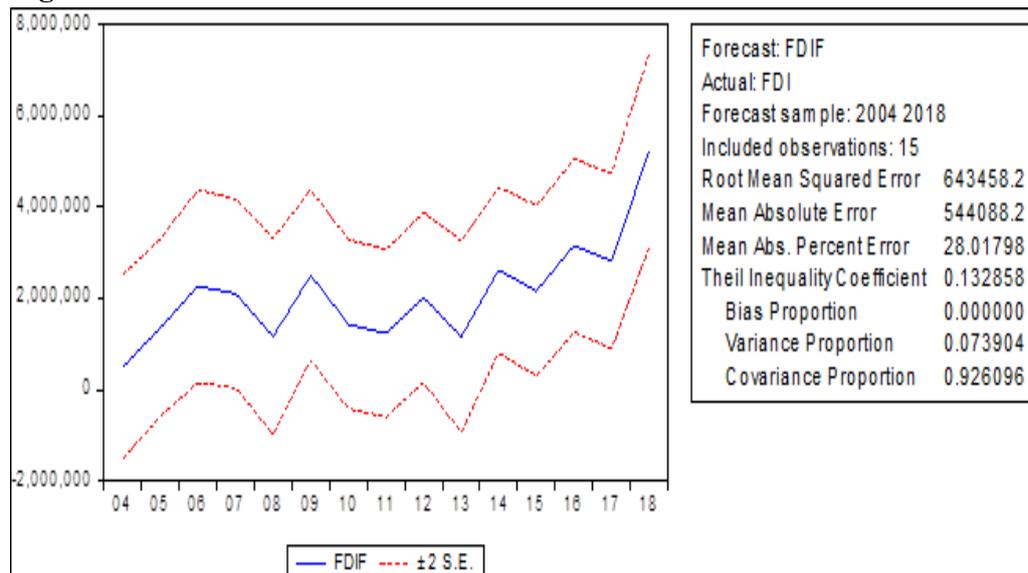
Value of F-Statistic: 522

Value of Prob. (F-statistic): 0.0159

Value of Durbin Watson stat: 2.543

In this model it is shown in the table that value of adjusted R-Square is 60 % that explains the change in the independent variable shows round about 60 % from change in the dependent variable and F-statistic was 522 and the value of probability F statistics was about to zero which shows that statistically the model is significant and the value of coefficient Durbin-Watson was (2.543) which shows that the model is significant which explain that in this data no issue or autocorrelation. The researcher showed some others standard tests to determine the scope of Stability TEST which is shown in figure below. The value of bias proportion is excat zero and the value of variance proportion was round about 1% and covariance proportion is equal to (73%) which shows in the model that the error is a random error.

Figure 2.



Source: Self-generated

According to the model, we can be concluded as below:

6. The impact of the sixth hypothesis (Outstanding Balances of treasury Bills impact negatively on FDI).

In the model it has revealed that the relation between the change in FDI and the changes in the outstanding balance of certificate of deposits is positive and deposit has reached (0.293037493), which describes positive relation between the effect of the FDI and outstanding balances of certificates of deposits and the results was not constant as per the literature or economic and financial hypotheses, that means negative relation between FDI and outstanding balance of certificates of deposits and that only because of these certificates which are in local currency and effect on domestic investment with the increase of FDI.

7. The impact of seventh hypothesis (Re-Discount rate negatively impact on FDI).

In the model it has shown that there is a positive relation between change in FDI and re-discount rate, as the effect of re-discount rate had reached (184104.2345), that means a positive relation between the effect of the change in FDI and change in the rediscount rate and the result was in consistent as per the literature, economic and financial hypotheses, that explained the relationship as an effectiveness between FDI and re-discount rate.

8. The impact of eighth hypothesis (Obligatory reserve impact on FDI is negatively).

In the standard model it has shown that the relation between the change in FDI and obligatory reserve is positive, as the impact had touched (0.131654445), which explains inverse relation between the change in FDI and obligatory cash reserves which determined a positive relation between the FDI and obligatory cash reserve which explains the effectiveness about this tool on FDI.

9. The impact of ninth hypothesis (Negative impact on tax on FDI).

In the standard model it has shown negative relation between the change in FDI and taxes, the impact of tax has reached (-1.504720758), that means a negative relation between the effect of the change in FDI, tax change due to the reason, government is not encouraging FDI by giving tax exemptions due to number of internal conditions.

10. The impact of tenth hypothesis (*Capital government expenditure impact negatively on FDI*).

In the standard model it has shown the relation between the changes in FDI and government capital expenditures is negative, the impact of government capital expenditures has reached (-0.029488647) which means negative relation between the change in government capital expenditures and FDI and insignificant at (5%) level, on account of the government expenditure for the infrastructure building mention its impact indirectly on FDI that means the tool is used is weak in persuading the FDI directly.

Conclusions

1. The relationship between domestic investment and the outstanding balance of certificates is positive, which explains the usefulness of the tool in inducing the DI.
2. There is positive relation between domestic investment and the rediscount rate, that means there is a useful tool in relation between rediscount rate and domestic investment.
3. The relation between domestic investment and certificates of deposits is significant and positive due to the increased in the reserved surplus with banks in Iraq.
4. Statistically the relationship between domestic investment and taxes is negative and significantly impact on current tax policies to effect domestic investment in Iraq.
5. The presence of a negative relation and insignificant between domestic investment and capital government expenditure, that means the ineffectiveness of government expenditure policies in a direct effect on growing DI investment in Iraq.
6. The relationship between FDI and the outstanding balance certificate of deposit is a positive and statistically significant and this is only because of the certificate of deposits issued in domestic currency, which effect to lesser domestic investment and an increase in real FDI chances.
7. The relation between FDI and the the rediscount rate is positive which means, it is a useful tool in increasing FDI.
8. Foreign direct investment and the obligatory cash reserve has a positive and significant relationship and that means that it is useful tool to increase the FDI.
9. There is a negative relation between FDI and taxes and the problem is that the Iraqi government did not offer any tax exemptions to boost, inspire and motivate FDI in the country which work on operational and decreasing unemployment.
10. The relationship between FDI and government expenditures is negative and is insignificant, and the issue behind this is, the project of government like, education, the infrastructure and services might be possible not have any impact on FDI, that means a poor government expenditure policy in achieving the FDI.

Finally, this study acclaims accepting the literary inspiration policies to direct banks to support their part in domestic investment and the requirement for the fiscal policy in Iraq providing tax immunities to motivate DI and by using financial tools more advanced as compared to the certificates of deposits and rediscount rate on the viable paper of the Islamic activities.

REFERENCES

- Arbatl E. (2011). *Economic policies and FDI inflows to emerging market economies*. IMF Working Paper Middle East and Central Asia Department, p. 25.
- Babaita I., Abdurashed A. and Mustapha (2011). *Impact of fiscal and monetary policy on level economics activity in Nigeria*. Lapa Journal of Management Science, jms/vol.1.2/0002.
- Banga, R. (2003). *Impact of government policies and investment agreements on FDI Inflows*. Working Paper No. 116 Indian Council for Research on International Economic Relations Core-6A, 4th Floor, India Habitat Centre, Lodi Road, New Delhi-110 003.
- Baum, A. and Koester, G.B. (2011). *The impact of fiscal policy on economic activity over the business cycle—evidence from a threshold VA analysis*, Deutsche Bundesbank, Wilhelm-Epstein-StraBe 14, 60431 Frankfurt am Main, Postfach 10 06 02, 60006 Frankfurt am Main.
- Coats, W. (2007). Role of the central bank of Iraq in implimenting monetary policy. *Management and Technology Consultants*. Central Bank of Iraq, various issues
- Cukierman, A. (2013). Monetary Policy and Institutions Before, During, and After the Global Financial Crisis. *Journal of Financial Stability*,23, 373-384.
- Morisset, J., & Pirnia, N. (2000). How tax policy and incentives affect foreign direct investment A review. The World Bank and International Finance Corporation Foreign Investment Advisory Service. *Policy Research Working Paper*, 1-34.
- Mugableh, M. I. (2019). Fiscal policy tools and economic growth in Jordan: Evidence from time-series models. *International Journal of Economics and Finance*, 11(1), 1-7.
- Ndikumana, L. (2014). *Implications of monetary policy for credit and investment in sub-Saharan African Countries*, Department of Economics and Political Economy Research Institute, University of Massachusetts at Amherst.
- Olweny, T. and Chiluwe M. (2012). *The effect of monetary policy on private sector investment in Kenya*. *Journal of Applied Finance & Banking*, vol. 2, no. 2, pp. 239-287.
- Rădulescu, M. and Druica, E. (2014). *The impact of fiscal policy on foreign direct investments. Empiric evidence from Romania*, *Economic Research*, Vol. 27, No. 1, pp. 86–106, <http://dx.doi.org/10.1080/1331677X.2014.947133>.



- Sedhain, R., (2016). Role of foreign direct investment on economic growth: A Case of SAARC Countries, SSRN. 2780359
- Solomon, A.G. (2012). *Impact of Euro-Area accession on fiscal and budgetary policy in Romania*. Procedia-Social and Behavioral Sciences Journal, Vol. 62(24) pp. 733-738, <http://www.sciencedirect.com/science/article/pii/S1877042812035653>
- Rădulescu, M., & Druica, E. (2014). The impact of fiscal policy on foreign direct investments. Empiric evidence from Romania. Economic research-Ekonomska istraživanja, 27(1), 86-106.
- Zulkefly A.K. (2010). *Monetary Policy and Firms' Investment in Malaysia: A Panel Evidence*, IJUM Journal of Economics & Management by The International Islamic University Malaysia, 18, no. 2, pp. 221-253.