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Managing The Tools Of Fiscal Policy Towards Achieving Fiscal Discipline In Iraq: An Analytical Study Of Financial Policy Indicators in Iraq For The Period (2004-2018)

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***Abstract*:**

The research aims to study the financial policy indicators in Iraq for the period (2004-2018) which is the period that witnessed low growth in the real sector, that made the country live on oil revenues, as the research tried to answer the following question, which is the extent of adopting an effective and appropriate financial policy for the level of activity and economic growth in Iraq? The research started on the premise that the implementation of a fiscal policy with a high degree of fiscal discipline is capable of moving towards achieving economic growth. To take note of the above, the research was divided into three parts. The first part dealt with the theoretical framework for the concept of fiscal policy and fiscal discipline, while the second part dealt with analyzing the indicators of managing financial policy, and the third part was devoted to conclusions and recommendations. As the research reached an increase in the degree of fiscal policy response to oil revenues due to the Iraqi economy's dependence on a single government resource, which is oil revenues, and that any shock in these prices will negatively affect development opportunities in Iraq. The recommendation was made to shift from the rentier nature by supporting the private sector and projects. Productivity in the agricultural, industrial and service sectors.

Keywords: *fiscal policy, fiscal discipline, economic growth*

I. Introduction:

Financial policies are considered a major part of the macroeconomic policies that are responsible for achieving stability in economic activity, meaning that achieving financial discipline leads to an effective and appropriate financial policy to provide an attractive economic environment to strengthen the investment climate. The observer of the Iraqi financial policy is that it still represents a great burden on the Iraqi economy, given that it did not lead to an increase in the rate of overall economic growth, which is one of its main objectives, and at the same time it was limiting the effectiveness of the monetary and exchange rate policies in achieving stability

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in the general level of prices and thus loss A strong opportunity to achieve a unified framework of desired economic stability and growth to provide a favorable investment climate.

Research problem:

The research problem lies in the extent of adopting an effective and appropriate fiscal policy for the level of economic activity and growth in Iraq?

Research hypothesis:

The implementation of a fiscal policy with a high degree of fiscal discipline is capable of advancing economic growth.

Research objective:

The research aims to study the financial policy indicators in Iraq for the period (2004-2018).

Research Methodology:

The research relied on the extrapolation approach, using descriptive analysis from reviewing fiscal policy indicators, to explain its effectiveness in financial stability and discipline.

1 -Conceptual introduction:

1-1 :Fiscal Policy:

Fiscal policy can be defined as a set of government plans towards spending, revenue, and borrowing, and the general budget represents the practical tool for implementing the fiscal policy. Indeed, the various components of the budget reflect the trends of fiscal policy (expansionary, contractionary) (Al-Dagher, 2018: 229).

1-2 :Financial rules:

It can be defined as long-term restrictions on fiscal policy through numerical limits (numerical) on the budget totals, and this means that permanent restrictions are imposed on the practice of fiscal policy (Dagher and Salal, 2017: 5).

1-3 :Financial Discipline:

Fiscal discipline is a goal that governments seek to achieve, as it helps in achieving balance of the budget, borrowing within the limits of public investment, and approaching growth in real output, which enhances the credibility of the country's fiscal path, that is, long-term sustainability, thus providing an important economic incubator to strengthen The investment climate that includes all political, legal, administrative and economic factors, including demographic factors, environmental factors and factors that affect investment movements, flows and assets in a country (Abdel-Wahab, 2020: 407).

2 -Financial Policy Department:

The management and improvement of the financial policy depends on restricting the practical practice of the Iraqi public budget by the following rules:

2-1 :The Rule of Safe Limitation of Public Debt:

This rule sets an explicit limit or target for public debt (a percentage of GDP). This type of rule is most effective in terms of approaching the debt target and ease of follow-up and monitoring. Based on the foregoing, increasing public borrowing (public debt) has positive effects on economic growth, but within certain limits. A standard percentage is determined that is not passed, and the approved percentage varies from one country to another depending on the nature and strength of the economy. For example, the European Union adopted the standard percentage (60%) in the Maastricht Treaty in 1992 as a basis for joining the Union. An indication of the country's entry into a debt crisis.

Some economists believe that in countries that suffer from the presence of external public debt, the maximum ratio of debt to GDP should be less than the ratio adopted in the European Union (60%), because of the negative economic effects of the external public debt more than the public debt For this reason, the proportion (40%) is appropriate to a large extent in many countries, and due to the peculiarity of the Iraqi economy, as it is a unilateral economy that depends mainly on oil revenues, which are related to global oil prices and global economic conditions, which makes the Iraqi economy more vulnerable. Due to fluctuations in world oil prices, a standard ratio of (40%) was adopted, consistent with the nature of the Iraqi economy, for the purpose of ensuring financial sustainability (Al-Baghdadi, 2010: 414).

It is noticed from Table (1) and Figure (1) that the debt-to-GDP ratio compared to the standard ratio that was adopted, reached in (2004) (10.1%), which is a high percentage, and the reason is due to the high foreign debts caused by state compensation due to the Arab Gulf War Second, in addition to the significant increase in the exchange rate adopted to convert the value of the debt in Iraqi dinars, where the exchange rate was for the year (2003) (1936), and this ratio is high, but in the years following to the year (2008), this percentage has continued to decline, but it is still It is higher than the standard ratio, and in the years 2010, 2011, 2012, 2013 and 2014, the debt-to-output ratio has continued to decline and within the standard limits, and this is a positive indicator, and the reason is due to the financial surpluses achieved in the years after (2003), which contributed to reducing the debt and limiting its accumulation.

Table (1)

The index of the safe limit of public debt in Iraq for the period (2004-2018) million dinars

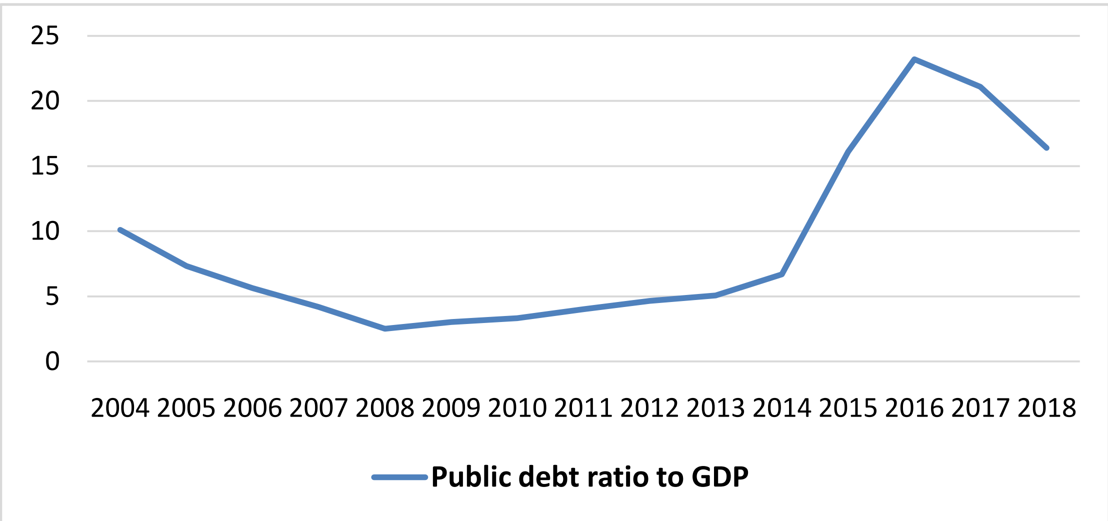
Public debt to %GDP	GDP at current prices	Public debt	Years
10.1	53,235,358.7	5,393,890	2004
7.34	73,533,598.6	5,393,890	2005
5.64	95,587,954.8	5,393,890	2006
4.19	111,455,813.4	4,674,705	2007

2.52	157,026,061.6	3,955,519	2008
3.03	130,643,200.4	3,955,519	2009
3.34	162,064,565.5	5,416,320	2010
4.02	217,327,107.4	8,744,366	2011
4.66	254,225,490.7	11,839,360	2012
5.08	273,587,529.2	13,890,312	2013
6.7	266,420,384.5	17,838,753	2014
16.1	199,715,699.9	32,227,982	2015
23.2	203,869,832.2	47,362,252	2016
21.1	225,995,179.1	47,678,796	2017
16.4	254,366,708.7	41,822,918	2018

Reference: Column (1) Central Bank of Iraq, Financial Operations and Debt Management Department for the period (2004-2018). Column (2): Ministry of Planning, Central Bureau of Statistics, Directorate of National Accounts for the period (2004-2018). Column (3) prepared by the researcher.

Figure (1)

Path of the Safe Limit Base of Public Debt in Iraq for the period (2004-2018)



Reference: the figure prepared by the researcher based on the data of Table (1).

2-2 :The General Budget Deficit Rule:

This rule is one of the most important financial rules adopted by the countries of the world in order to ensure financial sustainability, and its role in reducing the accumulation of public debt, which is the most important problem faced by countries in not achieving financial sustainability, and through the studies that have been studied, the German experience at the level of the federal government and the experience of the Union The European budget adopted a percentage of (3%) for deficit in the general budget, as for the experience at the level of sub-national bases (provinces), the approved deficit percentage varied, but as a minimum it adopted a balanced budget (0%) and as a maximum (2.5%), but the actual results arrived To (4%) as a maximum, and to study the reality of the Iraqi economy from the aspect of the budget deficit criterion, a deficit ratio of (3%) was adopted, which is the percentage approved by most countries in absolute or average terms as follows (Dagher and Salal, previous source: 15).

And take a close look at Table (2) and Figure (2), as the study period can be divided into three periods, the first extending from (2004) to (2012) in which the general budget achieved financial surpluses, but it is not possible to calculate surpluses in this traditional way, because the percentage of (Surplus to GDP) exceeded the standard ratio, which is as a maximum (3%), with the exception of the years (2004, 2009 and 2010), respectively (1.6, 2.0 and 0.0). The second period, extending from (2013) to (2016), achieved a deficit in the budget. , And within the standard limits except for the year (2016), and the reason is due to the decrease in the international price of a barrel of oil and the deterioration of security in the country. Regarding the period (2007-2008), the budget achieved a surplus with the year (2008) exceeding the standard percentage.

Table (2)

The base indicator of the general budget deficit in Iraq for the period (2004-2018) million dinars

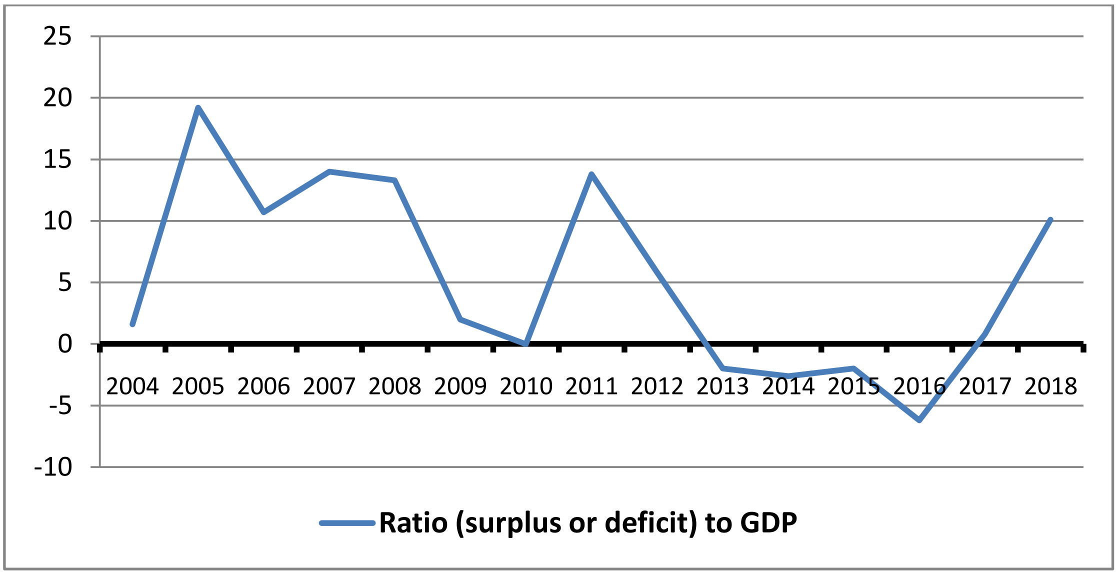
GDP % surplus	GDP at current prices	Surplus or deficit	Overhead	General revenue	Years
1.6	53,235,358.7	865,248	32,117,491	32,982,739	2004
19.2	73,533,598.6	14,127,715	26,375,175	40,502,890	2005
10.7	95,587,954.8	10,248,866	38,806,679	49,055,545	2006
14.0	111,455,813.4	15,568,219	39,031,232	54,599,451	2007
13.3	157,026,061.6	20,848,807	59,403,375	80,252,182	2008
2.0	130,643,200.4	2,642,328	52,567,025	55,209,353	2009
0.0	162,064,565.5	44,022	70,134,201	70,178,223	2010

13.8	217,327,107.4	30,049,725	78,757,667	108,807,392	2011
5.8	254,225,490.7	14,677,649	105,139,575	119,817,224	2012
-2.0	273,587,529.2	-5,360,161	119,127,556	113,767,395	2013
-2.6	266,420,384.5	-6,805,503	112,192,126	105,386,623	2014
-2.0	199,715,699.9	-3,947,263	70,417,515	66,470,252	2015
-6.2	203,869,832.2	-12,658,167	67,067,437	54,409,270	2016
0.8	225,995,179.1	1,845,835	75,490,120	77,335,955	2017
10.1	254,366,708.7	25,696,645	80,873,189	106,569,834	2018

Reference: Column (1 and 2), Ministry of Finance, Economic Department for the period (2004-2018). Column (4): Ministry of Planning, Central Bureau of Statistics, Directorate of National Accounts for the period (2004-2018). Column (3 and 5) prepared by the researcher.

Figure (2)

The path of the base of the public budget deficit in Iraq for the period (2004-2018)



Reference: the figure prepared by the researcher based on the data of Table (1).

2-3:Rule for controlling overheads:

The rule of controlling public expenditures is one of the most important rules in place that contribute to reducing the budget deficit and reducing the accumulation of debt. The standard ratio is based on controlling public expenditures in light of public revenues (revenues to expenditures are equal to 100%), and to study the state of the Iraqi economy according to this standard, it is noted from Table (3) and Figure (3) that the ratio of public revenues to public expenditures has achieved higher rates. From (100%), that is, it achieved financial surpluses except for the period from (2013) to (2016) due to low oil prices and increased spending on the military effort to get provinces out of government control. The highest percentage was in (2005) and the lowest in (2016), as it reached (153.6) and (81.1), respectively.

Table (3)

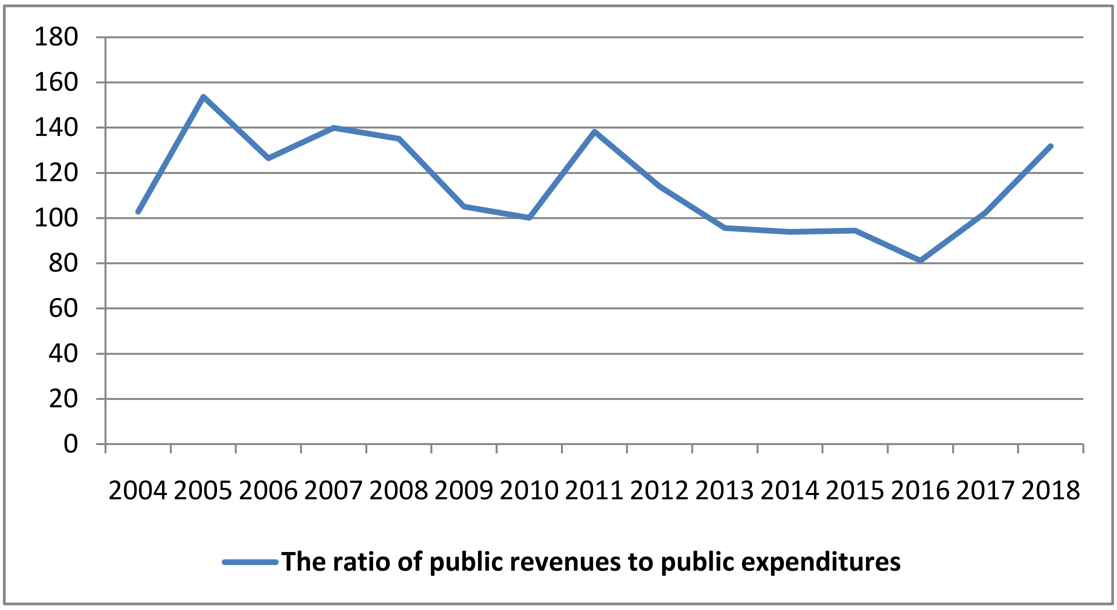
The index of controlling public expenditures in Iraq for the period (2004-2018) million dinars

%Revenue / Expense	Overhead	Public revenue	Years
102.7	32,117,491	32,982,739	2004
153.6	26,375,175	40,502,890	2005
126.4	38,806,679	49,055,545	2006
139.9	39,031,232	54,599,451	2007
135.1	59,403,375	80,252,182	2008
105.0	52,567,025	55,209,353	2009
100.1	70,134,201	70,178,223	2010
138.2	78,757,667	108,807,392	2011
114.0	105,139,575	119,817,224	2012
95.5	119,127,556	113,767,395	2013
93.9	112,192,126	105,386,623	2014
94.4	70,417,515	66,470,252	2015
81.1	67,067,437	54,409,270	2016
102.4	75,490,120	77,335,955	2017
131.8	80,873,189	106,569,834	2018

Reference: Column (1 and 2), Ministry of Finance, Economic Department for the period (2004-2018). Column (3) prepared by the researcher.

Figure (3)

The path of the base for controlling public expenditures in Iraq for the period (2004-2018)



Reference: the figure prepared by the researcher based on the data of Table (3).

2-4 :The Golden Rule:

This rule states that borrowing should cover the deficit in the investment budget and not current expenditures (Al-Maqri et al., 2018: 31), and to monitor the Iraqi economy and its proximity to the golden rule as follows:

It is noticed from Table (4) and Figure (4) that the Iraqi economy, under the Golden Rule, had negative results except for years (2005, 2006, 2007, 2008, 2011 and 2018) and it is also within the limits of the golden rule as the highest percentage of deficit to investment spending in 2016 was (-179.6) The reason is due to the significant decline in international oil prices, which contributed to theincrease in the gap between revenues and expenditures**.**

Table (4)

The index of the golden rule in Iraq for the period (2004-2018) million dinars

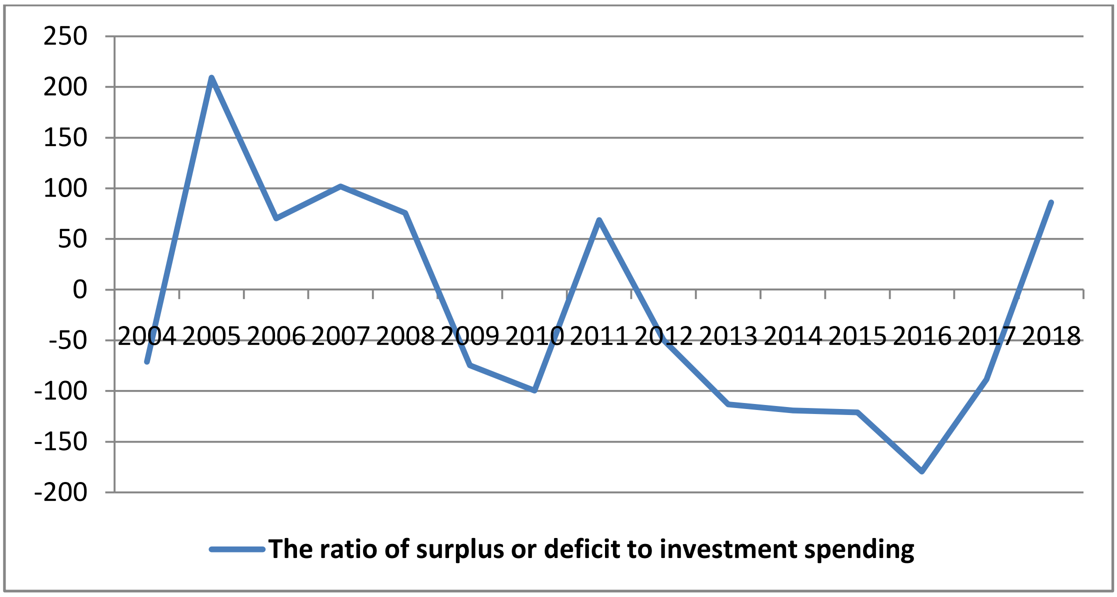
Surplus to investment %spending	Investment spending	General budget surplus	Years
-71.3	3,014,733	865,248	2004
209.0	4,572,018	14,127,715	2005
70.0	6,027,680	10,248,866	2006
101.6	7,723,044	15,568,219	2007

75.5	11,880,675	20,848,807	2008
-74.9	10,513,405	2,642,328	2009
-99.7	16,130,866	44,022	2010
68.5	17,832,113	30,049,725	2011
-50.0	29,350,952	14,677,649	2012
-113.3	40,380,750	-5,360,161	2013
-119.2	35,450,453	-6,805,503	2014
-121.2	18,584,676	-3,947,263	2015
-179.6	15,894,009	-12,658,167	2016
-88.8	16,464,411	1,845,835	2017
85.9	13,820,333	25,696,645	2018

Reference: Column (2), Ministry of Finance, Economic Department for the period (2004-2018). Column (1 and 3) of the researcher's work.

Figure (3)

The Golden Base Path in Iraq for the period (2004-2018)



Reference: the figure prepared by the researcher based on the data of Table (4).

II. Conclusions:

1 -Increasing the degree of fiscal policy response to oil revenues due to the Iraqi economy's dependence on one government resource, which is oil revenues, and that any shock in these prices will negatively affect development opportunities in Iraq.

2 -According to the financial rules indicators, the current Iraqi economy is considered highly indebted

3 -The Iraqi financial policy is considered a distributive model whose consumer vision prevailed over its investment or production vision due to the escalating operational spending performance.

4 -The prevalence of the financial dominance of the Iraqi public treasury and its promise is a financial leverage to bridge the deficit of the federal public budget.

III. Recommendations:

1 -Re-engineering the fiscal policy by generating investments that achieve development, especially major projects, in particular infrastructure projects and strategic projects. This is achieved by raising the efficiency of the general budget in favor of investment spending.

2 -In light of the current economic conditions, as the Iraqi economy depends on oil rents, a shift must be made from the rentier nature by supporting the private sector and productive projects in the agricultural, industrial and service sectors to draw up a stable framework for the country's overall economy that is in the interest of investment and development.

3 -Work to reduce the financial deficit in the general budget and follow the fiscal control policy with regard to consumer spending and supplement the budget with other revenues by controlling border crossings, reducing tax exemptions, and reducing the phenomenon of tax evasion.

4 -Strengthening the independence of the central bank, reducing dependence in its financing of the fiscal deficit of the budget, adopting other sources of financing and directing to support the transmission of monetary policy influence in the real sector by stimulating the banking sector to provide credit and bank financing to target the gross domestic product.

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