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THE REALITY OF GROSS DOMESTIC PRODUCT IN THE FINANCIAL SHOCKS CASE STUDY OF IRAQ FOR THE PERIOD (2004-2019)

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Abstract:

The study dealt with the relationship between fiscal policy shocks and GDP results in Iraq for the period 2004-2019 . During the duration of the study, it was found that there is a positive relationship between financial shocks and gross domestic results. The expansion and increase in government spending financed by the increase in government revenue has increased GDP and vice versa in the event of negative financial shocks. Certainly, a rentier country like Iraq that relies heavily on oil revenues will be vulnerable to expansionary and deflationary financial shocks due to the fluctuation of those revenues that play their role in transferring these shocks to GDP. Therefore, it can be said that Iraq has adopted and continues to rely on wrong financial policies in the administration of the state, especially when continuing to rely on oil revenues, which provided the safe road even in the most severe circumstances, especially those that were the product of wars and the prevalence of financial and administrative corruption. This was reflected in the gross domestic product, which witnessed a clear fluctuation due to the circumstances experienced by Iraq, and that this fluctuation in the size of the output is doomed to fluctuation in oil revenues dependent on its international prices and the quantities produced. This was reflected in the weakness of the economic structure, which lacks diversification of sources of income and the low contribution of the service and distribution sectors to the formation of GDP. Thus, it is necessary to diversify the economic base in order to form various sources of financing for the government budget by working to increase the contribution of non-oil sectors to the GDP such as agriculture, industry, tourism and others, especially after the repeated shocks that hit global oil prices. It is also necessary to diversify the structure of government revenues in order to protect the government budget from sudden or large fluctuations in oil revenue

Keywords: The financial shocks, the gross domestic product, the Economics, Iraq, the expenses, the revenues, Economic growth, economic development, The Iraqi economy.

INTRODUCTION

The Iraqi economy has been faced many economic shocks during the last decades due to the accumulation of previous events (before 2003) and after 2003. The decrease in the contribution was the non-oil productive sectors to the formation of the gross domestic product (GDP). As well as, to the administrative and financial corruption. This has been made the economy vulnerable to financial shocks that are mainly reflected in the structure of the general budget. The government revenue and spending are greatly affected by oil revenues, which in turn are linked to price fluctuations in those revenues. Therefore, the options for financing public spending in Iraqi dinars are confined between the value of crude oil sales and the Central Bank. The non-oil revenues, taxes, fees, corporate profits, and sales of government assets and properties are not cover annually more than 3% of total public spending.

The importance of financial policy is the first line of defense in the face of shocks due to the strong and direct relationship between the Iraqi economy and the oil sector, which is strongly illustrated by the link between the public budget and the foreign trade sector through oil exports. The financial policy responds a response that goes along with or is the opposite of the direction of the shocks. In the form of unexpected changes expressed in financial shocks, to meet with the renter reality of the economy and with the absence of the true national will take serious government policies to diversify the national economy (1). It has been aimed

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to disengage the strong link between the oil sector and economic activity and make the economy achieve high growth rates away from oil imports. In addition, to the mismanagement of these imports due to the lack of direction towards establishing sovereign investment funds capable of absorbing the financial shocks of the oil markets, especially the positive ones, to support internal stability and to identify or decreased the financing gap, as is the case in the Arab Gulf states.

Research importance :-

The importance of the research has been focused on the financial shocks and the impact on the GDP, due to the positive and negative financial shocks witnessed in different countries of the world.

Research problem :-

The dependence of the Iraqi economy has been mainly on the oil resource. It has been made vulnerable to external shocks caused by the price fluctuations, which will have a direct impact on total economics in general and GDP in particular.

Research aims: -

The study has been aimed to analyze the reality of financial policy in the Iraqi economy for the period (2004-2019), it is represented by government revenue and spending, and an analysis of the dynamic relationship between oil revenue shocks caused by oil price fluctuations. Also, to study the relationships between financial shocks and GDP.

Research hypothesis :-

The study assumes that financial shocks are transmitted to the Iraqi economy as a result of imbalances in the global oil markets, and then transmitted as a shock to government revenues and then to government expenditures. The responses of the government financial policy with measures are in line with the price cycle taking place in the global oil markets. Therefore, the impact of these shocks is transmitted positively or negatively on the GDP.

Research methodology :-

The study economic phenomenon has been required the use of many scientific approaches, such as the descriptive approach in order to become familiar with the theoretical aspects of the subject. The analytical approach has been used by analyze the performance of financial policy in Iraq. As well as, analyze the impact of policy shocks on the GDP, based on recent and statistical data that issued by government agencies.

Chapter 1 :- The concept of financial policy and the relationship to economic and financial shocks

Firstly: the concept of financial policy

The concept of financial policy is one of the synonymous with the concept of public finance and the state budget. The development of economic life and the effective emergence of the state's role, this meaning faced narrowness in absorbing the new jobs and tasks that were placed upon the state in the economic fields. Thus, the definitions of financial policy differ according to different time periods and economic, intellectual and social conditions. Therefore, financial policy was defined as the way the state takes to use financial tools such as public revenues through taxes, fees, public loans, and public expenditures, all of which are included in the general budget (2).

The confront and treat different economic problems and to achieve economic, social and political goals in order of the economic philosophy adopted by the state through its impact on economics variables. Whereas (Paul Samuelson) mention that financial policy is a method of shaping taxation and public spending to help mitigate the fluctuation of the economic cycle and contribute to shaping economic development and building an economy with high employment free from high or volatile inflation (3).

Secondly : the concept of economic shock and relationship to the crisis

The shock means an unexpected or event or unpredictable condition. The effect of this leads to a sudden and severe change in economic variables in a negative or positive ways (4). A positive shock has been leaded to an increase in the value of these variables, while a negative shock leads to a decrease in the value of economic variables, as well as unexpected changes in aggregate supply and aggregate demand (5). When it affects the aggregate supply side, it is called a supply shock, or on the aggregate demand side, it is called a demand shock (6). The sources of these changes may be due to the use of technology in an economy (7), or they may occur due to changes in government policies such as changing spending or taxes or adopting a new monetary policy or because external events (8).

These shocks have been caused changes to a large extent in real economic growth and affect inflation, unemployment and other economics variables, which requires the need to search for ways to manage them in a way that limits their negative effects. All countries are exposed to economic shocks to some extent. Low and middle income developing countries are more vulnerable to shocks, because they have a less diversified economy with a narrow set of production and export industries (9).

Another concept that related to economic shock is the economic or financial crisis. The shock is the main cause of the crisis. It means the existence of a defect that has a material impact on the entire system. This defect is caused by a sudden event. A crisis may be referred to if it was not controlled at its beginning as a catastrophe caused by a sudden and sharp event or change, or it can be said that it is an accidental or random shock (10). A country is said to be in a state of crisis when there is an abrupt disruption in the country's economic balance. It is referred to as specifically the imbalance caused by the imbalance between production and consumption and the sudden transition into a state of stagnation. The structural features of capitalism, such as the mode of production and the total social order, are the root cause of the market's natural tendency toward rapidly declining profits. As a result, the shock marks the beginning of the crisis, and the effect of the shock is the destruction of the equilibrium(11).

When the situation increases, the crisis enters a new stage, so that the various parties face difficulty in bearing the severity of the changes it causes. To absorb its effects and mitigate its severity to reach the real causes that led to this shock. It is a situation in which the state is exposed, in which decision-makers sense a high degree of sudden danger to the interests and core values of the state. This threat is characterized by suddenness and unpredictability of decision makers in the face of the limited time available. At the same time, it should the appropriate decision in this regard, before changing that situation in a way that is difficult to control (12).

The financial crisis is a situation in which the economy suffers from a sudden recession resulting from a financial shock that is likely to develop into an economic crisis affecting the decrease in GDP, reduced liquidity, rise or fall in prices due to inflation or deflation (13). Likewise, the crisis may represent a periodic shock when the global economy is exposed to periods of recession and prosperity, which affect the exports of this country, positively or negatively, and significantly (14). This type of shock is concentrated in open economies in which foreign trade constitutes a high percentage of GDP (15).

Thirdly : the financial shocks concept

Shocks to the fiscal policy are sometimes referred to as financial policy shocks. Alterations in fiscal policy instruments, such as the government expenditure shock and the government revenue shock, are what are referred to as fiscal policy shocks. There are two distinct kinds of shocks that can affect monetary policy(16). Shocks that occur from an expansion in the level of government expenditure or tax reductions, or an increase in government spending and a reduction in taxes combined, or an increase in government spending and an increase in taxes by the same amount are all examples of expansionary shocks (17). The deflationary shocks of fiscal policy, they are defined as shocks generated by reducing the size of government spending or increasing taxes or reducing government spending and increasing taxes together, or reducing government spending and reducing taxes together by the same amount (18).

The financial shock represents all changes that occur in the financial indicators, including changes in government spending, which is called the expenditure shock, or changes in government revenues, which is called the revenue shock. It is either planned changes or occurs randomly, and (Mountford and Uhlig) defined this shock as the unexpected change in the procedures of fiscal policy. This means that it is for the entire financial policy, it may be in one of its tools (19).

The financial policy consists of a different set of tools and policies, and that changes can occur in tax rules as one of the various types of income, or changes may be in government spending channels. It may include unexpected measures for them together, such as a certain increase in taxes followed by a certain increase in government spending. It has been represented the problem of the potential delay between announcement and implementation, which results in difficulty and weakness in stimulating the economy, and perhaps the reason for this is due to the lack of monitoring of business cycles as they are important for analyzing financial policy results (20).

In addition, (Mountford and Uhlig) indicates that the sudden change in fiscal policy does not appear on its tools as occurs in monetary policy, since financial policy revolves in a cycle of long discussions in Parliament, which is the legislative and legal body for the state's public financial management (21). Therefore, the changes that will occur in the financial variables are no longer a surprise, and individuals may actually change their consumption and investment decisions during those discussions before they are actually approved and implemented (22).

Fourthly : Types of financial shocks

1. Government spending shocks :- It is a sudden change in the value of government spending. This change might be in all or some items of government spending. It may have negative or positive impacts on economic variables. The shock can also be short (temporary) with a small impact on the economy or long-term with a significant impact on it (23). It is also defined as the difference between actual government spending and planned government spending or changes in the current value of government spending due to external or internal factors, or temporary changes in government spending to meet emergency situations (24).

In some cases, predetermined government spending is a reflection of positive or negative external shocks, for example, oil revenues increase or decrease in a particular year in a rentier country. It will be reflected in a significant increase or decrease in spending for the next year, generating a shock. In this case, it can be said that it is a planned shock in government spending. It may come during unexpected emergency conditions

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coinciding with periods of wars, political crises, economic crises, or periods of social turmoil. Government spending takes a pattern similar to leaps, as it is subjected to surges of increase or decrease (25).

2. public revenue shocks :- The government revenue shock is defined as the sudden fluctuations in government revenue that may be the result of external influences not controlled by the state including the sudden rise or decrease in export revenues, as is the case in the fluctuation of oil prices for the oil producing country. They are fluctuations that occur in government revenue sources as a result of unexpected shocks to the economy, such as a decrease in tax revenues during the period of economic stagnation and its rise during the recovery period. The changes that occur in government revenues to meet the deficit in the general budget due to previous changes that occurred in government spending, which would create a shock facing the government to significantly affect its spending programs(26).

These shocks depend on the nature of the resource in which the volatility occurs. If the resource represents a deduction such as taxes and fees or governmental sales such as proceeds from state property. The increase or expansion of this resource that comes from the deduction causes deflationary effects on economic activity, while its reduction occurs expansion effects. However, if the resource depends on the proceeds of commercial export proceeds that are sold in global markets such as oil, minerals and other raw materials. The increase in its revenues causes expansionary effects and its decrease causes deflationary effects on economic activity (27).

Fifthly : - Sources of financial shocks

Financial shock is one of the forms of economic shocks with an internal source. They can also be caused by an external source. According to the above, financial shocks can be divided according to their sources into four sections:

1. Internal financial shocks: represent the events or changes affecting the demand for goods and services. These shocks arise locally as a result of the policies practiced by the state through the financial policy, such as its financial decisions and procedures and affecting its financial variables including shift in investment demand and consumer expenditures (28). Also, to determine tax levels and organize the maturity date of debts or for political decisions far from the economic conditions associated with the approaching presidential or parliamentary elections (29). These shocks are often linked to the structure of the local economy, which is illustrated by the imbalance in the structure of the GDP. As well as, the fiscal policy measures related to spending in particular, and sources related to the trade balance and the imbalances it suffers, and this appears significantly in Iraq due to the rentier economy (30).

In general, financial policy changes are linked to planned events (which are measures related to government events, changes in the quantity and quality of public spending and tax rates. It is affecting aggregate demand with the aim of achieving economic stability. Events and unplanned changes that occur in an automatic way to face emergency factors (spontaneous changes) (31).

2. External financial shocks: They are all changes that occur randomly and unexpectedly and outside the control of the state. They have economic and social repercussions and damages on the countries that are exposed to them, including political crises and regional and international wars. This type of shock emerges through events that come from outside the economic system, whose extents are difficult to control and have effects on the level of income and on all other macroeconomic variables, and these shocks follow the path of economic cycles (32). The main source of non-dominant external shocks is outside the concerned economy. It is causing significant changes in financial variables, such as the prices of goods (33), services and raw materials in international markets. The positive external shock is represented by the increase in the prices of the main exports of the country in question or the decrease in the prices of the main imports, and the opposite occurs in the case of a negative external shock (34).

The most prominent events that lead to the emergence of this type of shock are: fluctuations in international oil prices, changes in export earnings, imported inflation, changing the level of economic activity in the developed countries, changing the costs of borrowing from abroad, the policy of economic boycott (economic embargo), wars and local, international and regional conflicts, Political crises, global economic and financial crises, changes in the amount of foreign donations and aid, natural disasters, crises resulting from global diseases and epidemics (34). Therefore, external financial shocks are divided into two types:

- Automatic external shocks: they are the latest that occur randomly and unexpectedly. They have economic and non-economic effects on all sectors and may lead to a state of economic and social instability (35).
- Artificial external shocks: They are shocks that result from organized and intentional policies that have positive effects if the goal is to achieve economic and political stability and

negative effects if the goal is to achieve turmoil and chaos for those countries (36).

In this one, Klein concluded in book The Shock Doctrine, which presents the rise of disaster capitalism that crises and natural and unnatural disasters that shock countries and their societies can control their variables and exploit their effects to pass market policies and strengthen the mechanisms and laws of capitalist systems in those countries. Models of systematic external shocks have been used in the process of political change in many countries to apply the ideas of the shock doctrine, as in Bolivia, Poland, and Chile. In Iraq, this doctrine reached its climax in implementation in 2003 as a military shock, followed by an economic shock, in which the state's approach was completely changed (37).

This shock has been negative effects that spread in all aspects of the Iraqi economy, such as imbalances at the level of the Iraqi economy. The decrease in performance in all its government institutions, the collapse of infrastructure, the exacerbation of cases of inflation and the spread of unemployment, especially the external debt that corroded the Iraqi economy. This means that the shocks have negative effects the countries that are exposed to it and the positive effects of the countries that control it.

Sixthly : - the impact of financial shocks on the GDP

The expansionary financial shock leads to doubling effects on the GDP by the multiplier. There was no problem in financing the budget for the purpose of financial expansion. If the financing is done with government borrowing, it is likely that the financial expansion will have the effect of crowding out with the private sector towards financial resources or what is known as the crowding out effect, generating adverse effects in scaling or reducing private investment due to high interest rates. Thus, generating deflationary has been effected on GDP (38).

This leads to a reduction in the interest rate and provides for the private sector what is known as the cumulative effect, leaving money available for private sector borrowing, which leads to an increase in output or at least works to reduce deflationary effects. Guartini and Strobe have been believed that deflationary fiscal shocks in government spending or resulting from an increase in taxes have a negative impact on both GDP and investment. When taxes are imposed on income, this leads to a decrease in disposable income, which reduces consumer spending. As well as, higher taxes on business establishments will reduce the tendency towards investment, as an increase in lower taxes can cancel the expansionary effect of the increase in government spending. The decrease in GDP is directly proportional to the increase in government spending (39).

The Blanchard and Perotti study under the title of (Characterization an empirical of the dynamic effects of changes in government spending and taxes on output) have been found that using a mixed structure VAR. Data for the period (1949-1975) have been showed that the shock of positive government expenditures has expansionary effects on the GDP, Although the sudden rise in taxes causes a drop in production, the overall effect of the increase in taxes is to lower GDP and private spending by a maximum of 0.35 percentage points (35 cents) after five quarters have passed. The initial investment has a negative impact of 0.36, but that impact gradually improves for two years to become modestly positive. Compared to GDP's response to shocks caused by changes in taxation, the response of the GDP to changes in government spending is significantly stronger (40).

The positive effect on consumption accumulates for 14 quarters. In contrast, investment decreases for the first five quarters, which indicates the continuation of the great crowding out of investment both by government spending and, to a lesser extent, by taxes. Additionally, the positive effect on consumption accumulates for 14 quarters, indicating the continuation of the great crowding out of the investment. As a direct consequence of this, the balanced budgetary expansion will have a significant deterrent effect on investment. It should come as no surprise that the Keynesian approach is not compatible with the consequences of fiscal policy on investment. A paper written by Kamps and Caldara titled "What are the Effects of Fiscal Policy Shocks?" A comparative analysis using the VAR method for the economy of the United States for the period (1955-2006). that in reaction to the positive shock in government spending, real GDP is consistently increasing. After three to four years, the spending multiplier reaches its maximum. There is a continuous increase in the response to private consumption, and the results of increasing government spending support the generation of an increase in the real wage, and unexpected tax increases have significant effects on the decrease in output.

Mountford and Uhlig (2009) have been studied that dealt with the effects of financial policy shocks on the economy of the United States of America using automatic regression vectors using quarterly data for the period (1955-2000). The results showed that the presence of reactions to a number of economic variables in relation to those shocks. The occurrence of a positive shock in government spending stimulates output during the first four quarters, even at a weak level, in addition to imposing another, more weak impact on private consumption during the first quarters,

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but on the other hand, it had a negative impact on private investment and reduced it. The unexpected tax reduce financed by the deficit act as a (short-term) stimulus to the economy, not related to the rationality of individuals in their dealings with tax reduce, but rather to the long-term consequences associated with the high burdens resulting from debt (41).

Using quarterly data for the period (Q1:1997 to Q2:2009), based on the automatic structural regression (SVAR) methodology, Yadav, Upadhyay, and Sharma studied the impact of fiscal policy shocks on the Indian economy. This was done to assess the effects of government spending and tax shocks on GDP. According to the study's findings, the impulsive responses acquired from both variables behave in a manner comparable to one another, despite the fact that there is a distinction in the value of the multipliers. The results indicate that the shock caused by changes in tax rates has a greater impact on private consumption than the shock caused by changes in government spending. Additionally, the shock caused by changes in tax rates has a greater impact on GDP than the shock caused by changes in government spending (42).

The effect of expansionary financial shocks followed the Keynesian tradition in the short term, but there was a distinct response in the long run. A financial shock that raises government revenues by one rupee due to an increase in tax rates results in a reduction in real GDP of one rupee (0.53). "It was demonstrated that the multipliers are higher in absolute terms, which helps to explain why the impact of the tax shock on GDP is so large (-0.84, -1.05, -1.37). In contrast to the effect of a positive shock from government expenditure on production, the value of the peak production multiplier is (1.14; Q4) when its impact value is (0.09). It takes around three years for the GDP to expand by more than the accumulated financial shock. However, the cumulative output multiplier for the fourth quarter implies that crowding out is occurring in the economy " (43).

" According to the Keynesian approach, the effect of an increase in government spending will lead to an increase in production, total investment, and the level of consumption, and fiscal expansion in the form of tax reduction will enhance private consumption, leading to an increase in both total demand and production . Moreover, the Keynesian approach predicts that a reduction in taxes will increase total demand and production. On the other hand, those who subscribe to the neoclassical and classical schools of thought within Keynesianism claimed that an expansionary fiscal policy financed by a deficit would result in a decline in private investment. If bigger current deficits result in higher taxes in the future, then families will react substantially less to the tide of increases in disposable income due to tax reductions. As a result of this non-Keynesian behavior, a growth of the financial sector funded by a deficit would lead to a contraction of the economy " (44).

Chapter 2: the relationship analysis of financial shocks to the Iraqi GDP for the period (2004-2019)

The financial policy in Iraq clearly contributes to the formulation and programming of economic policy, so it has effects on all relevant economic variables. The shocks that result from that policy make it range between expansionary financial shocks and deflationary financial shocks due to fluctuations in oil revenues. It plays a prominent role in transferring the impact of those shocks to the GDP, so the research of the reality of financial policy in Iraq leads to the fact that it is under the effect of two things:

1. the state's reliance on wrong financial policies in managing its tools.
2. to continue, in a very large way, to rely on oil revenues, which provided the safe way even in the most harsh conditions, especially those that were the product of wars. The spread of financial corruption and mismanagement of the economy, which made the financial policy lose the ability to face the periodic economic fluctuations that affect the economy. By analyzing the reality of the financial policy tools during the study period, it is clear that they faced various challenges had a clear impact on the course of the national economy.

Firstly : analyze the impact of financial shocks on the GDP

"The GDP is one of the important indicators that express the level of performance of the state's economic activity. The analysis of the growth of the output and its sectorial structure is one of the main points for identifying and addressing weaknesses" (45). The GDP in Iraq has a clear fluctuation as a result of the conditions that the country went through before 2003, such as wars and the imposition of economic sanctions. The cessation of the export of crude oil had an impact on other sectors, especially the productive sectors that depend for their inputs on the import of raw and intermediate materials. They were halted due to economic sanctions and the scarcity of foreign currency, which led to a weakening of the structure of the domestic product. As well as, the destruction of vital production facilities and infrastructure, and the decrease in the investment activity of the private sector (46).

After the change in 2003, several things posed a challenge to economic development, which led to the fact that the GDP did not achieve acceptable growth

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rates, especially in the non-oil sectors and at the level that addresses the shortfall in commodity supply within the local market, due to a number of things including the security situation and the dependence mainly on the revenues of the oil sector to finance government spending, the failure to direct government spending towards developing the oil and other non-oil productive sectors. " This reflects the weakness of the economic structure, the diversity of sources of income and the low contribution of the service and distribution sectors in the formation of the GDP " (47).

It is noted that the output instability is due to its connection with international oil prices, which are volatile as a result of being affected by global economic and political conditions. The largest contribution of commodity activities came from the oil sector, which contributed with a rate ranging between (76%) as a minimum in 2013 and (92%) as a maximum in 2017, from commodity activities. The reason is the increasing pace of oil production and the high rates of production (48). As well, the increase of oil prices to their highest level (109.45) dollars per barrel during the period in 2012, as well as the government's orientation towards this sector as the only source capable of financing its operating expenses, especially salaries and expenses of security and defense. Also, the development plans and established policies have adopted in their development philosophy the oil sector in the development priorities as the source of its financing. It shows the dominance of the crude oil sector on the structure of the output compared to the contribution of other sectors.

One of the economic causes of financial shocks is due to sources related to financial policy and its steps related to spending, and sources related to the trade balance and the imbalances it suffers due to the rentier Iraqi economy. The sources related to the structure of the economy, which is explained by the imbalance in the structure of the GDP related to the nature of the relative contribution of the economic sectors (*) in the formation of the GDP, which reveals the influential sectors or not. The aim of identifying the points of imbalance from which shocks are implemented, and transmitted to the rest of the sectors, in addition to state the identity of the economy.

Table (1) has been showed that the GDP at in current prices recoded a positive fluctuation in its growth rates for the years (2005-2007), which recorded (38.1%, 30.0%, and 16.6%), respectively. The non-oil economic sectors due to the political and security conditions have been prevented the attraction of local and foreign private investments in the real sectors that would increase the GDP. In 2008, the output rose at current prices to (157026062) million dinars, with a growth rate of (40.9%), which is the highest annual growth rate during the study period.

"The public revenues at that time a positive shock as a result of the rise in oil prices in the global market, which led to an increase in oil revenues, and then an increase in public revenues, which at that time amounted (80252182) million dinars, with a positive annual growth rate of (46.98%). compared to 2007, were recorded (54599451) million with a growth rate of (11.3%). This shock in public revenues led to a positive shock in public spending to reach (59403375) million dinars with a positive annual change rate (52.2%) which is the highest during the duration of the study, which led to the impact of the public spending shock on the GDP. The increase in the output of the oil sector in 2008 was (55.5%) due to the increase in oil prices. The price of a barrel of oil reached more than (94) dollars compared to the decrease in the contribution rate of this sector in 2006 to (53.0%) " (49).

In 2009, the repercussions of the global crisis and the decrease in oil prices, which led to a decrease in public revenues (55209353) million dinars, with a negative annual change rate of -31.2%, which led to a decrease in the annual rate of change of public spending, which amounted 11.51 % and this the shock led to a decrease in output at current prices. If the output decreased to (130643200) million dinars, with a growth rate of negative (16.8 %) compared to the positive growth of the previous year, which was (40.9%).

The result of the decrease in the proportion of the oil sector's contribution to the output at current prices was (48.8%). " It is the lowest percentage during the study period as a result of the significant decrease in oil prices due to the global financial crisis, which moved to the rest of the world and led to a decrease in the level of economic activity and a decrease in oil and commodity prices. It reduces dependence on a single source of income and seeks to fill the development financing gap by encouraging both domestic and foreign investments " (50). It is expanding the role of the private sector because of its important role in economic activity through the creation of export industries (the development of non-oil exports will contribute to supporting the balance of payments, achieving external balance and building foreign reserves).

In a manner that enables the economy to achieve growth rates in real sectors that exceed population growth rates. This is what the country's economic policy focused on in changing the economic reform processes by reducing inflation, diversifying the proceeds of non-oil revenues and rationalizing public spending. The Iraqi GDP rebounded for the years (2010-2012), which led to the growth of the output at current prices at positive growth rates of (24.1%, 34.1%, 17.0%), respectively, during which public revenues rose to record the highest positive growth rate during the duration of the study amounted (55.0%) in 2011. " However, in 2012, the

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highest levels were recorded (119466403) million dinars, with a positive growth rate (9.8%), so public expenditure also increased to (105139575) million dinars with a positive annual change rate of (33.50%). This recovery in the total output is a result of the return of oil prices to rise again with the recovery of the global economy and its gradual exit from the crisis, which led to an increase in the contribution of the oil sector to the output at current prices to (56.6%, 52.9%, 53.4%) respectively compared to a year ago, which amounted (48.8%) " (51).

However, the growth rates of output at current prices decreased to (7.6%) in 2013 compared to its previous growth rates, as a result of the decrease in public revenues to (113767395) million dinars and a negative growth rate of (-4.8%). The reason for this is due to the decrease in crude oil prices globally, which led to a decrease in oil revenues, while public expenditures did not decrease, but rather rose to (119127556) million dinars, with a positive growth rate of (13.30%), which explains that public spending was financed by external borrowing, which rose in 2013 to (72340576) with a positive growth rate of (%). 1.7) compared to the low growth rate of external debt (2.9%).

After that, output at current prices began to decrease in the years (2014 and 2015). It is recording negative growth rates of (-2.7%, -30.0%), respectively, after it was in 2012 (17.0%). The most significant effect that the drop in oil prices had on the Iraqi economy and the country's overall safety was the constricting of the country's public liquidity, which was caused by a decrease in oil income as a direct result of that drop in oil prices (the double financial shock). All of this led to a decrease in the state's public revenues to (105386623 and 66470252) million dinars, with negative growth rates (-7.4%, -36.9%), respectively, and consequently a decrease in public spending (-37.3%) respectively. In 2014, this shock led to a decrease in the annual rate of change of output at current prices due to the decrease in the contribution of the oil sector to the GDP to (50.0%). On the other hand, the lack of approval of the general budget in 2014 contributed to a negative impact on all economic sectors', whether through the disruption of the five year plan and the halting of the development process.

The reluctance to implement a large number of service and investment projects due to the reluctance of many investors and contractors due to the security conditions dominated by instability on the one hand, and their failure to obtain their financial dues on the other hand, which negatively affected the implementation of many projects. In 2016, public revenues continued to decrease at a negative growth rate of -18.14, as well as the annual change rates of public expenditures continued to decrease at a negative growth rate of (-4.7%). However, the output at current prices increased slightly from 2015 with a positive growth rate (1.2%) as a result of the increase in oil production by foreign invested companies related to its production despite the continued decrease in world prices, which led to an increase in the oil sector's contribution to it to (68.6%) (52). The significant increase in military spending in order to defeat terrorism and restore control over cities led to an increase in the ratio of public spending to GDP over the ratio of public revenues to GDP. It is inferred from this that the Iraqi economy is in a state of affairs of the budget (Table 2).

Table (1) the effect of financial shock indicators (revenue and expenditure) on the GDP at current and constant prices in Iraq for (2004-2019) million dinars

Year	Public revenues at current prices (1)	annual growth rate % (2)	Public Expenditures at Current Prices (3)	annual growth rate % (4)	GDP at current prices (5)	annual growth rate % (6)	Oil contribution to GDP (7)
2004	32982739	-	32117491	-	53,235,359	-	75.9
2005	40502890	22.8	26375175	-17.9	73,533,599	38.1	75.6
2006	49055545	21.1	38806679	47.1	95,587,955	30.0	55,3
2007	54599451	11.3	39031232	0.58	111,455,813	16.6	53.0
2008	80252182	46.98	59403375	52.2	157,026,062	40.9	55.5
2009	55209353	-31.2	52567025	-11.51	130,643,200	16.8-	51.9
2010	70178223	27.1	70134201	33.4	162,064,566	24.1	56,6
2011	108807392	55.0	78757667	12.3	217,327,107	34.1	51.9

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2012	119,466,403	9.8	105139575	33.50	254,225,491	17.0	50.0
2013	113,767,395	-4.8	119127556	13.30	273,587,529	7.6	49.1
2014	105,386,623	-7.4	112192126	5.8-	266,332,655	2.7-	50.0
2015	66,470,252	-36. 9	70397515	-37.3	194,680,972	30.0-	55.8
2016	54,409,270	-18.14	67067437	-4.7	196,924,142	1.2	68.6
2017	77,335,955	42.14	75490115	12.56	221,665,710	12.6	63.0
2018	106,569,834	37.8	80873189	7.1	268,918,874	21.3	57.4
2019	107,566,995	0.94	111723523	38.1	276,157,868	2.7	58.7
Growth rate		11.77		11.53		13.1	

Source: - Central Bank of Iraq, General Directorate of Statistics and Research, Annual Bulletins (2004-2019).
- Ministry of Planning, Central Statistical Organization, Directorate of National Accounts, Economic Indicators for the years (2004-2019).
- Rates of change in column (2), (4), (6), (9), study work.

After that period, the growth rates of output at current prices returned to increased. In the years (2017-2019), in 2017, the output growth rates at current prices recorded positive annual growth rates of (12.6%, 21.3%, 2.7%), respectively. Despite the fluctuation of the oil sector's contribution to the output in these years between rise and decrease, it has reached (63.0%, 57.4%, 58.7%), respectively. The public revenues recorded positive growth rates amounting (42.14%, 37.8%, 0.94%). However, the public spending amounted to (75490115, 80873189, 111723523) with a positive annual change rate (12.56%, 7.1%, 38.1%) million dinars, respectively. This increase in GDP, revenues and public expenditures is due to the large increase in production. The increase in oil prices, in addition to the decrease in spending for military purposes, and the return of some displaced families to their areas.

It is clear that the Iraqi economy depends on crude oil exports in the formation of its gross domestic product mainly. It increases the possibility of its exposure to external crises resulting from fluctuations in international oil prices. This underscores the necessity of generating growth in other non-oil sectors to make the economy more robust in the face of foreign and internal shocks and to lessen dependency on a single source of income. It is necessary to look for new ways to finance development initiatives. One way to do this is to rethink the allocation of investment funds to various economic sectors and the administrative procedures carried out in strengthening. The role of the basic sectors was producing and employing labor to ensure stimulating growth in all economic sectors.

In order to show the extent of the contribution achieved by public revenue and public spending to the gross domestic product, it is noted that at the beginning of 2004 the contribution of public revenues to the domestic product at current prices was (70.0%), Because of the relaxation of economic sanctions and the rise in oil exports, the Iraqi economy has become significantly more accessible to the rest of the world. This is because oil exports have increased (Table 2). This impacted the rise in oil income, which accounted for 98.9% of the total public revenues, and the rise in the exchange rate versus other countries currencies.

In the fact that Iraq is a rentier state, which prompted the government to increase current and investment expenditures in various sectors, so that the contribution of public expenditures to the output has been reached (60.3%) in the year 2005, public revenues continue increased , achieving positive annual rates of change of (22.8%). The contribution of public revenue to the output at current prices was (55.1%), which is higher than the contribution of public spending to the output at current prices, which amounted (35.9%). The result of the decrease in government spending at an annual rate of change of -17.9%. This was reflected in the decrease in operating expenses allocations by (-25.1%) from 2004. This decrease came to counter the inflation rates, which took an upward trend, which indicates that the growth of output at current prices has been reached (38.1%).

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In the years 2006 and 2007, the oil prices continued to increase, this led to an increase in the proportion of the contribution of public revenue to the output at current prices, which record (51.3%, 50.0%), respectively. It is also higher than the contribution of public expenditure to the output at current prices, which were (40.6%, 35.0%) respectively. The contribution of spending has decreased in 2006 from 2007, which indicates the response of output at current prices to the slight increase in revenues and then expenditures by a decrease in its growth rates to (30.0%, 16.6%) respectively compared to 2005. As well as, the decreased in the growth rates of output at constant prices to (5.6%, 1.9%), due to fluctuations in oil prices and a decrease in the contribution of non-oil economic sectors to the output, in addition, to the political and security conditions that the country experienced, which hindered the attraction of local and foreign private investment, which would have increased local production.

The public revenue continued to increase in 2008 than it was in 2007, as a result of the increase in oil prices, which was (138) dollars per barrel, which was reflected in the increase in the financial returns of the state. This led to a shock in public spending by raising its annual growth rate to (52.2%). The percentage of contribution of revenue and expenditure to the output at current prices increased to (51.1%, 37.8%), respectively, compared to 2007, the growth rate of the domestic product at current prices also increased to (40.9%). Through what was mentioned in the above analysis, it is noted that the ratio of public revenues to GDP in the period (2004-2008) was higher than the ratio of public spending to GDP. This indicates that the Iraqi economy is in a state of economic growth and the state can finance its deficit (53).

The proportion of the contribution of public revenue to the output at current prices decreased to 42.3%, but it is still higher than the contribution of public expenditure of (40.2 percent), and the latter is also higher than the contribution of public spending in 2008. In general, the decrease in contribution rates is due to the decrease in annual growth changes for both revenues and public expenditures to (31.2-1%, -11.51%) respectively compared to the previous year. The shock that occurred in public revenues was reflected as a result of the decrease in crude oil prices and the drop in global demand for it. The transmission as a shock in public expenditures, which led to the adoption of a contractionary fiscal policy in public spending, which led to a decrease in both operational and investment spending in 2009 to (11.5-1%) for both of them.

However, the period (2011-2012) record a decrease in the proportion of the contribution of public expenditure to the output at current prices than the contribution of public revenues, as a result of the rise in oil revenues. The period (2013-2016), the decrease in international oil prices and the deterioration of the security situation in the country led to a significant increase in military spending. All of these factors contributed to an increase in the proportion of the GDP spent by the government relative to the proportion of the GDP generated by the government. As a result of the decline in oil revenues, the Iraqi economy is currently experiencing a state of a budget deficit. This is attributable to the reduction of public liquidity. Because of the budget deficits, public expenditure had to be reorganized to ensure the operating budget's stability, but this would likely require the sacrifice of the investment budget. The activities of the economic sectors showed evident signs of stagnation, as seen by the drop in the GDP growth rate when measured at current prices.

In 2018, the ratio of the contribution of public revenues to the output at current prices increased over the contribution of public expenditure as a result of the rise in global oil prices and the improvement of the security situation in the country. While in 2019, the contribution of public spending to output at current prices increased to (40.5%) over the contribution of public revenue, which amounted (39.0%) as a result of the increase in expenditures, which led to the growth of public spending in terms of operational and investment, which recorded (30.2%, 76.7%).

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Table (2) The evolution of the percentage of government revenue and expenditure contribution to the gross domestic product in Iraq for (2004-2019) million dinars

Year	Government revenue at current prices (1)	Government revenue to GDP at current prices (2)	Government spending at current prices (3)	Government spending to GDP at current prices (4)	GDP at current prices (5)	annual growth rate (6)
2004	32982739	70.0	32117491	60.3	53,235,359	-
2005	40502890	55.1	26375175	35.9	73,533,599	38.1
2006	49055545	51.3	38806679	40.6	95,587,955	30.0
2007	54599451	50.0	39031232	35.0	111,455,813	16.6
2008	80252182	51.1	59403375	37.8	157,026,062	40.9
2009	55209353	42.3	52567025	40.2	130,643,200	16.8-
2010	70178223	43.3	70134201	43.3	162,064,566	24.1
2011	108807392	50.1	78757667	36.2	217,327,107	34.1
2012	119,466,403	47.0	105139575	41.3	254,225,491	17.0
2013	113,767,395	41.6	119127556	43.5	273,587,529	7.6
2014	105,386,623	39.6	112192126	42.1	266,332,655	2.7-
2015	66,470,252	34.1	70397515	36.2	194,680,972	30.0-
2016	54,409,270	27.6	67067437	34.1	196,924,142	1.2
2017	77,335,955	34.9	75490115	34.1	221,665,710	12.6
2018	106,569,834	39.6	80873189	30.1	268,918,874	21.3
2019	107,566,995	39.0	111723523	40.5	276,157,868	2.7
Growth rate		44.85		39.45		13.1

Source: - Central Bank of Iraq, General Directorate of Statistics and Research, Annual Bulletins (2004-2019).

- Ministry of Planning, Central Statistical Organization, Directorate of National Accounts, Economic Indicators for the years (2004-2019).
- Rates of change in column (2), (4), (6), (9), study work

The results have been found that the highest ratio of public expenditure to output at current prices was in 2004, which amounted (60.3%). The lowest in 2018 was (30.1%), while the highest ratio of public revenues to output at current prices was (70.0%), and the lowest percentage was in 2016, which amounted (27.6%). By tracking the growth rates of GDP and the contribution of public revenue and public spending, it becomes clear

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that the results achieved were not up to the level of ambition.

This is because to the weak economic management of the government and its inability to determine the components and requirements of the path of real physical and human construction in the country, which was reflected in the confusion of the economic performance of government economic policies, especially the spending policy, which focused towards purely consumerist operational goals. It did not succeed in revitalizing and motivating the economy to achieve acceptable growth rates in the real sectors (except for the oil sector). Oil revenues expanded the relative importance of the service and distribution sectors at the expense of the commodity sectors. Those revenues worked towards inflating the demand side, and this is what made the Iraqi economy work in light of a permanent surplus demand. Any increase in aggregate demand is fed by imports for inflexibility the aggregate supply side due to the reality of the productive sectors (54).

CONCLUSIONS

1. The hypothesis of the study was verified and proved that negative financial shocks have a negative impact on economic activity. It is intensified with the weakness of the policies that respond to these shocks, as well as the absence of economic philosophy. The severity of structural imbalances, and unbalanced integration with the outside world have been made the Iraqi economy an economy responsive to shocks and incubating their economic, social effects, especially external ones.
2. The government revenue, government spending and GDP, are the main economic channels that transmit the impact of the oil shock to the rest of the economic variables. The main engine for most sectors and other activities. The oil resource constitutes (98%-77%) of government revenue. This made the stability of crude oil prices or any disturbance in oil marketing (external shock) directly reflected on the economy through government revenue and spending (as an internal financial shock), and the a significant decreased in 2015 due to the drop in oil prices.
3. The study's results demonstrated a one-to-one correlation between fluctuations in the financial markets and GDP. An increase in GDP resulted from a rise in government spending, which was paid for by a rise in government revenue; conversely, an increase in GDP resulted from a fall in government spending.
4. The Iraqi economy primarily depends on crude oil exports to form its gross domestic product, which raises the likelihood of its exposure to external crises caused by shifts in the international price of oil. This highlights the necessity of generating growth in other non-oil sectors in order to make the economy more robust in the face of external and internal shocks, reduce dependence on a single source of income, and seek alternative methods to finance development projects by reconsidering the distribution of investment allocations to economic sectors.

RECOMMENDATIONS

1. Diversification of the economic base with the aim of forming various funding sources for the government budget, by working to raise the percentage of non-oil sectors' contribution to the GDP (such as agriculture, industry, tourism, etc.), especially after the repeated shocks that hit global oil prices.
2. Diversifying the structure of government revenues, with the aim of protecting the government budget and the economy from sudden or large fluctuations in oil revenue. On the one hand, diversification achieves stability in government spending levels and promotes exit from the rentier pattern. It narrows the screws on the sectors that transmit the rebound of shocks and external economic crises.
3. Change the path of government spending, by restructuring it in favor of investment spending directed to expand production capacities and infrastructure, which aims to increase national capital and lead to the expansion of economic activity and increase in production capacity. The restructuring operational spending in a way that enhances the productivity of government spending and reduces the price effects of this type of spending as a result of the inflexibility of the production system in Iraq, through its pressure and rationalization, or at least not increasing operational spending higher than the growth in non-oil output, as well as the importance of limiting the policy of Unproductive employment and other unreliable spending policies.
4. Adopte the government financial rules, in targeting the deficit and reducing debts by isolating fiscal policy from political pressures, by setting specific limits for government spending, public debt and the proportion of budget deficit, especially during periods of high revenues and the formation of large financial surpluses associated with high oil prices.

These rules can help the government to avoid the expansionary trends of government spending through an anti-cyclical spending policy. These rules also help protect priority expenditures in periods of declining government revenue, which enables it not to expose long-term fiscal policy objectives to the risks of short-term spending pressures.

5. Work to address the real deficit and the apparent surplus in the government budget, by directing and utilizing oil revenues in the implementation of economic and social development projects that represent more stable and sustainable revenue sources, and increasing spending on infrastructure and education. Also, orientation towards improving the business climate and the possibility of obtaining financing, especially for small and medium enterprises, by mobilizing the financial surpluses of private banks towards the real sectors, in a way that stimulates economic growth and reduces the monetary impact of the financial policy, as well as setting a serious and practical policy to withdraw the cash mass saved by people.
6. Establish a sovereign fund for oil surpluses, which absorbs a percentage of the oil revenues that are supported by the difference in oil prices, especially in times of positive external shocks, and investing these funds in safe windows, with the aim of isolating the general budget and the macro economy from fluctuations that occur from time to time in international oil prices. This is by directing the increase in oil revenues towards investment and other sectors (agricultural and industrial) and their development, in a way that contributes to the success of the process of economic development and economic stability and reducing the budget deficit. It will work to preserve the rights of future generations, as well as achieving financial sustainability and keeping public spending away on the external shocks to which the public finances in Iraq are exposed as a result of oil rents.

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