World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 29, December, 2023
ISSN: 2749-3628,

FINANCIAL DISCIPLINE AND THE POSSIBILITY OF ACHIEVING ECONOMIC STABILITY IN IRAQ (2004-2019)

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Article history:

Received:	11th October 2023
Accepted:	10th November 2023
Published:	14th December 2023

Abstract:

Financial discipline is the method that used to manage public money in a way that shows the desire to comply with financial rules. It explains how to manage public finances that aligns current spending with planned spending in order to achieve long term financial aims. It embodies an important part of the process of monitoring the public budget and ensuring implementing it on time with the aim of directing government financial operations. This works to achieve stability in the levels of economic activity. Some economists believe that linking economic activity to price fluctuations requires monetary policy to conduct a moderate increase in prices in the event of an expansion in economic activity, which contributes to increasing levels of profitability and raising optimistic expectations that accelerate and stimulate economic action. Monetary stability is a fundamental goal that the monetary authorities seek to achieve in order to link the monetary balance and achieve stability in the rest of the economic variables.

Keywords: Financial discipline, possibility, economic stability, monetary balance.

RESEARCH PROBLEM

The research starts from the following problem: The Iraqi economy's lack of financial spending that does not depend on the rules of financial discipline leads to a negative impact on economic stability.

RESEARCH IMPORTANCE

Achieving economic stability leads to avoiding a significant increasing in the general level of prices by reducing inflation rates and achieving high employment rates at the level of potential gross domestic product. Achieving this stability depends on several economic policies that represent an integrated group. In Iraq, The policy of financial discipline has become an urgent necessity because discipline means that the government is able to maintain its financial policies in a clear and consistent manner in accordance with certain rules to achieve economic stability during economic cycles.

RESEARCH AIMS

The aim of this study is explaining the extent to which economic stability exists or not in Iraqi economy according to the relationship between financial discipline and real indicators and the extent of the possibility of achieving stability in the Iraqi economy by achieving financial discipline in public finances.

RESEARCH HYPOTHESIS

The research was done based on the hypothesis that (the low degree of financial discipline in the Iraqi economy had a negative impact on economic stability).

RESEARCH METHODOLOGY

The research has relied on the inductive descriptive approach and data analysis to verify the hypothesis. Iraq will be the spatial dimension for the period (2004-2019). The period characterized by many economic changes and the impact of many internal and external factors on the effectiveness of financial policy in achieving economic stability.

RESEARCH STRUCTURE

The research was divided into two sections. The first section was included the theoretical framework of financial discipline, while the second section included the real indicators of economic stability.

1. Financial discipline concept

The financial discipline is widely used in the economic literature without a specific definition either by academic circles or relevant organizations. Some point out that this term goes back to economist John Williamson when he designed what is known as the Washington Consensus Principles in 1989. He stressed the importance of targeting a disciplined financial policy and avoiding large financial deficits as a percentage of the gross domestic product (GDP). Financial discipline emphasizes the necessity of determining public expenditures in light of public revenues (Hamad and Abarahim 2022). However, some interpret financial discipline as the manner or method followed in managing public money in a way that shows the desire to comply with financial rules. It explains how to manage public finance in which current spending is compatible with planned spending with the aim of achieving long-term financial aims. It embodies an important part of the process of monitoring the general budget and ensuring its implementation on time with the aim of directing government financial operations.

The budget practices must be accompanied by mechanisms that reduce the severity of economic recessions and potential shocks, so that they collectively constitute controls and restrictions on government financial decisions. Thus, reflect the objectives of financial policy in general, especially the effectiveness of allocation and the efficiency of performance (Asadi and Al-Battat 2022). After designing the technical frameworks for financial policy by taking into account the extremely important economic and social options with the aim of finding appropriate programs to confront economic crises and social impacts in order to marginalize their impact on output, employment and stability. Therefore, increasing the degree of credibility of financial policy in achieving economic stability, which means that financial discipline is a measure of the extent, capacity and efficiency of financial policy. Therefore, the importance of financial discipline in promoting economic growth in the long term.

Reducing the financial deficit and achieving a budget surplus is a form of saving. This result is in an increase in owned assets and national income. It reflects the state of the Turkish economy. It was suffering from the backwardness of the financial systems and the increase of unbridled inflationary pressures in the nineties of the last century. It was able to confront this crisis through an economic program based on long term financial discipline and consistent with monetary policy aimed to achieving stability (Al-Rubayea). The most important aims that financial discipline seeks to achieve in the economy can be summarized, which can be summarized as follows (al-Dabbagh 2023):

1- Financial discipline aims to confront cyclical fluctuations in economic activity as well as internal and external crises by adapting the behavior of financial policy. As well as, to ensure the achievement of overall stability.

2- The financial discipline policy works to make financial policy more flexible and responsive to crises by alleviating the pressures accompanying them and reducing financial risks. In addition, to enhance financial sustainability and financial adaptation of financial policy tools by reducing the economic and social costs of financial crises.

3- Financial discipline includes the function of planning the general budget in the long term with the aim of anticipating its problems as well as finding solutions to fix them.

4- Achieving financial stability and reducing the aggravation of public debt by achieving balance between the two parts of the general budget (public revenues and public expenditures) through rationalizing expenditures and reforming the tax structure. Achieving efficiency in exploiting economic resources is the most optimal way possible in economic systems.

Based on the above, the components of financial discipline can be clarified in figure (1) as follows:

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 29, December, 2023
ISSN: 2749-3628,

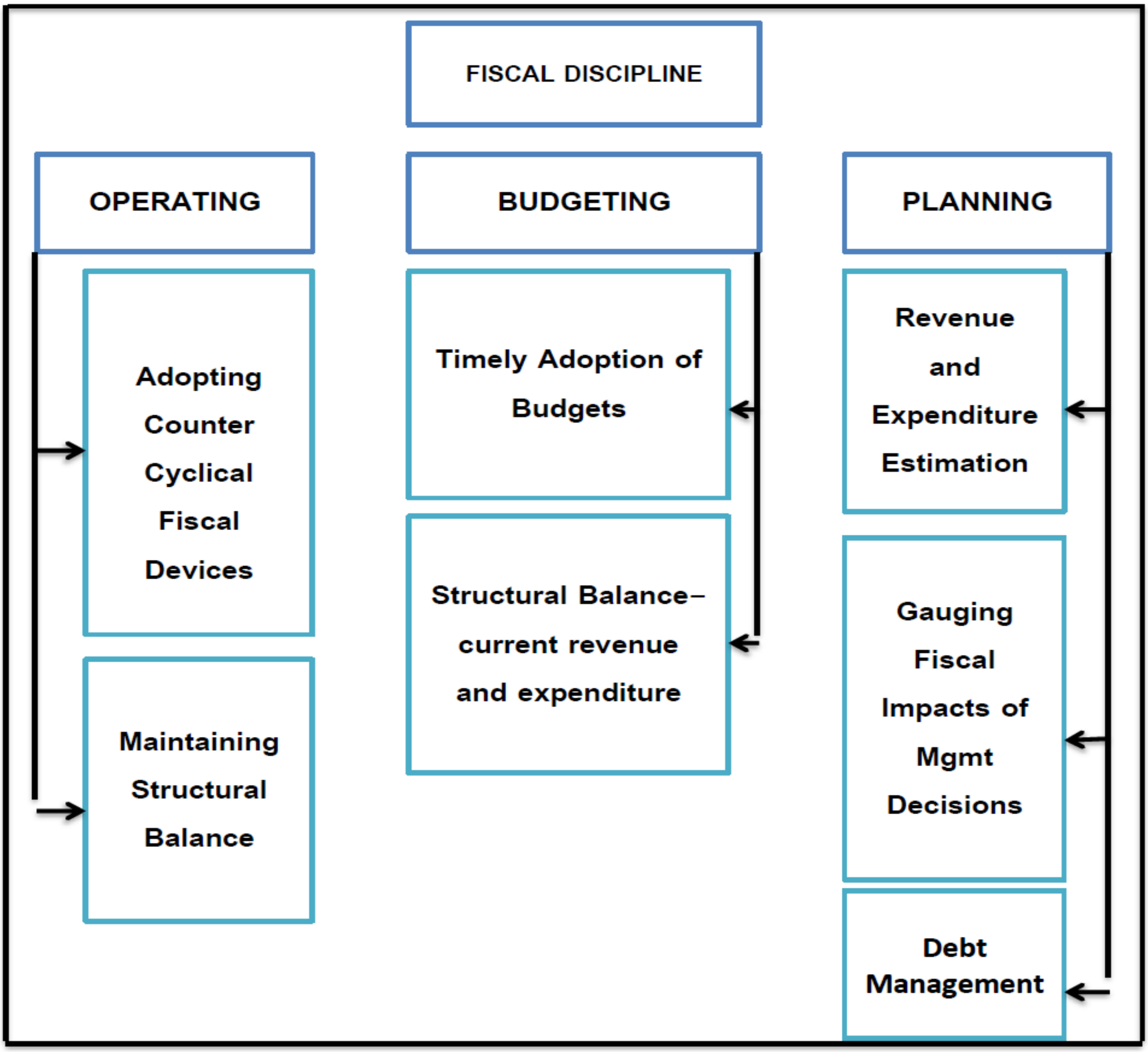

Figure (1) financial discipline Components

Source: Yilin HOU, Fiscal Discipline as a Capacity Measure of Financial Management by Sub national Governments, Public Administration: Challenges of Inequality and Exclusion Miami (USA), 14-18 September 2003, P24.

a. Measure the financial discipline through budgeting:

Financial discipline can be measured through the two parts of the general budget (public revenues and public expenditures), as public revenues are used to indicate whether or not financial discipline is achieved by determining the amount of revenues that the government is able to obtain. This is done by setting an upper and a lower limit for revenues. It revenues should not be less than the level that allows the government to cover its expenses, taking into account the impact of the tax burden on the economy, since taxes represent the portion of the gross domestic product deducted from the government. It is

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 29, December, 2023
ISSN: 2749-3628,

expressed as a ratio of total tax revenues to GDP. It is also the total tax capacity of the economy, which can be deducted from the GDP and transferred to the government without leaving any negative effects on the economy.

The more tax capacity expands, the more there is the possibility of increasing government spending (Mohammed and Talib 2020). Achieving sustainability in public revenues has a significant impact on achieving financial discipline with the aim of achieving financial sustainability. Two indicators are used to measure the extent of achieving financial discipline through revenues (Ali and Al-Yasiri 2021), the first of which is: the tax gap index and the public revenue gap index. The other part of the general budget, embodied in public expenditures, financial discipline can be measured by setting restrictions on public spending aimed at rationalizing spending by setting spending priorities. It leads to a decline in the annual growth rate of expenditures, along with a decrease in their ratio to the GDP. In the absence of these restrictions, the ratio of tax revenues and public spending to the GDP will increase, which reflects the government's performance in the economy, which is expressed in the interventionist role (Abdulkhudhur and Majeed 2023).

The planned allocations for expenditures are compared with the actually implemented expenditures in order to determine the degree of financial discipline. If the actual spending is equal to or less than the allocated allocations, then financial discipline is achieved. However, the achieved expenditures exceed the established allocations. This case is diagnosed as a lack of discipline. It reflects the absence of the principle of budget credibility (Hassan 2020).

b. Measure the financial discipline through public debt

The stability and soundness of financial policy is not complete without mechanisms and procedures that take responsibility for managing public debt. The absence of financial discipline will lead to an increase in the level of public expenditures compared to the level of public revenues, which will result in an aggravation of the general budget deficit, leading to the government heading towards borrowing with the aim of filling the budget deficit gap. The equation below depicts the relationship between the budget deficit and government debt:

$$Dt=(G-T)t+rDt-1$$

Dt: The general debt level
G-T: the gap between revenues and expenditures
rDt-1: the accrued interest on the time precedent

Based on the above equation, it is observed that the level of public debt is growing as long as there is a widening of the budget deficit gap. It is also impossible for decision makers to attempt to bridge that gap and overcome the deficit unless public revenues are able to cover public expenditures in addition to paying the interest due on debts. It is difficult to reduce the amount of public expenditures and increase tax revenues, Most studies and relevant literature in this regard confirm that the total general government debt should not exceed 60% of the gross domestic product (Hussein and Abdulkafi 2022).

According to the report that issued by the Commonwealth on domestic debt management for the year 1996, which emphasized the possibility of measuring the sustainability of debt and working to avoid financial deterioration, that is, not harming what is targeted at the macroeconomic level. The report indicated the possibility of measuring the financial sustainability of local public debt by using the following equation (Mhmood et al. 2021):

$$Z+iB=\Delta S+\Delta B$$

Z: the level of deficit of the general budget
iB: Debts to pay interest
ΔS: The monetary rule in the outcome changes
ΔB: General debt growth

The relationship between the deficit percentage of output and real interest rates can also be derived by using the above-mentioned identity, as follows:

$$b=(z-s)/(y-r)$$

Z:The GDP to deficit ratio
R: Actual real interest rates

It can be said that sustainable financial policy works to reduce public debt rates by not allowing them to increase over time and thus achieve financial sustainability, which will enable the government to achieve desired spending programs in addition to increasing its ability to bear and service the public debt. Meaning the financial discipline consists of reducing the public budget deficit to the lowest possible extent, such that the deficit percentage is either non-existent or known and stable. It will have an impact on the public debt, as the percentage of public debt to the total output will decrease. It is one of the indicators used in monitoring and determining the degree of financial discipline.

Measuring financial discipline through financial rules

Financial rules are defined as long term restrictions on financial policy by setting value limits on budget. That mean, in the sense of setting limits to financial policy

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
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ISSN: 2749-3628,

that governments cannot change. The rules are characterized by two basic characteristics: the first is that they are a restriction linking the political decisions issued by the legislative council and the decisions issued by the executive authority. The second characteristic is that it is an indicator of the efficiency of the executive authority's financial management (1). Financial rules help the government achieve financial discipline with the aim of achieving financial stability and the soundness of the economic system. The most important types of financial rules can be summarized according to what was determined by the International Monetary Fund as follows:

1- Debt rules: This rule specifically targets an explicit goal embodied in determining the percentage of public debt to total output. This type of rule is considered the most efficient and easiest to ensure that public debt levels are set at targeted and desired levels. This type of rule is also considered the most effective. It ensures achieving convergence to the goal of religion, as well as ease of monitoring and follow-up. Debt levels take a significant amount of time to influence general budget measures and thus do not enable fiscal policy designers to obtain clear short term guidance. It notes that public debt levels can be affected by factors outside the government's control, such as changes in the exchange rate and interest rates. In addition, financial policy can be in line with the economic cycle if the economy is exposed to shocks, and when the public debt ratio is less than its limits, the debt base It cannot provide policy makers with any direction.

2- Budget balance rules: These rules adopt the possibility of reducing the general budget deficit to a certain extent. This is done by rationalizing public expenditures and increasing their efficiency in light of the European Union agreement. This agreement stipulates that the maximum target budget deficit should not exceed a percentage of 3% of the gross domestic product of the European Union member states. The main aim of this rule is that increasing the budget deficit will marginalize the effect of public spending or reducing taxes on aggregate demand. So, it will crowd out the private sector and limit the effectiveness of financial policy in achieving economic stability.

Meaning that, regulating the budget deficit will lead to ensuring the achievement of financial sustainability, which makes it possible to ensure the sustainability of debts and determine the rules for balancing the general budget, such as the general or structural balance or the adjusted balance throughout the cycle, which helps in bringing the debt output ratio within a specific target level (Khudhair and Ghadeer 2023).

3- Agreement rules: The rules for controlling spending are among the most important financial rules. These rules are determined by absolute value or growth rates, and in most cases they are determined as a percentage of the gross domestic product over a period of time ranging between (3-5) years. This type of rule is not directly related to the goal of debt sustainability because it does not limit the revenue aspect. This rule is combined with the budget balance rule or the debt rule. It is able to control the general financial conditions in harmony with achieving financial sustainability. In addition, these rules can reduce spending in periods of recovery and prosperity, and this rule does not hinder the function of financial policy related to achieving economic stability, especially in times of negative shocks. In addition, it does not require making adjustments to reduce cyclical or discretionary fluctuations in tax revenues (Salih and Almajdob 2019).

4- Revenue rules: These rules aim to determine the upper and lower limits for expected revenues with the aim of enhancing revenue collection and avoiding excessive tax burden. This type of rule is not directly related to controlling public debt and at the same time does not limit spending. Its cyclical nature follows the behavior of the economic cycle and stagnations (1). Therefore, it is difficult to impose restrictions. It does not provide economic stability in the sense that it reflects the role of discretionary financial policy in achieving the desired stability and maximizing growth and economic. A decrease in the GDP will result in a decrease in the level of revenues embodied in taxes and other things, and an increase in unemployment rates will require an increase in public expenditures, which will lead to a widening of the deficit gap in the general budget. The exact opposite will happen if the GDP increases (Hamad and Abarahim 2022).

5- The Golden Rule: The Golden Rule requires that borrowing be limited to the level of public investment, as parts of the budget deficit are restricted in accordance with the European Union's agreement. The classical school refers to loans because they are not considered an actual source of public revenues, but rather an exceptional means of financing with the aim of obtaining real revenues such as taxes and fees.

Since the repayment of loans is through tax, therefore, loans are deferred taxes that the future generation will bear the burden of, so the classicists do not agree on borrowing except in the case of the possibility of future a generation benefiting from the benefits of public spending that the loan was used to finance (Salih and Almajdob 2019). That means, changing the borrowing process to finance current expenditures, seeking to achieve a balance between revenues and current expenditures, and allowing borrowing only in the case of financing investment spending.

The second requirement: economic stability

Economic stability means comprehensive exploitation of economic resources in society and investment in economic sectors, maintaining stable price levels and avoiding price fluctuations while achieving growth in real GDP. That means, reaching the economic situation to achieve full employment and stability in its price levels, and working to avoid deflationary and inflationary crises (Asadi and Al-Battat 2022). Economic stability is the opposite of economic fluctuations, as it expresses the state in which fluctuations in economic activities decrease, which are fluctuations. They are known as the economic cycles to which all countries are exposed, whether developed or developing, and these fluctuations range from severe to moderate (Alyaseri and Awthaefa 2021). Economic stability expresses the ability of the economy to advance economic growth without affecting the general level of prices and make them within the target level and for them to be stable, in addition to the stability of the operational level of economic resources (Katsos and AlKafaji 2019).

Based on the previous concepts, economic stability indicates a situation in which the economic situation enjoys continuity and dynamism of growth in real output in light of the stability of price levels and the value of the country's currency, low inflationary rates, an increase in the level of employment of economic resources, and the economic situation help stability for the components of the economic system and stability in international economic relations. Achieving economic stability works to achieve effectiveness in the credibility of the central bank and the transparency of its decisions. The clearer the goals are more mature the work of the central bank will be, the imbalances will decrease, and it will reduce manipulation of the central bank's decisions by political parties.

The bank worked to achieve a decrease in the level of inflation in the long term to be an incentive for the growth of real output and increase employment rates. The stability of price levels works to increase the quality of local currencies and increase their ability to fulfill all their functions and the ability to reduce deflationary risks, as well as the ability to achieve the long-term low inflation target by targeting. Economic stability policies have great importance in the intellectual systems of economic activities because of their extremely important impact on economic activity, especially after the increase and diversity of economic crises that have accompanied the world, and the economic importance of striving towards achieving economic stability has greatly increased after the economic crisis that accompanied capitalist thought and the recession crisis 1929-1932.

It was resulted in the collapse of classical thought with economic stability that works with a magical system that does not require government intervention to achieve the required goals of achieving high growth, stability in the general level of prices, achieving full employment of economic resources, the rule of Saye's Law, and economic freedom, as these ideas and principles collapsed due to the Great Depression crisis (Mohammed 2023). Keynesian ideas were launched after the great depression crisis and its resulting economic effects on economic activities, as Keynes concluded that there is a possibility of economic crises occurring, which work to disrupt the economic system and reflect its impact on financial stability and then reflect on the economic reality, and this is what requires government intervention (Schaechter, 2012).

Keynes has emphasized that economic balance and stability are achieved below the level of full employment. He stressed that the economic system cannot stabilize without intervention measures by the government. Government intervention has a very important impact in achieving economic stability, confronting economic crises, eliminating their effects, and putting the economy back on the right track. Using financial policy to make it an effective part and an important tool in achieving economic stability (Williamson, 2004). While the proponents of the monetary school started from the principle that monetary policy has a large and effective impact on economic activities, and that government intervention using public financial mechanisms does not achieve economic stability, but may lead to a decline in the stability situation and the occurrence of economic imbalances, thus monetary policy has become the most important policy and influence on economic activity (Calmfors, 2011).

The changes that occur in monetary quantities have the ability to correct imbalances in the economic system (Branch et al., 2009). Thus, the monetarists and Friedman's ideas demand that the role of the government and its mechanisms in interfering in economic activities be obscured. This is a result of that following government intervention mechanisms must be very limited because following the opposite gives

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
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ISSN: 2749-3628,

adverse results to the economic reality. Thus, monetarists consider that achieving stability occurs when the size of monetary quantities is stabilized at a level that achieves the target output size and that the state's periodic budget achieves a balance through Covering surpluses during boom periods and deficits during recessions (Friedman, 1990). For the Rational Expectations School, the most important of its pioneers is Robert Lucas. The ideas of the Rational Expectations School are considered an intellectual extension of classical ideas, so its pioneers are called the New Classics.

The proponents of this school believe that the policies adopted by governments may cause unexpected errors, and the proponents of this school draw their ideas on the basis of studying the behavior pattern of consumers and investors for previous periods, in addition to clearly highlighting the element of expectations in the ideas of this school and reflecting the impact of those expectations on both the consumer and the investor. This school gives expectations great importance and makes them superior to economic laws in influencing price levels. The pioneers of this school believe in the possibility of measuring expectations through banking systems, production companies, insurance companies, and stock exchanges, which can harmonize saving and investment decisions. The proponents of this school believe that achieving stability requires following the basic rule, which is that the growth of the money supply should be constant and stable so that the economy remains stable. The Keynesians ideas are considered an intellectual extension of Keynesian ideas, but they are distinguished from Keynesian ideas by two basic features, namely:

A- This school came up with the necessity of determining and distinguishing wages in labor markets and determining prices in commodity markets. This model came in support of imposing stagnation in wages as it is in the Keynesian model, but it developed a theory explaining the reasons for this stagnation.

B- New Keynesian school distinguished between monetary and real stagnation, as the New Keynesians believe that the apparent gap in wages or prices is due to the factors that make harmonizing prices costly, such as the price list, printing price lists or new catalogs, and overcoming incompatible opinions that work to limit work. This explains the monetary rigidity of prices and wages. The real rigidity of wages is known as the rigidity of wages compared to other wages or the rigidity of prices compared to other prices. Keynesians focus on financial policy and its role in achieving stability. Keynesians believe that monetary demand is unstable, as the increase in supply creates an imbalance in the financial portfolio of individuals because the change in interest rates affects the physical assets held by individuals. While the school of supply side economists opposed Keynesian ideas in government intervention in economic life, the pioneers of this school see the causes of imbalances and instability as lying in government intervention in economic activities and restricting the freedoms of individuals, projects, and investors (Yaqub 2019).

Say's Law has a major impact on the ideas of this school in achieving stability and balance between supply and demand, and this school's focus is on the supply side, assuming that it includes increasing production and productivity and increasing investment trials. The pioneers of this school agree with the monetarists about the importance of money in achieving economic stability. The ideas of this school go about the role of increasing the money supply in a way that exceeds the increase in productivity, which works to increase price levels and decline the value of the currency, so the size of the money supply must be appropriate to the level of growth in real output (Talab et al. 2019).

The second topic

Analyzing the reality of indicators of financial discipline and economic stability of Iraqi economic

The first requirement: analysis of the development of economic stability indicators

First: indicators of real economic stability

The results have shown the changes taking place in the absolute formula of the GDP. It recorded a value of (40470980) million Iraqi dinars in 2000, benefiting from the development taking place in the value of oil revenues that Iraq was able to benefit from after implementing the memorandum of understanding with the United Nations, which It came into effect in 1997. The GDP decreased in 2001, as shown in the table, to (34108514) million Iraqi dinars, with a negative growth rate (15.7%), affected by the decline in high oil prices and the events of September 11 in the United States of America, which generated global unrest as a result. However, the output returned to increase at a positive annual growth rate of (20.2%) in response to the return of prices to the rise caused by the American threats to invade Iraq, which increased the value of oil production and thus increased the value of the gross domestic product, which is affected

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Available Online at: https://www.scholarexpress.net
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ISSN: 2749-3628,

by the value of oil production, to 55% of the value of the output in 2003 with an improvement The proportion of agricultural production and the increase in the contribution rate from (11%) in 2001 to (14%) in 2002.

There was a scarcity of oil resources in Iraq, the cadres or Iraq began to use the agricultural field, but the change in the economic system on April 9, 2003 caused the entry of American forces. All of this led to the cessation of economic life despite the lifting of sanctions, but the lack of security led to bad conditions. The destruction of infrastructure leads to a decline in the growth rate to reach (27.8%). The demand for oil increased, which pushed prices to increase again for the period from 2010 to 2013, with positive growth rates (Table 1). On the 2011, it has achieved the highest growth rate during this period, as the growth rate reached (34%) linked to the increase in oil production and prices, and with relative security and quality. From political stability, even if it was relative stability, Iraq did not benefit from the rise in oil prices because Iraq was going through internal problems, which are the results of the situation.

The GDP was affected by two sudden shocks that affected it for the years 2014 and those that followed, namely the massive decline in oil prices and the control of the terrorist ISIS over large areas of Iraq, which stopped many economic establishments in it, especially the oil ones in Salah al-Din, Anbar, Nineveh, Kirkuk and other regions, which led to increasing rates of the decline in GDP peaked in 2015. The output decreased to (194680971) million Iraqi dinars, and a negative growth rate reached (26.9%). However, the increase in victories, the recovery of lands from the terrorist ISIS, and the increase in oil prices began to restore positive growth rates for the output, as the growth rate of the gross domestic product reached (14.6%) in 2017, even if it was the output value is still lower than that.

The previous analysis applies to the reasons and reasons for the increase or decrease in the growth rates of the gross domestic product or its absolute value, especially since the currency exchange rate was close during the period of the study and that the evaluation of the output in dollars was according to the official price of the dollar and not its equivalent price in the markets. Therefore, the analysis of the output divided in dollars does not different from the analysis of the output divided by the Iraqi dinar, the numbers in absolute values move with the same growth and are subjected to the same conditions and the same analysis.

Table (1) real economic stability indicators for the period (2000-2017)

Years	GDP	growth rate %	GDP ($)	Average per capita	Average per capita ($)	Unemployment rate
2000	40470980	-	20969.0	2	0.9	22.5
2001	34108514	-15.7	17691.0	1.6	0.8	24.6
2002	41022927	20.2	21266.0	1.5	0.7	26.7
2003	29586788	-27.8	15118.0	1.1	1.3	28.1
2004	53235000	79.9	42452.0	1.9	1.8	26.8
2005	73533000	38.1	49920.0	2.6	2.3	17.9
2006	95588000	29.9	66985.0	3.2	3.1	17.5
2007	111455813	16.6	88038.0	3.7	4.6	16.3
2008	157026061	40.8	130204.0	5.1	4.3	15.3
2009	130642187	-16.8	111300.4	4.1	3.5	15
2010	162064565	24	138516.7	4.9	4.3	12
2011	217327107	34	185749.7	6.5	5.6	14
2012	254225490	16.9	218032.2	7.4	6.4	15.7
2013	273587529	7.6	234637.7	7.8	6.7	15.1
2014	266420384	-2.6	228490.9	7.4	6.3	15.9
2015	194680971	-26.9	166821.7	5.5	4.7	16.4
2016	196924141	1.1	166602.5	5.4	4.6	16.4
2017	225722375	14.6	190966.5	6.1	5.1	14.8

Source: Ministry of Planning, Central Bureau of Statistics, Annual Statistical Collection, different issues. Central Bank of Iraq, Annual Statistical Bulletin, General Directorate of Statistics and Research, Baghdad, different issues.

For the average per capita GDP, it is the result of dividing the value of the output by the number of population, and thus it is affected by factors with the exchange rate of the Iraqi dinar against the dollar

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(Table 1). It is noted that the per capita output increased in 1997 due to the agreement, but it did not continue, as the year 2002 was different due to the security turmoil, as the per capita output in 2000 appeared at (2) million Iraqi dinars, equivalent to (900) US dollars, taking into account the contradiction, whether in local currency or US dollars for the years 2001 and 2002. Although output increased in 2002, the increase in population along with the increase in the exchange rate of the US dollar due to American threats in 2002 reduced the per capita share of output, whether in local or foreign currency.

The per capita share appeared at (105) million dinars during the year, ($700) for the same year, and despite the decrease in the output at current prices compared to 2003, the rise in the exchange rate of the Iraqi dinar against the US dollar resulted in a decrease in the per capita share or the average per capita share of the gross domestic product. The total reached (101) million Iraqi dinars, compared to its increase divided in US dollars to (103) thousand US dollars. This means that the real per capita share increased with it, not a decrease. Since 2004, the per capita share of GDP has increased again, whether in Iraqi dinars or in US dollars, with the rise in the value of the Iraqi dinar, while the increase in dollars reflects the real rise in the per capita share, with the increase in the value of the GDP resulting from the rise in high oil prices, and that the output has increased at greater annual rates of population growth rates that do not exceed 31% annually,

However, the increase reached its maximum in 2008, when the average per capita share reached (5.1) million Iraqi dinars, corresponding to (4.3) thousand US dollars, and what happened in the decline in the per capita share was a result of the decline in the value of the output in 2009, for reasons mentioned previously, and with a negative growth rate. While, the population is increasing at a positive growth rate (Table 1), with improved output values and a clear increase in the per capita share of the gross domestic product until 2013. It decreased for the years 2014-2015 due to the decline in the values and growth rates of the GDP, and even there was no increase in the GDP in 2017 and the rise in the per capita share of the product to (6.1) million Iraqi dinars and (5.1) thousand dollars, but it did not reach its share in 2013, which At that time, it amounted to (7.8) million dinars annually, or (6.7) thousand US dollars for the same year.

For unemployment rates, they achieved high rates from the beginning of the study period, when they reached (22.5%) until the year 2003, when they reached (28.1%) due to leaving government jobs because their salaries are not remunerative, in addition to the existence of the hidden or parallel economy that absorbs large numbers of workers, in addition to that. A number of ministries, security agencies, the army, and presidential departments were dismissed, despite the return of some of them. However, the year 2008 still recorded a high rate of unemployment, reaching (26.8%), while the unemployment rate began to decline due to the return of many to the army, police, and other state departments, especially those who left government jobs before 2003, political prisoners, and others, as well as the distribution of some employees of the presidential departments and the Ministry of Information to departments.

With the return of some private sector activities, officially represented by taxpayers and not the hidden economy. Despite the decline in unemployment rates to their lowest level in 2010, when the unemployment rate reached (12%), with the movement of the private sector, albeit in a limited way, the increasing number of graduates, the growth of the population, the inability of the private sector to provide new job opportunities, the decline in its productive investments, and what terrorist gangs have done. Since 2014, unemployment rates have increased again. The only way was government employment, which exhausted the general budget and whose tools were not successful in stimulating the private sector to absorb unemployment by creating good jobs through investments in this sector. It is noting that most specialists are skeptical about these rates, and that unemployment is greater than these rates. There are non-permanent jobs whose owners are not included in the unemployment rates. Unemployment is one of the most dangerous economic problems for society, and it has serious social dimensions. It generates poverty and its problems, and this class can be used for immoral actions. The law, hostility to the state, and breach of public security.

The government has not yet been able to develop an appropriate strategy to absorb unemployment, neither by activating the private sector nor directing education to suit the labor market, nor by any other policy, such as providing agricultural and industrial investments for young people and supporting them. All other attempts, such as short-term loans or small projects, have failed due to suspicions of corruption and lack of monitoring. And knowing its performance, so the money went without result, and everything that was paid regarding unemployment within the strategic plans was just

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Vol. 29, December, 2023
ISSN: 2749-3628,

numbers and expectations that did not achieve anything on the ground. We should not forget the political and security instability in Iraq, its factional and sectarian problems, and its political bloc, all of which contributed to the failure of the plans to succeed or achieve anything.

Second: Monetary indicators of economic stability

Table (2) The Narrow and broad money supply in Iraq and the ratio of money supply to the currency in circulation for the period (2004-2019)/million dinars

Year	Narrow money supply M1	Growth rate %	Broad money supply M2	Growth rate %	Inflation rate	exchange rate
2004	10148226	-	11498148	0.274931406	27	1254
2005	11399125	0.123262824	14659350	0.435960599	37	1473
2006	15460060	0.356249712	21050249	0.27884454	53.2	1472
2007	21721167	0.404985944	26919996	0.295019769	30.8	1266
2008	28189934	0.297809367	34861927	0.300997762	2.7	1206
2009	37300030	0.323168405	45355289	0.329264333	2.4	1170
2010	51743489	0.38722379	60289168	0.195360815	2.4	1170
2011	62473929	0.207377589	72067309	0.045774139	5.6	1170
2012	63735871	0.020199498	75366128	0.161351755	6.1	1166
2013	73830964	0.158389504	87526585	0.034736246	1.9	1166
2014	72692448	-0.015420576	90566930	0.066687233	2.2	1166
2015	69613150	-0.042360631	84527272	0.070262507	1.7	1167
2016	75523952	0.084909274	90466370	0.02642614	0.5	1181
2017	76986584	0.019366465	92857047	0.027285791	0.2	1181
2018	77828984	0.010942166	95390725	0.274931406	27	-
2019	86771000	0.114893135	103440475	0.084387135	-	-

Source: Prepared by the researcher, relying on the Central Bank of Iraq, Department of Statistics and Research, different annual reports for the period (2004-2019)

Table (2) shows that the money supply in the Iraqi economy, both narrow and broad parts, its growth rates, and their ratio to the currency outside the banking system. Money supply is important and has a significant impact on economic variables due to its inclusion of the currency in circulation among individuals, whose impact is greatly reflected on economic variables. There are several factors that affect its increase or decrease, as oil revenues have an impact on the size of the money supply because Iraq relies almost completely on oil revenues to finance the general budget and meet spending requirements. Government sales of government bonds also change the money supply and change the means of payment as well. Based on these matters, Table (2) shows that the fluctuations of the money supply, both narrow and broad, during the period (2004-2019), as the narrow money supply in Iraq recorded a steady increase, as the money supply in the narrow sense in 2004 was (10148226) million, and the currency was in circulation for the same year (7162945) million dinars to constitute the ratio of money supply to currency (1.416767265) until the narrow money supply reached (73830964) million dinars for 2013.

The amount of currency in circulation for the same year was (34995453) million dinars, with a growth rate of (0.158389504), and the ratio of the narrow money supply to the currency in circulation for the year 2013 was (2.109730198). However, this increase in the narrow money supply recorded a decline in the 2014 and 2015, as the money supply recorded Distress for the 2014 (72692448) million dinars and (69613150) million dinars for 2015. This is due to the decline in oil prices globally and its impact on government revenues within what is known as the positive feedback mechanism resulting from the exchange of central bank money to represent foreign currency liabilities purchased from the government as assets within the central bank's balance sheet. This reflects the government's control over money as an internal variable. This is what prompted government policies in Iraq to follow a policy of pressuring government

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spending, especially investment spending, as it reduced many investment projects and the government worked to stop many investment projects. It reduced the value of current spending by a lower rate than the reduction that took place in investment spending, and thus the money supply declined and an economic recession emerged, but these rates did not last long until they increased again. The narrow money supply in 2016 recorded (75523952) million dinars until it reached (86771000) million dinars in 2019, and the amount of its currency in circulation was (47638603) million dinars for the year 2019. This is also the case for the money supply in the broad sense, as it recorded an increase in its amounts. The money supply in the broad sense in 2004 recorded (11498148) million dinars and increase until it reached (90566930) million dinars in 2014 with a growth rate of (0.066687233). However, the money supply in the broad sense declined in 2015 to (84527272) million dinars, and its growth rate declined from the previous year. Until it reached (0.070262507) as a result of the decline in oil prices in the second half of 2014. However, this did not last long, as the broad money supply soon resumed its increase until it reached (103440475) million dinars, with a growth rate of (0.084387135). The ratio of the money supply in the broad sense to the currency in circulation was (2.171358278) for 2019, and this reflects that monetary policy is restricted to budget revenues.

Since 2008, inflation rates have been declining and recording acceptable rates and the increase that occurred in 2011 and 2012 came from increased revenues and an increase in overall demand dependent on imports from abroad. However, the currency auction method, despite all the criticism directed at it throughout the currency's exit abroad, maintained a reduction in the inflation rate and the exchange rate, in addition to the independence of the central bank's decisions, which sharpened some financial policies that increase the severity of inflation.

In addition, the decline in government spending occurred after the double shock of 2014, which led to a decline in inflation rates due to the decrease in the money supply, and the inflation rate reached its lowest level if it reached (0.2%). The exchange rate was recorded due to the escalation of American threats to invade Iraq.

This invasion was achieved on April 9, 2003, and the collapse of everything in Iraq and its entry into a state of non-statehood and the formation of a temporary coalition government to run the country. The exchange rate reached (1957) dinars for every US dollar due to what was mentioned previously. Now the supply of the dollar has increased due to the increase in state revenues. Earned from the US dollar through its oil exports and the distribution of part of the salaries in hard currency by the occupying authority, which increased the supply of the dollar. In addition و to stopping the issuance of new cash and raising the amount of currency as a currency reserve for Iraq and implementing the policies of the Central Bank to maintain the money supply and increase foreign currency reserves, especially after the bank became legally independent in 2004 and the monetary policy got out of the control of the financial policy.

The increase in the value of the dollar against the Iraqi dinar in the years 2005 and 2006 was due to the security and political turmoil and the outbreak of sectarian actions that reached the point of sectarian war, which increased the demand for foreign currency to finance terrorism, its operations and its individuals. However, the increase in oil revenues and foreign currency reserves has depleted much of the foreign currency reserves and its exit abroad. The use of foreign currency for consumer entertainment imports has exhausted the hard currency instead of using it for productive and investment purposes that generate returns from the foreign currency and keeping the currency at home, which increases its supply and reduces its price against the Iraqi currency. The situation of the Iraqi dinar may be exposed to a strong shock when it is left to the forces of supply and demand without a support policy directed to it from the Central Bank of Iraq. Therefore, policies must be taken that rely on the mechanisms of the Central Bank to activate the economy and monetary policies take their role to ensure the value of the currency and strengthen it, supported by financial policies that work to revitalize the sectors. Investment and productivity to raise the growth rates of the gross domestic product, its value, the domestic product, and the strength of the economy are the real cover for the currency and its support more than relying on selling the currency.

Third: Analysis of financial stability in an environment of economic stability

First: internal public debt

According to the data of Table (3), the internal public debt increased in 2005 to (6255578) million dinars compared to (5925061) million dinars in 2004, with a growth rate of (5.57%) in 2005. The reason for this increase is due to the government's urgent need for funds after the War and the imposition of economic sanctions on the country. Then the public debt

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Vol. 29, December, 2023
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decreased for the period (2006-2008), reaching (4455569) million dinars in (2008), with a negative rate of change amounting to (8.23%), compared to 2006, the amount amounted (5307008) million dinars and a negative growth rate of (-15.16%). This is due to Iraq's liberation from the economic blockade and restrictions that were imposed on it before (2003) and the increase in crude oil exports and the rise in their prices, which led to an increase in public revenues and the achievement of a surplus in the state's general budget.

For the years (2009 - 2010), the internal public debt increased to (9180806) million dinars in 2010 compared to 2009 that was (8434049) million dinars, with a growth rate of (8.85%). The reason for this is due to the decline in public revenues as a result of the decrease in Oil prices due to the decline in global demand for oil due to the impact of the global financial crisis and thus reflected on economic activity. The period (2011-2013) internal debt decreased as the internal public debt reached (4255549) million dinars in 2013 with a negative growth rate of (-35.00%) compared to the 2011 (7446859) million dinars, with a negative growth rate of (- 18.88%). The reason can be attributed to the rise in oil prices and the increase in exported quantities of crude oil. The increase in general budget revenues and thus the budget's ability to amortize the value of government bonds and transfers held by the Central Bank at the end of (2012).

In addition, to the decrease in loans granted by the Central Bank to government departments during this year, as for the period (2014-2017), the internal public debt witnessed a significant increase, reaching (9520019) million dinars in (2014) with a growth rate of (123.70%) to (47,678,796) million dinars in 2017 with a growth rate of (0.66%). The main reason is due to the double shock to which the Iraqi economy was exposed in 2014, represented by the decline in oil prices and the subsequent decline in the levels of these prices, as well as the increase in military expenditures to confront ISIS, which burdened the Iraqi budget.

It is a clear shortage of liquidity that caused financial deficits in the state's general budget, forcing the government to resort to internal and external debt in order to fill the financial gap represented by the lack of liquidity in order to cover the budget deficit in the years (2015 and 2016). The period (2018-2019) witnessed a decline in domestic public debt to reach (41822918) million dinars in 2018 and a growth rate of (-12.28%) to (38331548) million dinars in 2019 and a growth rate of (-8.34%). The reason for this decline is the rise in oil prices, the improvement of the security and economic conditions in Iraq, and the increase in government revenues. In the year 2020, the internal public debt rose to (64246559) million dinars, and a growth rate reached (67.60%). The reason for this increase was the decline in government revenues due to the deterioration of oil prices, which prompted the government to resort to internal borrowing to reduce the state's general budget deficit gap in accordance with the 2020 borrowing law. For the budget, the stage after 2003 is a new stage as the international economic sanctions imposed on Iraq have been lifted. Oil revenues witnessed a noticeable increase. The increase in public revenues was greater than public expenditures, which led to achieving surpluses in the general budget, as the surplus increased in the year (2005) (14127715) million dinars, compared to what was in 2004, which amounted to (865248) million dinars.

The year 2006, crude oil prices witnessed a relative rise, which led to a rise in oil revenues, especially for the years (2010, 2011, and 2012), which led to financial abundance that resulted in a financial surplus in public budgets. It is clear that the high growth in public revenues was offset by negative growth in expenditures. The public was the reason for this surplus. This is due to several reasons, including the increase in oil exports abroad for export purposes, and the increase in global oil prices due to the problems and disturbances occurring in the region, which led to a clear impact on global prices. As for the period (2013-2016), the general budget suffered from a state of deficit. This is a result of the growing military expenditures due to the circumstances facing Iraq, the decline in prices in global markets and the massive functional slackness in state institutions. As for the (2017 and 2018), the surplus amounted to (1932058) and (25696645) million dinars, respectively, as a result of an increase in the growth rate of public revenues over expenditures due to improved oil prices. The 2020 witnessed a deficit in the general budget, which amounted (-12882754) due to the increase in public expenditures over public revenues as a result of the stifling financial crisis that the country is suffering from, resulting from the collapse of oil prices in global markets.

Table (3) Development of internal debt in Iraq and the net budget for the period (2004-2020) (million Iraqi dinars)

Year	Total internal	Public	Overhead	Net budget	Internal debt

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	debt (million dinars)	revenues			growth rate %
2004	5925061	32982739	32117491	865248	-
2005	6255578	40502890	26375175	14127715	5.57
2006	5307008	49055545	38806679	10248866	-15.16
2007	4855324	54599451	39031232	15568219	-8.51
2008	4455569	80252182	59403375	20848807	-8.23
2009	8434049	55209353	52567025	2642328	89.29
2010	9180806	70178223	70134201	44022	8.85
2011	7446859	108807392	78757666	30049726	-18.88
2012	6547519	119817224	105139576	14677648	-12.07
2013	4255549	113840076	119127556	-5287480	-35.00
2014	9520019	105364301	115937762	-10573461	123.70
2015	32142805	66470253	70397515	-3927262	237.63
2016	47362251	54839219	75055865	-20216646	47.34
2017	47678796	77422173	75490115	1932058	0.66
2018	41822918	106569834	80873189	25696645	-12.28
2019	38331548	107566995	111723523	-4156528	-8.34
2020	64246559	63199689	76082443	-12882754	67.60

Source: Column (1) based on data from the Central Bank of Iraq, Directorate of Statistics and Research, statistical bulletins for the years (2004-2020); Column (2) is the work of the researcher.

CONCLUSIONS

The study concludes that decrease in the degree of financial discipline in the Iraqi economy as a result of an undisciplined expansionary financial policy, as it is noted that the ratio of public expenditures to gross output increases, which means an increase in state intervention in the economy. The low degree of economic stability in Iraq is largely due to the lack of discipline in financial policy, which is due to the lack of security stability. The government's policy and the rules it follows in how to deal with its financial policies have led to economic instability.

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