



ANALYSIS AND MEASUREMENT THE CONCURRENT FINANCIAL AND ECONOMIC CYCLE IN THE IRAQI ECONOMY FOR THE PERIOD 1990-2018

A.M.D. Basim Khamees Ubid

Department of financial and Banking Sciences, College of Administration and Economics, University of Baghdad, Iraq
E-mail: basiemkhamies@coadec.uobaghdad.edu.iq

Article history:	Abstract:
<p>Received: 17th January 2022 Accepted: 18th February 2022 Published: 30th March 2022</p>	<p>The research aims to verify the presence of correlation between the financial cycle and the economic cycle in the Iraqi economy. During the research period, the Iraqi economy witnessed a crisis cycle due to the permanent deviations in the state budget and the occurrence of sustainable deficits during the period of the economic blockade with the coincidence of an inflationary economic cycle due to the cheap money policy and the occurrence of Negative supply shocks due to the blockade and the madly high general level of prices, in addition to the weak financial planning of the state budget during the post-economic blockade and the entry of the economy into a stagnant economic cycle due to security and political instability, low levels of private investment, the control of ISIS gangs over a third of Iraq and the pessimistic expectations of individuals. On the government's inability to pay salaries, wages and compensation for workers, as well as the state's adoption of classic financial solutions in accordance with discretionary, interventionist financial policies aimed at maximizing the level of public revenue and public spending pressure in a circumstance where the Iraqi economy suffers from an economic stagnation where unemployment levels rise and the level of GDP is low due to a decline World oil prices, which generated this solutions classic financial deepening of the economic recession cycle we are still living its effects until the moments of writing the paper.</p>

Keywords: Financial Cycle, Economic Cycle, Output Gap, Unemployment Gap, Nominal Fixer.

INTRODUCTION:

The rentier countries, including the Iraqi economy, suffer from macroeconomic distortions through chronic dependence on oil, which represents the external economic cycle, and rentier countries are usually undemocratic through the state's possession of means of production, which weakens the voter's awareness and experience in the importance of the state budget to cope with the shocks of the economic cycle, that the economic cycle, which is represented by imbalances or deviations of GDP, plays a key role in influencing the financial cycle, and countries usually rely on the importance of the state budget to cope with the shocks of the economic cycle. developing on interventionist or discretionary fiscal policies in addressing imbalances in GDP, but the remedies of the interventionist fiscal policies of the developing country are governed by the nature of imbalances in the external economic cycle as a result of shocks in the energy market, and the Iraqi economy, whether its financial or economic cycle, is subject to these oil shocks, which are often of political and security

dimensions rather than imbalances in supply and demand in traditional commodity markets. Economic, where it stimulates the economy during the recession and restricts the economy during excessive prosperity to a point of balance in the macroeconomic and general budget of the state that follows the technique and mechanisms of non-interventionist fiscal policy. The first topic: the conceptual framework of the financial cycle and the economic cycle

The researcher in the financial cycle means the actual, structural and cyclical imbalances that occur in the general budget of the state during a certain period of time, these imbalances are the result of the economic cycle, which is meant to deviate the actual GDP from the expected GDP and deviation in output gap or output gap occurs as a result of shocks of domestic and foreign aggregate demand, as we understand from macroeconomic studies, fiscal policy is moving through its main instrument of the state budget to counter the shocks of the negative and positive output gap where the positive output gap means, in turn, the negative unemployment gap and vice versa, and the



positive gdp gap means that the actual GDP level rises above the expected level of GDP and the actual GDP level of gdp increases from the expected macroeconomic capacities, the actual unemployment rate falls and falls below the level of unemployment. Expected, projected unemployment is the expected size of unemployment in the economy such as the expected rate of structural and cyclical unemployment, meaning that the positive output gap can replace the negative unemployment gap.

We also know that the negative unemployment gap (resources) means the positive output gap, and this is the basis of the Oaken Act and according to the mathematical formula:

Where: the actual unemployment rate, the expected or normal unemployment rate, the degree of sensitivity of unemployment to output deviations, actual GDP, projected GDP.

Economic policymakers are preoccupied with the economic cycle, i.e., the deviation of actual GDP from expected and attribute the cause of these deviations to shock of aggregate demand (Farhan, 2016, 23).

In other words, they are looking at the impact of the economic cycle on the financial cycle, i.e. there is a correlation between the financial cycle and the economic cycle through interventionist or automatic fiscal policies to counter the economic cycle or deviations of macroeconomic activity.

Perhaps one of the most important features of the old and new public financial systems is the distinction between structural and cyclical deficits, as structural deficit in the state budget is the most effective part and is determined by discretionary policies and periodic deficit cyclical Deficit is determined by the economic cycle i.e. during the rise and decline of GDP and here will be shown in the economy three public budgets that can be explained as follows: (Samuelson, Nordhouse, 2006, 754)

1. Actual Budget is the offer of spending, public revenue and deficits achieved over a certain period of time.

Structural Budget is the supply of spending, public revenue, and deficits if the economy reaches the level of full use of economic resources.

3. Cyclical Budget is the difference between the actual budget and the structural budget.

From the foregoing, it is clear to us that the fiscal policies, both interventionist and non-interventionist, are aimed at eliminating the distortions of the economic cycle, so the structural and cyclical budget serves as elements of control of public spending and public revenue at the point where the economy reaches the state of full use and deviation of actual

GDP from the expected GDP, and the periodic budget shows the mutual impact between the financial cycle and the economic cycle, i.e. the impact of the economic cycle on the budget and the impact of the budget on the economic cycle.

Political economics literature recognizes the importance of the relationship between democracy and balanced financial rules and stanova's study confirms that increasing voter experience reduces violations in the state budget cycle and strengthens the financial rules governing the country's financial cycle (Stanova, 170: 2012).

The countries that occupy oil of great importance in their economic cycle are the fiscal policy of these countries, which means their financial cycle hostage to the external economic cycle, and the disengagement of the domestic economy from the external economic cycle is only by purifying fiscal policy from shocks in the world oil market, which has long been the main engine of the external economic cycle (Tazhibayeva, 3:2008).

Through the above, rentier countries, including the Iraqi economy, suffer from macroeconomic distortions through chronic dependence on oil, which represents the external economic cycle, and that rentier countries are usually undemocratic through the state's possession of means of production, which weakens the voter's awareness and experience in the importance of the state budget to cope with the shocks of the economic cycle.

According to Abedgeman, the high employment budget is an estimate of output at the full use level, and that the deficit in the full use budget (the actual unemployment rate is lower than the normal unemployment rate) is evidence of the government's expansionary fiscal policies, i.e. increasing public spending to increase employment and reduce the actual unemployment rate from the normal unemployment rate, and that the surplus in the full employment budget (the actual unemployment rate is higher than the normal unemployment rate) reflects the government's pressure on public spending and reducing operating levels (Abedgeman, 1999, 518-512)

We note from the foregoing that the actual budget does not reflect the impact of the budget on the economy or the impact of the economy on the budget as much as the budget of full use, i.e. the difference between the actual unemployment rate and the natural or expected unemployment rate and its relationship to the gap output gap.

The natural or projected unemployment rate in the U.S. economy of 4% represents the rate of price



stability called the unemployment rate, which does not accelerate wage growth (NAWRU) non-Accelerating Wage Rate of Unemployment, in other words, the natural unemployment rate represents the expected inflation rate at full use limits and is called the natural non-accelerating inflation rate of Unemployment (Zarqan, Rahman, 2017, 244-250).

In 1946 and 1978, the United States of America passed laws promoting full use and stressed that the unemployment rate in the U.S. economy should not reach 4 percent as a natural unemployment rate (Ma'ala 2017, 15).

We also know very well that the macroeconomic inflation cycle stimulates increased fiscal deficits and the imbalance in the financial cycle of this many modern economies has created inflation targeting policies, a policy of controlling long-term price stability by monetary policy and price stability to pave the way for economic stability and the creation of economic development potential.

The Central Bank is exercising a policy of prior commitment to the growth of the money supply for the purpose of achieving monetary stability and eliminating large gaps in output and prices (Walsh, 2003:15)

Therefore, we understand from the foregoing that the compatibility between fiscal and monetary policies is important to bring about fiscal and economic balance and address gaps in GDP and unemployment.

Second: The Financial and Economic Cycle in the Iraqi Economy 1990-2018

The main objective of financial stability is for the general budget to be balanced during the business cycle and the secondary objective is to counter cyclical fiscal policy and target growth and price stability to the optimal economic stability.

Financial policy is often manipulated for electoral purposes (this is what has already happened and continues to happen in Iraq) with the aim of achieving progressive political objectives at the expense of achieving development, institutional quality, building democracy, transparency of political action, the existence of financial checks, balances and rules, and unwanted deviations in the performance of fiscal policy (Streb, 3: 2013).

During the research period, the Iraqi economy witnessed a financial cycle crisis due to permanent deviations in the state budget and the occurrence of sustainable deficits during the period of the economic embargo, coinciding with an inflationary economic cycle due to the policy of cheap cash and negative supply shocks due to the embargo and the rise of the general level of prices insanely, as well as the

weakness of the financial planning of the state budget during the period after the economic blockade and the entry of the economy into a stagnating economic cycle due to security and political instability and low levels of private investment and control ISIS gangs on one third of Iraq and the pessimistic expectations of individuals about the inability of the government to pay salaries, wages and compensation workers, in addition to the adoption of classic financial solutions by the state according to discretionary interventionist financial policies aimed at maximizing the level of public revenue and pressure of public spending in a situation where the Iraqi economy is suffering from stagnation where high levels of unemployment and a decline in the level of GDP due to the decline in world oil prices, which generated these classic financial solutions deepening the cycle of economic stagnation we are still living the effects of until Moments of writing the search.

Fiscal policy is an important tool for macroeconomic stability, fiscal policy is divided into an interventionist fiscal policy, non-Discretionary Fiscal Policy and interventionist fiscal policy is the direct use of financial instruments to manage the economic cycle while non-interventionist fiscal policy is the automatic stabilization of financial instruments for managing the economic crisis (Dagher, 2018, 245-246).

We conclude from the foregoing that controlling the rhythm of the economic cycle is through the use of direct interventionist financial instruments, but the impact of these instruments remains dependent on the fiscal policy gaps, namely the gap of perception of the existence of inflation, for example as an economic cycle, then the gap in anti-inflation policy legislation and then the gap in the statement of the impact of anti-inflation policy on the macroeconomics before the situation of the economic cycle shifts to another direction and the useless use of anti-inflation financial instruments and entering the tunnel of other economic problems, while the instruments Non-interventional finances that are in tune with the rhythm of the economic cycle where public spending decreases and public revenue increases when there is a rising economic cycle, public spending increases and public revenues decrease when there is a downward economic cycle, and non-interventionist financial instruments do not face so-called fiscal policy gaps.

The structural deficit in the state budget represents the difference between structural spending and public revenue and according to the sports relations that are as: (Al-Obaidi, 2012, 112)

If: hectic spending, periodic adjustment factors, actual general revenue.



We point out through the above mathematical relations that structural spending is adjusted and corrected public spending by the periodic adjustment factor and consistent with the level of actual general revenue, and that the periodic adjustment factor reflects the correlation between the financial cycle (the difference between actual public revenue and structural spending) and the economic cycle (deviation of actual GDP and expected GDP) on the one hand and represents non-interventionist fiscal policy on the other hand through the use of stable financial instruments within the limits of the economic cycle that is exposed to It has an internal economy, and the idea of periodic adjustment factors falls within the policy of financial curbing of the country's internal and external debt and within the limits of the actual macroeconomic potential.

In the Iraqi economy, due to uncontrolled government spending policies, aggregate demand shocks and inflationary waves occur, but these inflationary waves are confronted with balanced monetary policies through currency auctions and sterilizing excessive government spending and generating aggregate demand, which is the basis of inflation in the Iraqi economy.

Continuing to address inflation and target inflation through nominal anchor, which represents the exchange rate of the dinar against the dollar while maintaining the interest rate signal in addressing inflationary expectations and reducing the speed of turnover of money and spending pressures associated with the imbalance in the behavior of monetary demand and its effects on the rooting of inflation, this has made the objectives of targeting growth and inflation targeting go together in a distinct precedent in economic policy in Iraq, where inflation targeting provides the opportunity for growth and provides growth targeting the opportunity for stability, which requires achieving two objectives. Targeting growth and inflation is broadly coordinated between fiscal and monetary policies to achieve a unified framework of stability and desired economic growth (Saleh, 2019, 225).

By observing schedule 1, which summarizes the output gap, which is the difference between actual GDP and projected GDP, this gap was adopted by the researcher as an indicator of the economic cycle and the expected volume of output was extracted in the logarithmic form of output by the Method of The Hordrick Prescott Filter adopted in extracting the expected GDP value after the adoption of the non-written version of actual GDP, and we find through the output gap in column 4 in table 4 No. (1) The balance

in the Iraqi economy has not been achieved and economic fluctuations prevail and the dominant feature of these economic fluctuations is economic stagnation, where the negative reference refers to the economic stagnation as the actual GDP is lower than the expected GDP with exceptions in the economic cycle, which is dominated by the state of economic inflation, which is reinforced by column 5, which refers to the periodic adjustment factor where the value is higher than one indicating the existence of economic stagnation and the majority of values Periodic adjustment factors are close to one.

While table 2 indicates deviations in the financial cycle, whether by following the actual budget from column 3 or the structural budget from column 5, where the structural budget is the focal point between the financial cycle and the economic cycle, and deviations in the financial cycle with the economic stagnation due to the stagnation of the external economy are prevailing due to the low level of income and the high level of public spending due to the conditions of the economic blockade and high inflation rates before 2003 The prevailing nature of consumer government spending outside the limits of economic and distribution efficiency of spending after 2003, as well as weak private investment, increased employment and government employment on the part of political and economic instability, the occupation of ISIS and the ensuing security tensions, accompanied by the reduction of world oil prices by half, which affected the level of general revenue of the general budget in Iraq, The post-2014 economic recession has been reinforced so far by pessimistic expectations about the government's ability to carry out its economic and financial duties and its inability to pay the salaries of employees and workers' compensation, as well as the government's financial balance on the economic balance as classic financial solutions, while correction requires key solutions that provide economic balance on the financial balance, unless we see it in the state budget until unemployment reaches dangerous levels.

Therefore, it is necessary to measure (and this will be in the paragraph of the results of the standard aspect of research) the correlation between the financial cycle where the researcher relied on the structural budget in table 2 as an indicator of the financial cycle, and between the economic cycle where the researcher relied on the factor of periodic adjustment K , which measures the percentage of gdp expected of actual GDP, and it is worth mentioning that the periodic adjustment factor is a basic determinant in the hekele budget, which represents the difference between structural spending and general revenue Actual in the



state budget where structural spending represents the actual general revenue designed according to the

fluctuations of the economic cycle.

Table (1) Actual GDP, projected in non-written logarithm, output gap and periodic adjustment factors in the Iraqi economy for 1990-2018

years	GDP	Y_A	Y_P	Gap = $Y_A - Y_P$	$K = Y_P/Y_A$
	1	2	3	4	5
1990	55926.5	10.931	10.838	0.093	0.991
1991	42451.6	10.656	11.631	-0.975	1.091
1992	115108.4	11.653	12.425	-0.771	1.066
1993	321646.9	12.681	13.211	-0.530	1.041
1994	1658325.8	14.321	13.973	0.348	0.975
1995	6695482.9	15.716	14.688	1.028	0.934
1996	6500924.6	15.687	15.339	0.348	0.977
1997	15039144	16.526	15.916	0.609	0.963
1998	17125847	16.656	16.417	0.238	0.985
1999	34464016	17.355	16.842	0.513	0.970
2000	50213699	17.731	17.194	0.536	0.969
2001	41314568	17.536	17.484	0.052	0.997
2002	41022927	17.529	17.725	-0.196	1.011
2003	29585788.6	17.202	17.933	-0.730	1.042
2004	53235358.7	17.790	18.120	-0.330	1.018
2005	73533598.6	18.113	18.292	-0.178	1.009
2006	95587954.8	18.375	18.451	-0.075	1.004
2007	111455813	18.529	18.598	-0.068	1.003
2008	155982258	18.865	18.732	0.132	0.992
2009	130643200	18.687	18.853	-0.165	1.008
2010	162064566	18.903	18.962	-0.058	1.003
2011	217327107	19.196	19.056	0.140	0.992
2012	251907662	19.344	19.134	0.209	0.989
2013	271091778	19.417	19.196	0.221	0.988
2014	266420384.5	19.400	19.244	0.156	0.991
2015	194680971.8	19.086	19.281	-0.194	1.010
2016	196924141.7	19.098	19.312	-0.214	1.011
2017	225722375.5	19.234	19.342	-0.107	1.005
2018	251064479.9	19.341	19.372	-0.030	1.001

source:

1. Column (1) CBI Bulletins Comprehensive Annual Bulletin 1990-2003, Miscellaneous Bulletins and Financial Reports from 2004 to 2018.
2. Column (2) is the logarithmic formula for GDP in column 1 by the researcher based on the E-views 10 program
3. Column (3) is the projected GDP according to the format of the Hodrick-Prescott nonlinear filters and extracted by the researcher based on the E-views 10 program
4. Column (4-5) of the researcher's work based on the above columns (1-2-3).



Table (2) Revenue, actual public spending, deficit, surplus in the general budget, structural spending and structural budget in the Iraqi economy for 1990-2018

years	R	G	BS	$=K * R - G_t$	$BS_t = R - G_t$
	1	2	3	4	5
1990	84911	141791	-56880	84188.340	722.65
1991	42280	17497	24783	46150.834	-3870.83
1992	50469	32883	17586	53812.218	-3343.21
1993	89971	68954	21017	93733.985	-3762.98
1994	25658.7	199442	-173783.3	25034.898	623.80
1995	106985.7	960784	-853798.3	99984.436	7001.26
1996	178013	542542	-364529	174059.089	3953.91
1997	410537	605802	-195265	395401.372	15135.62
1998	520430	920501	-400071	512972.086	7457.91
1999	719065	1033552	-314487	697797.079	21267.92
2000	1133034	1498700	-365666	1098722.643	34311.35
2001	1289946	2079727	-789781	1286113.038	3832.96
2002	1971125	2518285	-547160	1993186.964	-22061.96
2003	1598527	4901961	-3303434	1666417.310	-67890.31
2004	32982739	32117491	865248	33594642.475	-611903.47
2005	40502890	26375175	14127715	40902754.092	-399864.09
2006	49055545	38806679	10248866	49257310.613	-201765.61
2007	54599451	39031232	15568219	54802398.866	-202947.86
2008	80252182	59403375	20848807	79687444.598	564737.40
2009	55209353	52567025	2642328	55698922.842	-489569.84
2010	70178223	70134201	44022	70395535.839	-217312.83
2011	108807392	78757666	30049726	108010442.020	796949.97
2012	119817224	105139576	14677648	118517212.951	1300011.04
2013	113840076	119127556	-5287480	112543274.949	1296801.05
2014	105364301	115937762	-10573461	104515270.247	849030.75
2015	66470252	70397515	-3927263	67146472.120	-676220.12
2016	54409270	67067434	-12658164	55019764.703	-610494.70
2017	77422173	75490115	1932058	77855603.882	-433430.88
2018	106569834	80873189	25696645	106739802.013	-169968.01

source:

1. Column (1-2-3) CBI Bulletins Comprehensive Annual Bulletin 1990-2003, Miscellaneous Bulletins and Financial Reports from 2004 to 2018.
2. Column (4) of the researcher's work, which is structural spending corrected by the periodic adjustment factor, which represents the ratio of the expected GDP to actual GDP as shown in table 1
3. Column (5) of the researcher's work based on the above columns (1-2-3-4).

The third topic: measuring the correlation between the financial cycle and the economic cycle.

In order to verify the existence of a correlation and an influential relationship between the financial cycle, which boils down to the structural budget index and the economic cycle expressed by the index of factors periodic adjustment $K =$ and in accordance with the following steps:

1. The stillness of the time series of search variables:



The developer Dickie Fuller test has been approved to test the stillness of the time series of financial cycle

and economic cycle indicators and as shown in table 3 test results

Table (3) D.F test for the time series at the general level and the first difference (2018-1990)

Stationary	Level		Time series
	Constant and Linear Trend	Constant	
I(0)	3.243	3.281	financial cycle $BS_t = R - G_t$
I(1)	4.646	4.741	financial cycle $BS_t = R - G_t$
I(0)	4.919	4.752	Economic cycle $K = Y_p/Y_A$
			Critical Values
	3.587	2.976	5%

Source: Prepared by the researcher based on the statistical program (E-views 10)

By observing the results of Table 3, dickey-fuller, the developer of the time series of economic and financial cycle indicators, has been tested for the stillness of the series of original data I (0) and the first difference I (1) for the We found that the economic cycle series at the general level I (0) is static, i.e. the calculated value is greater than the critical value and the time chain does not suffer from The root of the unit here rejects the hypothesis of nothingness ($H_0: B = 0$) that there is a problem of the root of the unit and accept the (alternative hypothesis ($H_0: B \neq 0$))

While the series of the financial cycle at the general level I (0) is not static in the longest linear model (fixed limit and general trend) and still in the first difference I (1), i.e. the calculated value is greater than the critical value and the time series does not suffer in the first difference of the root of the unit and here we reject the hypothesis of nothingness ($H_0: B = 0$) that there is a problem of the root of the unit and accept the alternative hypothesis ($H_0: B \neq 0$) Because of the different degree of stillness of the time chains, we will have to use the ARDL self-regression model and bound test border test technology to verify the common integration between the financial cycle and the economic cycle and calculate the error-limit correction equation, which will be in thesecond step.

2. The ARDL model and bound test, the results of which are shown in table 4, are the test of a long-term balancing relationship between the financial cycle and the economic cycle, if the F value calculated by the border test is greater than the maximum critical value at the level of 5%, we reject the hypothesis of nothingness, which states that there is no long-term balance between model variables and accept the hypothesis of an alternative that there is a long-term

balance relationship between model variables and through the results of the standard side. We find that the F value is 7.499 higher than the minimum 3.62 and the upper limit is 4.16 at a moral level of 5%, and that the error correction factor (in coinEq(-1) = -0.97) which reflects the speed of adjustment from the short to the long term, which must be negative and moral and why is the value of correcting the error negative and moral? Because it means going back to correcting government economic policies and addressing mistakes, in the sense that the imbalances in the financial cycle (structural budget) due to the economic cycle (periodic adjustment factor) are corrected within eleven and a half months ($0.97 \times 12 = 11.11$). 64) This is a long period of correction and reflects the degree of significant impact of the financial cycle on the economic cycle as the economic cycle in the Iraqi economy is the cycle of rent-based oil production, as oil occupies about 70% of the components of GDP and constitutes about 95% of the budget revenue The actual generality that is implicit in the measurement of the heliary budget, which is influenced by the output gap and levels of full use according to the famous American economist (Samuelson) as noted at the beginning of the research pages.



Table (4) the results of the border test and correct the error between the financial cycle and the economic cycle

	ARDL	Error	Correction	Regression
ECM Regression				
Case 2: Restricted Constant and No Trend				
Prob.	t-Statistic	Std. Error	Coefficient	Variable
0.0000	-4.936831	0.196903	-0.972077	CointEq(-1)*
9928.013	Mean dependent var		0.483724	R-squared
665322.0	S.D. dependent var		0.483724	Adjusted R-squared
29.02915	Akaike info criterion		478049.5	S.E. of regression
29.07714	Schwarz criterion		5.94E+12	Sum squared resid
29.04342	Hannan-Quinn criter.		-390.8935	Log likelihood
			1.934364	Durbin-Watson stat
* p-value incompatible with t-Bounds distribution.				
Null Hypothesis: No levels relationship F-Bounds Test				
I(1)	I(0)	Signif.	Value	Test Statistic
3.51	3.02	10%	7.499168	F-statistic
4.16	3.62	5%	1	k
4.79	4.18	2.5%		
5.58	4.94	1%		

CONCLUSIONS:

At the end of the research and after researching the space of the idea that combines the financial cycle of the economic cycle, the researcher draws several things that boil down to the cycle of the Iraqi economy cycle related to fluctuations in the foreign oil market, which reinforced the correlation of the financial cycle with the economic cycle, and the existence of a statistical moral relationship closely linked between the financial cycle and the economic cycle and that the imbalances in the financial cycle resulting from the imbalances of the economic cycle are corrected after a long time, and the sovereignty of the consumer spending character in the budget at the expense of raising the budget Production efficiency and investment reduced the immunity of the Iraqi economy from the shocks of the economic cycle and its impact on the financial cycle, Iraq is pursuing classic financial solutions and the trade-off of fiscal balance on economic balance, deep in the cycle of economic stagnation, and the actual budget does not reflect a clear picture of the GDP gap unlike the structural budget, which has become a structural budget

indicative of the financial cycle and its impact on the output gap through the structural adjustment factor, and in conclusion Iraq relies on discretionary interventionist fiscal policies in correcting economic and financial imbalances and does not rely on non-interventionist stabilization fiscal policies. This reflects the reciprocal impact between GDP and the state budget because of the weak base of economic growth.

RESOURCES:

1. Walsh, C. (2003). Speed limit policies: the output gap and optimal monetary policy. *American Economic Review*, 93(1), 265-278.
2. Streb, J. M., & Torrens, G. (2013). Making rules credible: divided government and political budget cycles. *Public Choice*, 156(3-4), 703-722.
3. Stanova, N. (2012). Democratic learning and fiscal rules in the political budget cycles of the CEE countries. *International Journal of Economic Policy in Emerging Economies*, 5(2), 168-182.



4. Tazhibayeva, K., Husain, A. M., & Ter-Martirosyan, A. (2008). Fiscal Policy and Economic Cycles in Oil-Exporting Countries (No. 08/253). International Monetary Fund.
5. Maala, Haloub Kazim. (2017) . Macroeconomics in light of contemporary economic theories, first edition, Amal New House for Printing, Publishing and Distribution, Damascus, Syria.
6. Dagher, Mahmoud Mohammed. (2018) . Macroeconomics, Theories and Policies, Cespan Printing and Publishing House, Baghdad.
7. Al-Obaidi, Shaker Hammoud Salal. (2017). The impact of fiscal policy rules on the effectiveness of monetary policy in Iraq - Doctoral thesis, Faculty of Management and Economics - University of Baghdad.
8. Farhan, Israa Abd. (2016) . The impact of target inflation and potential output on monetary policy in Iraq - Doctoral Thesis, Faculty of Management and Economics - University of Baghdad.
9. Saleh, The Appearance of Muhammad. (2019). Monetary policy in Iraq - building macroeconomic stability and maintaining a sound financial system - Palit Printing and Publishing Center, i2, Baghdad.
10. Paul A. Samuelson, William D. Nordhouse. (2006) . Economics, Library of Lebanon publishers.
11. Abedgeman, Michael. (1999) . Macroeconomic - Theory and Politics, Mars Publishing Publishing, Saudi Arabia.
12. Zarqaoun, Mohammed-Rahman, Amal. (2017) . Macroeconomic Theory, University Publications Bureau, Algeria