

FINANCIAL SUSTAINABILITY IN IRAQ AND ITS ROLE IN REFORMING FISCAL POLICY DURATION (2005-2015)

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ABSTRACT

The Iraqi economy is suffering from structural imbalances, which are weak in the contribution of the economic sectors (agriculture, industry, services) in the GDP, and there is an expansion in public expenditure compared with limited public revenues, which caused a deficit in the general budget of the country over the years of study. The Iraqi economy needs to apply the principle of financial sustainability to the public debt and try to extinguish it, and indeed efforts were to monetary and financial policy in this area through the concealment the establishment of a new currency and the preservation of the financial reserves of the Central Bank of Iraq, and interest in taxes and the adoption of the policy of rationalization of spending, as well as a package of economic reforms reflected on the economic stability of the country, and research concluded that the financial sustainability of the Iraqi economy step in the direction as it serves the process of comprehensive economic development as reflected in the permanence of work and non-bankruptcy and avoid international crises by reducing the dependence on oil as the main source of revenue and the policy of economic diversification and diversify the sources of public revenue for ululation.

Keywords: Iraqi Economy, Agriculture, Industry, Services, Central Bank of Iraq.

INTRODUCTION

The phenomenon of the public budget deficit and the increase in public debt has grown and developed in recent times, which has called most of the economic literature to study the effect of public debt on financial sustainability and financial assessment and the state's ability to pursue the stream of public spending and fulfill its financial obligations, due to its importance on the theoretical and practical levels. As well as its impact on the design, implementation and effectiveness of macroeconomic policy, and it is considered the basic indicator for measuring the strength and durability of the economy, and its ability to absorb internal and external economic shocks. The views of economic schools on the feasibility of financing with public debt have differed since the sixteenth century between its supporters and opponents, as some of the schools of thought in support see that debt financing stimulates economic activity and leads to the economy reaching full employment without burdening the current generations. While other schools see the opposition (Abdul-Jabbar, 2016). The public debt has negative effects on the public budget, because the debt in the long term is reflected in the burden on future generations, but abandoning the gold standard after World War I and allowing unrestricted monetary issuance and the succession of economic, financial and political crises, led to an increase in the pace of public spending and thus an increase the public debt and the deficit in the general budget. The budget deficit is due to many factors, the most important of which are the economic structure of the state, the social obligations it adopts, the emergency conditions it faces, whether economic or political, the degree of diversification of sources of public revenues, aspects of public spending, and it is noteworthy

that the budget deficit is often its severity appears in developing countries, especially if their primary exports of raw materials are exposed to external shocks. Its public revenues and sudden pressure on public spending. All this is reflected in the budget carrying additional burdens to cover debt interest, which again leads to an increase in the deficit in the later stages, an increase in the demand for borrowable funds, the emergence of the effect of competition, and an increase in interest rates. Which is reflected in the authorities' push to withdraw from reserves or a new cash issue (Inflationary financing), which has severe implications for the process of growth and economic development. The Iraqi economy suffered from financial deficits during the study period, the reasons for which are due to the rentierness of the Iraqi economy and the increase in public spending due to wars and administrative and financial corruption. As well as its vulnerability to international crises and low oil prices, which led to the inability of its limited revenues to keep pace with public expenditures, which needs to apply financial sustainability indicators to ensure sustainability. Its economy and stability, not being exposed to bankruptcy or a decrease in the purchasing power of its currency and the stability of the exchange rate of its currency, which is reflected in the increase in confidence in the Iraqi economy and the failure of the investment approach to weakness, the continuation of services and the employees' obtaining their salaries on time.

First: the Research Problem

In light of the increasing government spending, the increasing budget deficit and the inability of public revenues to keep pace with that spending. As well as the absence of an effective tax system, administrative and financial corruption and structural problems in the Iraqi economy. As well as the burden of public debt on the state due to the wars that the state fought during this period.

Oil revenues constitute half of the gross domestic product and more than 90% of the general budget revenues, and the accumulation of debts in the last quarter of the last century called for the pursuit of financial sustainability in various forms through new mechanisms, but the focus was on the sustainability of public debt.

Second: The Importance of Research

The importance of research lies in achieving financial liquidity, providing solvency, and ensuring the sustainability of the economy in all its sectors without interruption despite the political and economic crises that Iraq is exposed to, as well as providing funds to confront the war effort against the enemies. As well as interest in debts and converting them to serve economic development and increase revenues and not passing it on to future generations.

Third: the Research Hypothesis

The research starts from the hypothesis that (if financial sustainability is achieved it has a major role in creating economic stability in Iraq, provided that it controls the external and internal debts and strives to maximize the state's public revenues through taxes, reduce imports and economic diversification, and eliminate administrative and financial corruption).

Third: Research Objective

The research aims to

1. Analyzing, testing and evaluating Iraq's ability to achieve financial sustainability in light of the deficit in the public budget.

2. Explaining the role of financial sustainability in reforming the financial policy in Iraq.

Fourth: Research Structure

For the purpose of achieving the research its objectives, it is divided into three sections, the first deals with financial sustainability, conceptual and intellectual aspects, while the second topic deals with the study and analysis of financial sustainability indicators, while the third section deals with the reality of financial policy in Iraq during the period (2005-2017).

The First Topic: Financial sustainability is both conceptual and intellectual aspects

First: Financial Sustainability

The term Financial Sustainability is one of the terms used in financial policies, and there is no agreement on a specific definition of this term, but it can be defined (the financial situation in which the country is able to continue the current expenditure and revenue policies in the long term without reducing its solvency or exposure. The risk of bankruptcy or failure to fulfill its future financial obligations), and financial sustainability depends on the existing situation and long-term future expenditure and revenue expectations, and according to these expectations current policies are modified, whether by increasing or decreasing expenditures or revenues. The term financial sustainability is related to another term.

It is the financial gap, which is defined as the difference between the present value of all the state's obligations and its future revenues. The purpose of the financial sustainability that countries seek is to cover fiscal deficits and on easy terms. One of the factors affecting financial sustainability is the rise in the state's public debt, interest rates and real local product growth as well the growth rates of expenditures and revenues. In order to ensure the continued financial sustainability of the state, legal and economic frameworks must be in place to limit the growth of the costs of current spending programs, or to allow them to grow in equipment. Countries seek to achieve financial sustainability in order to enable them to borrow to cover the financial deficit on easy terms, and in the event that countries lose the principle of financial sustainability, they become vulnerable to a lack of confidence in the ability of their markets to fulfill their financial obligations. Which pushes creditors to stop lending to them, and the high ratio of public debt to GDP is one of the most negative factors affecting the country's continued enjoyment of financial sustainability as well as real interest rates, real GDP growth rates and the growth rates of expenditures and revenues. Financial sustainability depends on its implementation on an economy. Diversified and does not depend on a single sector, but rather on foreign investment and small and medium enterprises, and financial sustainability reflects the success of the fiscal policy. The economic recession that swept the world after the financial crisis that occurred in 2008 has pushed most countries to adopt expansionary investment policies in spending in order to avoid a recession in the markets, which was reflected in the exposure of these countries to an increase in the balance of payments deficit that requires adopting the principle of financial sustainability to ensure the continuation of the economy in a healthy way. The reasons for applying financial sustainability in most countries of the world were the periodic economic crises in the capitalist world, the steady rise in the size of the financial costs required for production in the long run, and the demographic and climate change due to global warming and the ineffective exploitation of economic resources.

Second: The Relationship of Financial Sustainability with sustainable Development

There is a difference between financial sustainability and sustainable development. Sustainable development refers to achieving economic growth, taking into account environmental dimensions that ensure the preservation of natural resources and not wasting them, as well as social dimensions and protection programs for people with limited incomes. The spread of the concept of sustainable development in development thought came after the results of the (Stockholm) Conference on Sustainable Development in 1972, which included the necessity of preserving the environment and natural resources, due to the emergence of environmental incidents and their global impact. Consider the negative effects resulting from them, and their impact on humans, natural resources and the environment (Al-Faris 2001).

Third: Opinions of schools of thought on Financial Sustainability and Public Debt

There are several opinions of schools of thought on public debt and its relationship to financial sustainability, including the classic school that is based on assumptions of government non-interference in economic activity and the adoption of an economic structure based on belief in the freedom of individuals to act, free competition and the principle of free trade. Considering that the flexibility of prices and wages is sufficient to create a state of full employment, as she believed in the balance of the public budget and rejected government intervention in it.

It is noteworthy that it has an opposing trend in financing increasing public expenditures with public debt, derived from the idea of automatic balance or the idea of neutrality of fiscal policy at the level of full employment, that financial sustainability has its roots from the classical theory, especially the writings of David Hume, Adam Smith and David Ricardo who mainly discussed the effects of public debt On economics and how to finance the deficit through a comparison between taxes and borrowing to finance the deficit, which is later known as the Ricardian equivalent by Robert Barrow in 1074, as well as the time constraint of the government budget presented by (Hamilton and Flavin) and inspired by the theory of consumer maximization, and the principles that the classic relied on to clarify The concept of financial sustainability (Ricardian equivalent, non-Ponzi financing, and time budget constraint) is based on achieving financial balance for the public budget, and the deficit, if any, is paid with taxes in the future, so that it equals the current value of the public debt, taking into account that the future revenue stream devolves into the public debt to zero. The classical thought took an opposing trend to public debt, and the idea of deficit financing did not gain acceptance, because it leads to higher interest rates and future tax increases to meet the debt burdens, as well as considering government interference in economic activity as a disruption of economic stability.

These ideas continued until the Great Depression at the end of the second decade of the twentieth century, while the Keynesian school had another opinion that contradicts the principles of classicism, which is the importance of government intervention in economic activity, and the state can direct the public debt to productive uses that enhance the effective demand that determines the aggregate supply. Keynes concluded that with the increase in income, the tendency to consume decreases and the tendency to save increases. Here, the problem of imbalance between saving and investment occurs, and the problem of unemployment and stagnation appears, and from here the state must intervene to increase public spending to stimulate effective demand. Whereas the monetary school led by (Milton Friedman), which focused on money, monetary policy and combating inflation, i.e. achieving monetary stability, and not achieving full employment, as the Keynesians claimed, and this can only be achieved through a strict monetary policy that balances the quantity of money

with the growth of the national product. The monetary school believes that the causes of economic problems are due to the adoption of Keynesian policies that resulted in an increase in public spending, an increase in the budget deficit and public debt. To achieve this, the growth of the deficit in the public budget and the reduction of public debt, due to increased state intervention in economic and social activity, must be eliminated by reducing public spending, limiting public investment, and raising the interest rate on government loans. Whereas, the school of supply economics, stemming from neoclassical thought, considers that it agrees with the monetarists in limiting the role of the state, unleashing market forces and controlling the rates of money growth. Increasing production - given the Laffer curve, there is absolutely no fear of the effect this will have on budget revenues. On the contrary, it will increase tax revenues. The international institutions had another vision that was consistent with the neoclassic, as it affirmed that the capitalist system is able to automatically organize itself, balance and stability automatically, provided that it is free and competitive.

Also keeping the state away from interfering in economic activity, and it is known that the budget deficit is growing and exacerbated by the contrast between the growth of expenditures and the decrease in revenues, the deterioration of the purchasing power of money and the increase in the costs of the commodity and service production requirements that the state needs to perform its functions, as well as inflationary pressures, and the increase in public investment costs and financial sustainability. Therefore, international institutions turned to confirm that the treatment of the deficit in the public budget is done using the neoclassical vision, and confirmed that the capitalist system is able to automatically organize itself and rebalance it automatically, provided freedom and free competition.

The Second Topic

Application and Analysis of Financial Sustainability Indicators in Iraq

International experiences indicate that the deficit in the public budget continues, which has led to an increase in the public debt, which entailed carrying the budget with additional burdens to cover the interest of the debts, which was again reflected in the increase in the deficit in the later stages, and then borrowing money from abroad or from inside to finance the deficit, The increase in demand for borrowable cash balances and the effect of competition and the rise in interest rates, which led the authorities to withdraw from reserves or new monetary issuance (inflationary financing), which was reflected in the increase in overall demand for domestic and foreign goods and services, which was reflected in a series of negative consequences for growth and economic development. The financial crisis in 2008 led to countries resorting to stimulus policies in order to avoid a global economic recession, in return for a decrease in tax revenues, which caused huge financial deficits in many developing and even developed countries. The total is in many countries of the world. Therefore, sustainability indicators must be studied and analyzed to protect the Iraqi economy and are summarized as follows:

First: the Ratio of Public Debt to GDP:

The International Monetary Fund defines public debt (as the total liabilities that require the performance of the principal and interest, on a specific date or dates, and it consists of all obligations represented by debt instruments, namely: debt bonds and bills, loans, SDRS, currency and deposits, insurance systems, and pensions. Consolidated guarantees, accounts payable), and that financing government expenditures can be done in two ways, the first is through taxes and the second, through borrowing, which is usually called public debt. The government public debt in developed capitalist countries grew

significantly after the Second World War and so far, and that was because of the frequent wars and economic crises, as well as the great expansion of social and economic jobs, the expansion of state functions and the scientific and technological development. The rates of increase in the ratio of public debt to gross domestic product are among the most influencing factors on the sustainability of the country's financial situation, in addition to government spending that has increased at a higher rate than the growth of public revenues (Al-Ali, 2012).

Capitalism has known since the last century the phenomenon of exporting capital in its two forms, as capital for production and capital for credit. It granted loans, provided credit, and marketed bonds to Egypt, Tsarist Russia, and the Ottoman Empire. Suddenly, in the seventies, the external indebtedness of the various countries doubled and turned into a global phenomenon. In the 1980s, it turned into a global crisis, as the external debt of developing countries doubled several times, reaching in 1960 about 18 billion in debt service of 2.6 billion dollars, which increased in 1970 to reach 74 billion dollars with the aim financing the deficit in the balance of its payments or providing external financing for economic development, then it rose to \$ 1,000 billion in 1980 with a debt service estimated at \$ 68 billion. While the increase in financial deficits strengthened the current account in developed European countries and the United States of America, due to the age structure of the population, unemployment and the position on taxation, which damaged the relationship with the requirements of stimulating economic growth, such as the increase in military spending in the United States, all these factors have contributed The increase and continuation of the fiscal deficit, which fueled the external deficit by relying on deficit financing on foreign inflows as a result of investment in safe assets. Debt management is the process of developing and implementing a strategy for managing government debt in order to provide the required amount of financing and achieve the government's objectives related to risk and cost management, and most countries have sought to create non-inflationary sources to finance the fiscal deficit by developing their financial markets and maintaining their monetary and economic efficiency. The expansion of the public debt base comes from the economic crises and wars that result in stagnation in economic activity, which pushes the state to external borrowing. The size of the public debt is measured through its ratio to the gross domestic product, and whenever the gross domestic product and national wealth grow positively and steadily there is no those who are concerned about the public debt, but about the increase in the ratio of public debt to the national product, this negatively affects economic activity, as it pushes countries to raise taxes to finance the deficit, in addition to high interest rates and the emergence of competition, and the Central Bank of Iraq, after obtaining independence in the decision and in terms of debt sustainability, had a major role through understandings with international institutions (the International Monetary Fund and the World Bank), and on 21 | 2 | 2004, the Paris Club issued 80% in exchange for obliging Iraq to implement economic reforms (Salih, 2009).

From the observation of Table 1, we see that the size of the Iraqi external debt reached in 2004, about 125 billion dollars, which decreased to 114 billion dollars in 2005, and decreased in 2010 to about 88.61 billion dollars. The high oil prices played a major role in paying off a large part of these debts. It can be said that debts have dangerous effects on the country's economic future, so there must be a financial sustainability that requires compatibility between the size of the public debt and the burdens of servicing the public debt.

Years	Internal Debt	External Debt	Total Debt	Total Debt / GDP
2004	4.0777	125	129.0777	390.90
2005	4.257	114	118.257	270.48
2006	3.847	95.973	99.82	152.30
2007	4.137	99.522	103.659	117.04
2008	3.734	95.583	99.317	75.4
2009	6.887	89.911	96.798	80.6
2010	7.846	88.612	96.458	65.7

Source: Central Bank of Iraq, annual bulletins, various issues

The financial sustainability in Iraq since 2014 has taken a decreasing trend, which is the period that came after the financial crisis that swept the world in 2008, and the budget deficit continued until it reached 111 billion dollars and reduced the number to 37 billion dollars after the donors in the Paris Club wrote off those debts. The reasons for this are due to the reinterns of the Iraqi economy, the weakness of local industries, administrative and financial corruption, and low oil prices. A report issued by the International Monetary Fund indicated that the Iraqi debt during the year 2017 amounted to about \$ 122.9 billion, expected to rise about \$ 132.6 billion next years, and indicated that the external government debt amounted to Currently 67.5 billion dollars and next year will be about 73.7 billion dollars, indicating that the government debt constitutes 63.8% of the GDP. The external indebtedness has led to a significant increase in the debt service rate, which is called the debt service index for exports, which is equal to the ratio of the sum of the installments in addition to the group of interests to the total exports of the debtor country (Omar, 1989).

$$\text{Debt Service Rate} = \frac{\text{Installment Payments} + \text{Interest Payments}}{\text{Total export earnings}} * 100\%$$

The higher this rate, the more foreign exchange earnings obtained from exports will be directed towards paying the burdens of debt and debt servicing, and the higher this rate on financing imports and thus the need for scheduling, especially if the ratio reaches 50%. But after the victories achieved by the state over ISIS and the rise in oil prices to \$ 64 per barrel in mid-2017, the world's confidence in the Iraqi economy increased, which means that there is no need for external borrowing and burdening the country's budget, which means that financial sustainability in Iraq can take a turn. Positive embodied in diversifying financial revenues through conducting economic diversification, developing the tax apparatus, controlling border outlets and airports, controlling their revenues, as well as regulating the Iraqi currency market and combating administrative and financial corruption, not to mention increasing the state's ability to choose appropriate loans at low interest rates, which means that sustainability Finance provides the state with the internal financial capacity to own sources of income generation such as investment and the sale of goods and services.

Second: The Growth rate of the Gross Domestic Product in Iraq

The real product is defined (that it is the value of the gross domestic product at constant prices and according to the base year) and is used to make comparisons between different periods of time because it excludes the effect of price changes, especially since these changes give distorted and unreal results for the values of the gross domestic product. With the entry of Iraq into the stage of political and economic change in 2003 and despite the pursuit of economic reform policies and openness to the outside world, the growth rates

witnessed fluctuation and instability of the indicators of the economic environment. .4% increased to 10.2% in 2006, but it decreased in 2007 to about 1.4% due to terrorist operations and insecurity in the country. As for the growth rates, they reached their highest in 2012 to reach about 12.6% due to political and economic stability, and it decreased in 2015 to about -2.4% due to the war on terror that the country witnessed (Jadaan & Anis, 2021; United Nations Development Program, 1991).

While we see that the average growth rate of per capita GDP reached about 1.32% in 2005, it rose to about 6.9% in 2006, dropping to -2.7% in 2007, due to reasons related to security aspects, instability and the high costs of the war on terror, to increase dramatically. It fluctuated for the years (2009, 2010, 2011) to reach about 7.4% and returned to the highest rate in 2012, amounting to about 9.7%, for economic and political stability and following important steps in activating fiscal and monetary policy and working to stabilize the exchange rate Table 2.

Years	Gross domestic product (1)	Percentage change (growth) % (2)	GDP excluding oil (3)	Change (growth) % (4)	The share of oil in the output % (5)	Average per capita GDP (6)	percentage change % (7)	Average per capita GDP excluding oil (8)	Rate the change % (9)
2005	43438.8	4.4	25342.2	15.1	42	1553	1.32	906.3	11.7
2006	47851.4	10.2	28763.9	13.5	41	1661	6.92	998.4	10.2
2007	48510.6	1.4	27999.4	-2.7	43	1634	-1.6	943.3	-5.52
2008	51716.6	6.6	28920.0	3.3	45	1621.5	-0.79	906.7	-3.88
2009	54721.2	5.8	31252.2	8.1	44	1728.2	6.58	987	8.85
2010	57751.6	5.5	34044.6	8.9	42	1777.5	2.85	1047.8	6.17
2011	63650.4	10.2	36988.9	8.6	43	1909	7.41	1109.5	5.88
2012	71680.8	12.6	41541.0	12.3	43	2095	9.75	1214.4	9.45
2013	75658.8	5.5	44560.1	7.3	42	2155.8	2.88	1269.7	4.55
2014	72736.2	-3.8	41586.4	-6.7	44	2020.2	-6.29	1155	-9.03
2015	70990.3	-2.4	47563.5	14.4	33	1922.1	-4.86	1287.8	11.5

Source: - Column (1 and 3), Ministry of Planning, Central Statistical Organization, Annual Statistical Abstract, for separate years.

Column (2, 4, 6, 7, 8 and 9) of the researcher's work.

Column (5) based on the data of Table 6.

The serious participation of economic sectors in the gross domestic product has a great role in providing financial revenues to support the financial budget, reduce dependence on oil and thus increase the country's ability to expand investment and protect it from the specter of international crises and thus the possibility of creating financial sustainability that is reflected in the country's continued provision of services, and fulfilling its financial obligations towards others, and by following up on Table 3, we find that the oil sector has a significant contribution to the formation of output compared to low percentages of other economic sectors, as the contribution of oil in 2005 reached about 42%, to reach in 2008 to about 45%, which decreased in 2015 to 33 % Due to wars and military operations, the suspension of some oil installations and the decline in oil prices (Banafa & Ali, 2016).

It is noteworthy that Iraq has the second oil reserves in the world estimated (112 billion barrels) and its extraction is characterized by the low costs of extracting it for the world, because the oil and gas fields are located on land and in very close depths to the surface of the soil and most of them are characterized by high economic feasibility due to their large area and do not include complex geological structures¹. Whereas, we find that the contribution of agriculture to the output for the year 2005 amounted to about 14% to continue to decline through the years of study until it reached the year 20/5 to about 5% and this is due to the scarcity of irrigation water, the increase in salinity and the insufficient availability of fertilizers and seeds, which made many reluctance to invest in the agricultural sector, as for

the industrial sector The percentage of his contribution ranges between 2% to 3%, as his contribution in 2005 amounted to about 2%, and it rose to 3% in 2015 (Hamza, 2009).

Years	Agricultural sector (1)	Industrial sector	oil sector	The rest of the sectors	(5) Total
		-2	-3	-4	
2005	14	2	42	42	100
2006	13	2	41	44	100
2007	9	2	43	46	100
2008	8	2	45	45	100
2009	7	3	44	46	100
2010	7	3	42	48	100
2011	7	3	43	47	100
2012	7	3	43	47	100
2013	7	3	42	48	100
2014	7	3	44	46	100
2015	5	3	33	59	100

Source: - Ministry of Planning and Development Cooperation, "Annual Statistical Abstract", Central Statistical Organization, Baghdad, various issues.

Third: The Growth rate of Public Revenues and Expenditures and Indicators of the Budget Deficit

Conducting the financial sustainability process requires examining the size of public expenditures in the country, which are defined as (the expenditures incurred by the state to satisfy the needs of the group such as security, defense, and judiciary expenditures, and to satisfy the needs of individuals, directly or indirectly, such as education services, public utility services, and infrastructure such as paving roads and constructing Bridges, ports, irrigation and drainage means) and government spending targets the public interest in achieving economic stability and redistributing income in order to achieve fairness in distribution. It should be noted that public spending of the state is linked within the limits of the funds allocated for the various purposes that are included in the general budget and that the financing of government spending is through taxes, Monetary issuance, and government borrowing. Here lie the measures of financial sustainability by monitoring the financing of government spending so that it does not harm the general economy and the state's continued spending, so care (Jebli, 1987).

In financing procedures, a guarantor in achieving financial sustainability, so that it is not at the expense of excessive borrowing and obligating the state to bear the burdens of the public debt, but through the diversification of economic resources. From the observation of Table 4, we find that the growth rate of public revenues for Iraq amounted in 2005 to about 33.3%. It increased in 2006 to about 56.7%. Then it began to decline due to wars, insecurity and fluctuation in oil prices, and many factories and industrial establishments in the country stopped. From the global financial crisis in 2008 resulting from the collapse of oil prices, the rate of revenue growth in 2015 reached -32.6 (Morsi, 1990).

Years	General revenue	change	oil revenue	Percentage of total revenue%	Other revenue	percentage of the general revenue%	Ratio of public revenue to output
	-1	-2%	-3	-4	-5	-6	-7
2005	28958608	33.3	28336608	97.8	622000	2.2	54.2
2006	45392304	56.7	42287900	93.1	3104404	6.9	47.5
2007	42064530	-7.3	41103691	97.9	960839	2.1	37.8
2008	5 0775081	20.7	45218084	89.1	5556997	10.9	32.3
2009	50408215	-0.7	47528261	94.2	2879954	5.8	38.6
2010	61735312	22.5	59794180	96.9	1941132	3.1	37
2011	80934790	31.1	76184137	94.1	4750653	5.9	36.2
2012	102326899	26.4	99657735	97.2	2669163	2.7	41.8
2013	119296663	16.6	116363805	97.5	2932858	2.5	44.7
2014*	139640628	17.1	An	An	An	An	54
2015	94048364	-32.6	78649032	83.6	15399332	16.4	47.8

Source: - Column (1, 3 and 5), Iraqi Ministry of Finance. The Iraqi General Budget. Budget Department?

The increase in public expenditures over public revenues causes a deficit in the public budget, which is one of the most important justifications for conducting financial sustainability through the state's pursuit of a policy of rationalizing spending and diversifying the country's public revenue sources instead of relying entirely on oil revenues. From the observation of Table 5, we see that the budget suffers from a large deficit that changes during the study period according to the change in the economic and political conditions that the country has gone through, as the deficit in 2005 amounted to about 7022560 million dinars, which decreased in 2006 to about 5570857 million dinars, and the deficit in the budget continued until it reached in 2015, which amounted to about 65 254 140 million dinars as a result of the improvement in the security situation and political stability, allowing the export of oil and the recovery of its prices, especially since the Central Bank of Iraq has obtained its independence according to Law No. 56 of 2004, which had a great impact on directing monetary policy in a way that serves economic reform in The country, through the issuance of the new currency, targeting inflation, and seeking through currency auction to stabilize the exchange rate of the Iraqi dinar. As for the budget deficit in Table (5), it reached -13.1% in 2005, which decreased to -5.8% in 2008, due to the relative improvement in the security and political situation, but the percentage fluctuated in the years 2009 and 2010, reaching 14.4 and 13.7, respectively. These ratios suggest taking fiscal sustainability measures to address these deficits (El-Sayed Ali, 1984).

Years	General revenue(1)	public expenditure (2)	The net budget (3)	Net budget percentage of output (4) (%)	The ratio of the deficit to public spending (%) (5)	Public Revenue Coverage to Public Expenditure Ratio (%) (6)
2005	28958608	35981168	-7022560	-13.1	-19.5	80.5
2006	45392304	50963161	-5570857	-5.8	-10.9	89.1
2007	42064530	51727468	-9662938	-8.7	-18.7	81.3

2008	50775081	59861973	-9086892	-5.8	-15.2	84.8
2009	50408215	69165523	-18757308	-14.4	-27.1	72.9
2010	61735312	84657467	-22922155	-13.7	-27.1	72.9
2011	80934790	96662766	-15727976	-7	-16.3	83.7
2012	102326898	117122930	-14796032	-6	-12.6	87.3
2013	119296663	138424608	-19127944	-7.2	-13.8	86.2
2014	139640628	163416518	-23775889	-9.2	-14.5	85.5
2015	94048364	119462429	-25414065	-12.9	-21.3	78.7

Source:

- Column (1, 2 and 3) based on:-
- Iraqi Ministry of Finance, "*The Iraqi General Budget*", Budget Department.
- Ministry of Planning, Central Statistical Organization, Annual Statistical Group, various issues

It is evident through the analysis of the budget that the public budget is designed with a deficit, and among the reasons for using this policy is the presence of destroyed infrastructure, high rates of unemployment, a low standard of living, and an increase in poverty rates with the presence of continuously developing financial capabilities, all of which are pushing towards public spending significantly.

This deficit is covered by using the cycle from previous years or through the remainder of the ministries' allocations, or coverage is made from the increase in oil revenues originally estimated at less than their real levels or through the continuous increase in oil production, and in general the deficit has not been covered by innovative means. So it is a pre-planned deficit.

The policy of financing government spending through the creation of money is being followed by many countries, and this policy acquires special importance in countries that are unable to effectively activate or manage tax programs in order to obtain adequate revenues and that this financing has inflationary implications by increasing money supply.

It must be noted that most countries seek to achieve sustainable development to ensure that they are not affected by financial conditions and to strengthen the ability to overcome crises by making maximum use of their human, financial and natural resources without compromising the wealth of future generations that support the fulfillment of their needs and to ensure that they are not over-reliant on natural resources by adopting. The best mechanisms for identifying potential risks, and this is what needs to define precisely those resources for what will be achieved in achieving financial sustainability and covering the budget deficit (Al-Shammari & Hamza, 2015).

Fourth: Interest rate Growth Rate

The real interest rate is the interest rate that has been adjusted to remove the effects of inflation to reflect the true cost of money to the borrower and the real return to the borrower or investor. The real interest for an investment is calculated by considering the amount at which the nominal interest rate is higher than the inflation rate (Al-Rikabi, 2012).

Real interest rate = Nominal rate of inflation (expected or actual). The interest rate index is used to influence economic activity, through the management of banks' assets (deposit) and granting them loans (credit), and that the state follows this way when it finds it difficult to move the exchange rate, that is, it liberalizes interest rates when the exchange rate is fixed, as It is followed in most countries of the world, while developed countries use the interest rate to control the exchange rate, and when you follow the Table 6 we find that the interest rate reached about 7% in 2005, to rise to 16% in 2006, to raise to a maximum in 2007 and reach about 20% to settle for the years 2014, 2015 to about 6%. It can be said that the

interest rate is one of the most important tools of commercial banks, the central bank and monetary policy. In general, in expanding the volume of credit and thus increasing the volume of investment when it is within acceptable rates. As for higher interest rates, it would reduce the money supply and fight inflation. But at the same time, the cost of servicing the public debt increases, and here it is necessary to harmonize between targeted inflation rates and the burden of debt costs. Year in a way that does not exacerbate the budget deficit. Continuing to address and target inflation through the exchange rate pillar, while noting the importance of maintaining the interest rate signal in addressing inflationary expectations and reducing the speed of money circulation and unjustified spending pressures associated with the imbalance of the public's monetary demand behavior and its effects on rooting inflation has made my goal (targeting inflation and targeting growth in output) they go together in expressing the new economic policy in Iraq in creating great opportunities to maximize economic growth that is reflected in sustainable economic stability. Hence, it can be said that fighting inflation, unemployment and other economic problems is one of the most important priorities of creating a sound economic environment that is reflected in creating successful financial sustainability in Iraq (Yousry, 2003).

Years	% Interest rate
2005	7
2006	16
2007	20
2008	16.8
2009	8.8
2010	6.2
2011	6
2012	6
2013	6
2014	6
2015	6

Source: Column (1) Central Bank of Iraq, General Directorate of Statistics and Research, Bulletin for different years

The Third Study

The reality of fiscal policy in Iraq

The importance of financial sustainability at the theoretical and applied levels, and their impact on macroeconomic policies, and considering them as one of the strength indicators to measure the strength of the economy, and its ability to exclude external and internal shocks, and financial policy is one of the important economic policies in creating financial and economic stability in the country through its well-known tools Government spending and taxes and their role in addressing economic problems related to targeting inflation, eliminating recession, and moving the economy in a way that serves sustainable development. Financial sustainability reflects the success of the fiscal policy and gives confidence to the private sector to invest in countries that enjoy it.

First: the fiscal policy in Iraq

Fiscal policy means defining the state's financial resources and spending and using the available mechanisms, the general budget, the tax system, the banking system and the insurance system in order to achieve them. The main purpose of the fiscal policy is to

advance economic and social development, positively influence the movement of the national economy, and achieve social justice in the distribution of wealth and income.

With regard to the fiscal policy in Iraq after 2003, that is, after the economy transitioned from the central administration to an economy based on the free market mechanism and the increase in private activity, it was expected that the state's intervention in economic activity would decrease, but what happened is the opposite, and the reason for this is the state's control over Oil resources, which range between 90-95% of public revenues, compared to the decline of the private sector affected by the lack of opportunities and allocations and the security situation in the country.

One of the most important features of the fiscal policy in Iraq was the high rates of government spending through budgets up to the budget in 2013, due to the significant increase in employment rates in state agencies as a result of the conditions of war and political and security instability. As well as the increasing expenditures for the reconstruction of economic and service projects destroyed by the war.

Oil resources increased from 8 million dollars in 2003 to more than 94 billion dollars in 2012, and the general budget figures reached high levels, reaching 80.5 billion dollars in 2011, rising to 100 billion dollars in 2012 and more than 118 billion dollars in 2013, and these budgets are huge. Very, but did not invest properly in the investment aspects of the mismanagement of these funds and the poor mechanisms used, and for the financial policy in Iraq to succeed in achieving the principle of sustainability, there must be cooperation and coordination with the monetary policy, as the main objective of that policy is to achieve economic stability and work to strengthen Confidence in the Iraqi dinar and work to stabilize the exchange rate and fight inflation.

Second: Financial Sustainability and Ways of Economic Reform in Iraq

Iraq is one of the oil-producing countries that depend directly on the revenues of crude oil exported through the world markets, and that this rentier dependence and influence on the world oil prices, as well as the amount of its exports is governed by the relationship with the OPEC oil organization, and the relationship with the oil companies that won the licensing rounds in 2009, as well as the internal problems related to the Kurdistan region and therefore needs measures for financial sustainability to protect it from the impact of external financial shocks as well as to ensure the smooth continuation of its production and service projects and the work of the state in a way Year. This depends on a rational financial policy that governs the regulation of government spending and taxes in Iraq to ensure economic stability. With the crude oil price shock entering the third year, the accumulated financial deficits and the exacerbation of public debt to huge levels (approximately 110 billion dollars external debt and 43 billion dollars internal debt), there are several questions about the extent of the national economy's ability to withstand and coexist in light of low oil prices, which is reflected in the decline Financial resources towards the increasing volume of those expenditures, which prompts a number of steps aimed at following important steps in achieving financial sustainability.

Financial sustainability needs to fulfill several requirements, which are as follows:

1. Targeting the non-oil primary deficit in evaluating the financial performance, as it contributes to detaching spending decisions from the continuous fluctuations of oil revenues.
2. The use of financial rules to achieve economic stability, and that the framework of financial policies accommodates the economic characteristics of the country, such as the economic structure, exchange systems, and the size of financial reserves.
3. Activating the efficiency of public spending policies, activating tax reform programs, mobilizing revenues, and achieving justice in the use of intergenerational wealth and foreign reserve rates.
4. Develop financial markets as a tributary that can finance the state's public revenues.

5. Achieving sustainability in Iraq requires coordination between the monetary tools of the Central Bank and the financial tools of the government and the Ministry of Finance, given the interdependence between public financial deficits and foreign reserve rates in light of the managed exchange rate.

Financial reforms are part of the comprehensive economic reform program and a major requirement to achieve financial sustainability in the country, as it is reflected in all macroeconomic variables, such as affecting investment and saving decisions and technological innovations, and thus the sustainability of economic growth, and that financial reform means limiting direct government intervention, Enhancing the role of market forces in distributing financial resources, improving the ability of financial institutions to mobilize savings, and strengthening competition among banks. The reform and modernization of financial systems leads to the creation of a suitable environment for the activity of the private sector, which is reflected in the attraction of foreign and local capital, and the reduction of the migration of local capital, and that working at low interest rates increases the inflow of capital into the country, which encourages investment and income and increases the volume of Employment and employment, which is reflected in the development of economic growth rates.

Therefore, it can be said that the development of the financial and banking system and its support with the necessary legislation to serve the economy, by controlling exchange rates, supporting the Iraqi currency, targeting inflation and unemployment, as well as a rational management of the Central Bank in which the volume of credit and interest rates encouraging investment, all of this allows the financial policy a major role In conducting financial sustainability because it provides an advanced banking environment that supports the national economy inflation in Iraq has had a negative impact on the distribution of income and the lives of individuals and its effects were reflected in poverty levels, as inflation often tends to redistribute income in favor of the rich class. The rich are getting richer and the poor are getting poorer. Reports of the Central Bank of Iraq indicate that in 2006 it reached about 53.2% The reason for this is due to the increase in security and age requirements, the rise in the prices of raw materials and food and transportation costs, which in turn led to an increase in cash issuance, while that percentage decreased to 2.8% in 2009, which is the lowest percentage during the study period. The reason for this decline is attributed to the success of the Central Bank in using Indirect tools and the development of monetary policy performance, while inflation rates rose in 2012 to reach about 6.7%, due to the increase in the purchasing power of citizens, so that the inflation rate decreased to 1.4% in 2015 Table 7. As for the unemployment rates mentioned in the same table, they witnessed similar rates of about 17.9 in 2005, declining to 11.9% in 2011 to rise to 15.5% in 2015. The reason is due to the high population in Iraq to about 36,936 million people, as well as the distorted structure of the Iraqi economy and the reluctance of the private sector and investors from work due to the deterioration of the security aspect and the flight of Iraqi capital abroad. As well as the mismatch of education outputs with the real needs of the labor market and production, and the backwardness of the agricultural sector and its low productivity, which prompted the migration of rural people to the city to work in activities with low returns.

Years	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Inflation	36	53.2	30.8	2.7	2.8	2.4	5.1	6.7	2.4	2.2	1.4
Unemployment	17.9	17.5	17.5	15.4	15.5	15.2	15.1	11.9	11	12.7	15.5

Source: Central Bank of Iraq, General Directorate of Statistics and Research, various annual bulletins

The main objective of monetary policy is embodied in achieving monetary stability, controlling inflationary trends by affecting the quantity and supply of money and credit, and the repercussions of these measures on the interest rate through an increase or decrease in the money supply, which in turn affects the interest rate, which is a common influence factor between the fiscal and monetary policies. Through its impact on the credit granted, as well as one of the cost elements of the public debt management policy and its impact on real variables such as consumption and investment. Therefore, it can be said that the process of financial sustainability requires concerted efforts and high coordination between fiscal and monetary policies and the government in order to achieve them and increase their effectiveness in maintaining the sustainability of financial work in lending, borrowing and spending.

CONCLUSIONS

1. The high proportion of foreign debt had a great impact on the Iraqi economy, reflected in the volume of sustainable economic development in it, which, according to the latest statistics issued by the International Monetary Fund, amounted to \$122.9 billion for 2017.
2. The fiscal policy is one of the most important tools of economic policy in achieving the principle of financial sustainability and influencing the axis of economic activity, especially through its well-known tools, government spending and taxes, as the volume of government spending for 2015 is estimated at 119,462,429 million Iraqi dinars, compared to the general revenue for the same year, estimated at 94048364 million dinars. With a deficit rate of -12.9%, which calls for financial sustainability to meet that deficit.
3. Economic schools differ, each according to its economic philosophy, in interpreting the principle of the sustainability of public debt.
4. The Iraqi economy suffers from chronic structural imbalances, caused by the unstable political environment, and the expansion of wars since the eighties, which left heavy legacies that confused the work of financial policy and the mechanism of its transmission to economic activity.
5. The Iraqi economy lacks a policy of economic diversification, and this is what we see from the low contribution of agriculture and industry to the GDP
6. The data and indicators of the Iraqi economy, the public debt to the gross domestic product, which is estimated for the year 2010 at about 65.7%, and the rate of GDP growth of about -2.4% for the year 2015 clearly indicate that the Iraqi economy needs a complete program for financial sustainability and in all economic sectors
7. The study proved that there is a significant increase in public expenditures and the financial deficit in the general budget and that it is the result of security instability and the costs of reconstruction and military operations.
8. Financial sustainability can maximize financial reserves, which can provide a future cover for financial needs and guarantees for continued spending on economic development projects.
9. The independence of the Central Bank of Iraq and its new law No. 56 of 2004 had a major role in maintaining the exchange rate, supporting the Iraqi currency, maintaining reserves and providing liquidity, as well as controlling and managing banks.

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