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Analysis of the impact of fiscal policy effectiveness on Iraq's fiscal depth for the period 2003-2021

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Abstract

The importance of research lies in the role played by fiscal policy and its role in increasing fiscal depth. Fiscal policy is one of the key instruments and pillars of Governments' economic policies to correct the situation and enhance its economic reality. Fiscal depth is an important indicator. It is possible to know the nature of the financial system, especially when there are large numbers of financial and banking institutions in Iraq.The research also seeks to achieve a whole range of objectives, including knowing Iraq's most important financial policy developments and demonstrating their impact on financial depth and thus contributing to economic development during the period of the study. Knowledge and analysis of the most important indicators of monetary depth in Iraq's economic environment. as well as measuring the impact of fiscal policy indicators on Iraq's fiscal depth.The research reached a number of conclusions, the most important of which is that the country's most revenues go towards operating expenses, i.e., to pay salaries, wages and purchases of local goods. This has the effect of injecting more domestic liquidity, which exerts its effects on the level of aggregate demand under a lagging commodity production apparatus.by concluding with a number of recommendations, perhaps most notably by restructuring public expenditures to scale up government support and reduce the government administration's requirements. In addition to channelling expenditure towards infrastructure projects, this helps the monetary authority reduce domestic pressure on the exchange rate to implement an efficient monetary policy aimed at eliminating structural imbalances affecting Iraq's economy.

Keywords: fiscal policy; Iraq's fiscal; period 2003-2021

Introduction

The financial depth occupies an important and distinctive place in the economies of countries because of its great importance in economic development and its impact on economic variables. The international economic reality is the best evidence that the world's countries are racing to increase financial depth. Using various economic policies and methods aimed at creating an environment conducive to financial depth.

Fiscal policy is one of those important policies used to create fiscal depth, taking an important place among economic policies that are capable of playing a great role in achieving economic objectives. As it evolved its role in economic activity from the neutral stage of classical traditional thinking, which was characterized by the principle of balance of balance and imbalance, to contemporary thinking, which gave the State a role in guiding economic

activity to achieve economic objectives. As a result of this evolutionary process of economic thought, fiscal policy has become a crucial role in economic and social life, particularly in economic reform programmes and the promotion of fiscal depth.

The importance of research:

The importance of research lies in the role played by fiscal policy and its role in increasing fiscal depth. Fiscal policy is one of the key instruments and pillars of Governments' economic policies to correct the situation and improve their economic realities. Financial depth is an important indicator by which the nature of the financial system can be known, especially when there are large numbers of financial and banking institutions in Iraq.

Search issue:

The phenomenon of decreasing financial depth in Iraq is a major problem because it impedes the achievement of economic development goals and that working to increase financial depth is a strategy for addressing many economic problems.

The research hypothesis:

The research is based on the premise that financial depth is a path governed by the parcel relationship with money supply, as the value of the fiscal depth index increases when the amount of money supply increases

The goal of the research:

The research aims at what comes

1. To learn about Iraq's most important financial policy developments and indicate their impact on financial depth and thus contribute to economic development during the study period
2. Know the most important indicators of monetary depth and work to analyze them in Iraq's economic environment.
3. Measuring the impact of fiscal policy indicators on Iraq's fiscal depth.

Research Methodology

We will rely on the descriptive approach and describe the financial depth indicators and theories that link them to fiscal policy and also serve as a tool to measure the impact of some fiscal depth indicators on fiscal policy.

Search Limits:

1. Spatial boundaries: The State of Iraq has been selected for research and analysis
2. Time limits: The research examines indicators of financial depth in Iraq's financial market over the 2003-2021 period.

First research: The Conceptual Framework of Fiscal Policy and Financial Depth

First: The concept of fiscal policy

The origin of the historical roots of the concept of fiscal policy is derived from a French word (FIsc) and its meaning is the portfolio of money or treasury. Fiscal policy consists of the first two words of the policy and its meaning in Arabic (measure) and in Latin, known as State measure policy. It refers to all matters relating to people's public affairs and the second financial word and refers to all matters relating to monetary payments in the national economy. Such payments may be in cash, securities or credit, as well as savings at the disposal of individuals or public bodies making investments. This means that fiscal policy has become an important

instrument of the Government so that it can achieve its economic, social and political objectives. If the State develops economically, it leads to the development of public finances. Therefore, all necessary measures and measures vary to suit this role, which implies the development of fiscal policy. The concept of public finances was accompanied by the State budget after the development of economic life, and after the State had played an active role, which meant that the term was similar to the term "State financial", which included income and expenditure.

Second: The concept of financial depth:

Financial depth is defined as a process of development in the quality, quantity and efficiency of financial services. Levine provided a definition of financial depth in 2005, explaining that financial depth occurs when there is an interaction between financial instruments (such as loans, bonds, debt bonds, foreign currencies) and financial markets (firstly and secondly), bank owners such as companies, banks and contractual savings institutions), interaction between them in order to reduce transaction costs and contract completion so that you can complete the five main functions as follows:

1. Facilitates the exchange of goods and services.
2. Acquire information on potential investment projects and companies.
3. Reduces liquidity risk.
4. Pooling savings and raising a large number of investors.
5. The practice of the government company and the monitoring of investments.

Third: The relationship between fiscal policy and fiscal depth:

Sharp increases in public debt and excessive deficits for most developed and developing countries alike in the last decade and the aftermath have raised concerns about fostering stability, economic growth and ensuring financial sustainability. This necessitated the need to design reliable frameworks for emerging from crises, Especially the accumulation and costs of debt, hence the flexibility of dealing with cyclical fluctuations.

A viable approach to achieving its objectives has been found through the financial rules ", which are permanent numerical constraints to budget totals set by digital targets; Expressed by a concise indicator of financial results, by identifying the operational indicator to which it applies in order to guide fiscal policy, which is simple, easy to monitor, operate and transfer to beneficiaries and serves multiple objectives, Foremost among them is the promotion of financial sustainability, which means that fiscal policy boundaries are set that often cannot be changed. Additional budgeting could become an open tool through which Governments could absorb increased spending demands.

Second research: Analysis of Fiscal Policy Instruments and Financial Depth Indicators
Requirement 1: Analysis of Fiscal Policy Tools in Iraq

1. Analysis of public revenues in Iraq for the period (2003-2021)

Reliance on oil as a major source of financing for the general budget has led to a decline in the importance of other financial resources, such as taxes and taxes, and in particular direct taxes, not for weak tax vessels, but for inefficient systems charged with estimating and collecting taxes. The general budgetary dependence on oil revenues and its predominance is an incorrect situation that reflects the rent, distorted and underdeveloped nature of the economic structure and raises concern for the future of the economy in the event that the country is exposed to external risks such as the decline in global oil prices, inter alia, the security factor, which has a direct impact on oil production. " As the nature of Iraq's economy is rentious, as well as dependence on foreign markets,

public revenues are fluctuating according to variables and factors influencing the global oil market. Since public expenditures depend on the size of public revenues, public expenditures are also fluctuating from time to time. This means that the nature of Iraq's economy is subject to and subject to political and economic changes and crises occurring in the outside world, especially those occurring in the global oil market. Despite the reliance on oil resources for many years of the Iraqi State's life to achieve economic development, beyond 2003 the dependence on oil resources has become complete and absolute, thus exposing the national economy to unique challenges. Oil, as well as being a depleted source, is, for many, a commodity more influenced by political factors than economic ones, and market factors may be less important in determining their prices and quantities of production than other factors. However, the producing States could have some negotiating power if there was general and binding agreement on the quantities of production that were supposed to be determined in the light of market factors and not in the light of any other considerations. The accepted cost elements should not be taken solely into account. As the value of oil as a depleted wealth represents a cost of considerable weight in the elements of real cost since oil is a national public capital subject to gradual exclusion to the final point of attrition, the cost of depletion and an accounting expression (oil scattering as a capital existence) If added, the cost of drum extraction would be higher and there would be higher prices per barrel.

The period (2003-2011) has seen a steady increase in public revenues. It recorded a rise of 15,985.53-10,8807.39 billion dinars at a CAGR of 27.09%, excluding 2009, down by 5,5243.53 billion dinars, a CAGR of 27.09% and a negative annual growth rate of 31.49% compared to 2008 of 8,0641.04 billion diner With an annual growth rate of (46.71%).This decline in public revenues was due to the aftermath of the global financial crisis that affected oil prices in international markets, resulting in a significant deterioration in Iraq's oil revenues, resulting in Iraq's economy being vulnerable to external shocks. The share of oil revenues decreased to 88.47% in 2009, from 93.45% in 2008, after which public revenues returned by a rise of 108,807.39 billion dinars in 2011 and an annual growth rate of 55.04%. As a result of the improvement in global oil prices, the impact on oil revenues has been evident, bringing its contribution to public revenues by about 90.15% in 2011.

Table 1. *Evolution of the structure of public revenues in Iraq for the period (2003-2021) (billion dinars)*

Years	Public revenue (1)	Annual growth rate %	Oil revenues (2)	Annual growth rate %	Ratio of oil revenues/public revenues (1/2)	Compound growth rate of public revenue %	Compound growth rate of oil revenue%
2003	15985.53		1841.458		11.52		
2004	32988.85	106.37	32627.203	1671.81	98.9		
2005	40435.74	22.57	39480.069	21.00	97.64		
2006	49055.55	21.32	46534.31	17.87	94.86		
2007	54964.85	12.05	51701.3	11.10	94.06	(2011-2003) 27.09	(2011-2003) 64.36
2008	80641.04	46.71	75358.291	45.76	93.45		
2009	55243.53	(31.49)	48871.708	(35.15)	88.47		
2010	70178.22	27.03	66819.67	36.72	95.21		
2011	108807.39	55.04	98090.214	46.80	90.15		
2012	119817.22	10.12	116597.08	18.87	97.31		
2013	113840.08	(4.99)	110677.54	(5.08)	97.22		
2014	97618.56	(14.25)	97072.41	(12.29)	99.44		
2015	66470.25	(31.91)	51312.621	(47.14)	77.2		
2016	54409.27	(18.14)	44267.063	(13.73)	81.36	(2021-2012) (13.33)	(2021-2012) 11.94
2017	77422.17	42.30	65071.929	47.00	84.05		
2018	106569.83	37.65	96062.935	47.63	90.14		
2019	107566.99	0.94	99216.3	3.28	92.24		
2020	631996.69	487.54	544485.514	448.79	86.15		
2021	369781.84	-41.49	321850.907	-40.89	87.04		

Source: From the work of the researcher based on the Central Bank of Iraq, CBI Statistical Group Special Issue (2003-2021), Directorate General of Statistics and Research, p. 10

Iraqi Ministry of Finance, Budget Service and Final Accounts Service, for various years Values placed in parentheses Negative values

During the period 2012-2021, general revenues decreased significantly, from 11,9817.22 billion dinars, with an annual growth rate of 10.12%, to 11,3840.08-5,4409.27 billion dinars for 2013-2016 and a negative annual growth rate of (-4.99%)- (-18.14%). This is due to a decrease in oil revenues as a result of a decrease in oil prices to $103 per barrel in 2013 from $107 in 2012. The decline in global oil prices continued until 2016, reaching about $42.92 per barrel. This, in turn, affected the decline in oil revenues that are the main financier of the general budget, which reflected the decline in public revenues. Because of the political situation to which the country was exposed, namely the entry of ISIL terrorist groups into a number of Iraqi governorates, The loss of control over some important oil fields in those governorates and the fall in crude oil prices to $49 per barrel in 2015. This has made the Iraqi Government work to squeeze public expenditures, work to find other new sources of public revenues and work to operationalize the role of non-oil revenues. Public revenues increased during 2017-2019 by 77422.17 -107566.99 billion dinar, mainly due to a marked rise in oil revenues. As a result of the increase in crude oil prices and the increase in crude oil production, oil revenues accounted for the largest share of total oil revenues to reach their contribution (84.05% -92.24%) of public revenues and an amount (65071.92-99216.3 billion IQD).

2. Analysis of the structure of public expenditures in Iraq for the period (2003-2021)

Current and investment public expenditures are one of the most important fiscal policy mechanisms through which the Government can achieve its objectives and influence economic activity. The Government pursues a disciplined spending policy aimed at promoting the national economy to advance and maintain development and financial stability. generates a positive impact on economic activity in that economy, that is, the focus of government policy on continuing to rationalize public spending with a view to restructuring public expenditures to scale government support and reduce government administration requirements; In addition to channelling spending towards infrastructure projects, this helps the monetary authority reduce domestic pressure on the exchange rate to implement an efficient monetary policy aimed at eliminating structural imbalances affecting the macroeconomic economy.

Table 2 indicates that the period (2003-2011) took the upward trend over the period, with overheads amounting to 4901.96 billion dinars, with a CAGR of 41.49%, reaching 78757.66 billion dinars in 2011, This is due to the release of Iraq's frozen stocks abroad as well as the resumption of oil exports after the lifting of initial economic sanctions. The ratio of current expenditure to public expenditure (% 90.6) was the fact that the State's public expenditure was aimed at facilitating its management and obtaining the goods and services it neededto satisfy key needs. which consist of expenses paid for the purpose of payment of salaries, wages and other allowances, expenses for goods and services and current transfers, including pensioners' salaries, social security, paid in cash or issued in kind, interest payments and cash transfers. An example of this is provided by the Government to certain groups of society within the social dimension, such as: medical services, unemployment compensation and social security pensions). Investment expenditures accounted for a very small proportion (9.4%). Investment expenditures are the amounts allocated by the State to acquire capital equipment necessary to increase commodity production and to increase public services.

The rise is also due to the relative stability of the value of the Iraqi dinar thanks to the Central Bank's policies resulting from the independence of the Bank, which suffered from the dependence of fiscal policy decisions, as well as the release of frozen Iraqi stocks abroad, In addition, the resumption of exports of crude oil at high prices enabled the Iraqi economy to fill

the shortfall in the State's revenues from its productive sectors and the State to increase salaries and wages to improve the standard of living of public sector workers, in addition to increasing security and military spending owing to the deteriorating security situation.

The increase was accompanied by higher operational and investment expenditures, with operational expenditures (4617.6463-60925.554) constituting one billion dinars, compared with investment expenditures (284.313-17832.11), This is due to the heavy dependence of the Iraqi economy on oil revenues to finance the Government's programmes and plans, on the other hand, owing to the political and social conditions that have put pressure on the Iraqi Government in keeping with the employment approach in the public sector, The entire Iraqi economy is transformed into a government economy with the reluctance of the private sector to manage the economy for security and political reasons and the absence of legal and institutional cover pushing for private sector development, The ability to provide real jobs capable of absorbing the surplus workforce in the public sector has been further exacerbated by imbalances in the structure of public expenditures in favour of current expenditures at the expense of investment expenditures, which has led to an expansion of the Convention's policy during this period.

The period (2012-2021) saw a marked increase in current and investment public expenditures, particularly in 2013, amounting to 11,9127.55 billion dinars at an annual growth rate of 13.30%, the main reason for the increase in such public expenditures as a result of the financial surpluses realized as a result of higher crude oil prices. This increase was also attributable to the signing of licensing tour contracts with oil companies, which enabled the Government to obtain an abundance of revenue that spurred it to increase expenditure, particularly by launching initiatives to develop the agricultural and industrial sector and create jobs in the energy, housing and electricity sectors. Besides developing scientific angels by opening channels to complete postgraduate studies abroad. The years (2014-2016) saw a significant decrease in public expenditures of 11,2192.129-6,7067.434 billion dinars and negative growth rates of 5.82-4.73%.As well as lower current and investment expenditures, current expenditures (7,6741.673-5,1173.4 billion dinars) against lower investment expenditures (35,450.453-15,894.01 dinars) were attributable to the Government's pursuit of austerity policies due to the two shocks (oil and security), accompanied by a sharp decline in oil prices in world markets, and an increase in the expenses of the war on terrorist organizations (ISIL), which has been marked by ongoing battles in the face of terrorism leading to the occupation of large areas of Iraq, In addition, many northern oilfields have been subjected to acts of vandalism and looting, including ongoing oil disputes between the Central Government and the Kurdistan Regional Government, which threatened the extraction and export of oil from the northern regions, as well as the cessation of the Biji refinery, the largest in Iraq. Consequently, these challenges have been reflected in the decline in oil revenues, which are the primary financier of government expenditure, resulting in an imbalance in the structure of Iraq's economy and an increase in the public budget deficit, after which public expenditures have started to improve since 2017, reaching 75490.115 billion dinars at an annual growth rate of capacity (12.56%).Both current and investment expenditures increased by 78.19 per cent (21.81 per cent) of public expenditures owing to an improvement in oil revenues as a result of relatively improved prices, which increased government spending on salaries and concessions such as the current expenditures of government institutions. Expenditures continued to rise in 2019, with general expenditures amounting to 111723.52 billion dinars compared to 80873.189 billion dinars in 2018, owing to growth in both expenditures (operational and investment) at an annual growth rate (30.20% -76.72%), respectively. Although the investment ratio is higher than in previous years, it does not meet the ambition to improve economic realities. We note

from table (2) that current expenditure continues to dominate the general budget and is usually spent with high monotony, and that public finances are supposed to operate productive capacities to reach target production. When comparing the capacities available to service institutions, we are shown the extent of waste in these allocations, which indicates the reliance on and mismanagement of the rent oil supplier, as well as the burdens incurred by the Iraqi economy as a result of the payment of public debt dues (internal and external); In addition to including in investment expenditures foreign loans that are revenue, but according to the golden rule of fiscal sustainability, borrowing must be for investment expenditures rather than current ones. This is an early warning of fiscal policy that there is a risk to public finances.

Table 2. *Evolution of the structure of public expenditures in Iraq for the period (2003-2021) (billion dinars)*

Years	General expenses	Annual growth rate %	Current spending	Annual growth rate%	Investment spending	Annual growth rate %	Compound growth rate
2003	4901.960		4617.6463		284.3137		
2004	32117.491	555.20	29066.3293	529.46	3051.162	973.17	
2005	26375.175	(17.88)	22471.6491	(22.69)	3903.526	27.94	
2006	38806.679	47.13	32597.6103	45.06	6209.069	59.06	
2007	39031.232	0.58	29819.8612	(8.52)	9211.371	48.35	41.49
2008	59403.375	52.19	39087.4207	31.08	20315.954	120.55	
2009	55589.721	(6.42)	45941.063	17.53	9648.658	(52.51)	
2010	70134.201	26.16	54580.86	18.81	15553.341	61.20	
2011	78757.667	12.30	60925.554	11.62	17832.113	14.65	
2012	105139.575	33.50	75788.623	24.40	29350.952	64.60	
2013	119127.556	13.30	78746.806	3.90	40380.752	37.58	
2014	112192.126	(5.82)	76741.673	(2.55)	35450.453	(12.21)	
2015	70397.515	(37.25)	51832.839	(32.46)	18564.7	(47.63)	
2016	67067.434	(4.73)	51173.4	(1.27)	15894.01	(14.39)	-2.93
2017	75490.115	12.56	59025.7	15.34	16464.5	3.59	
2018	80873.189	7.13	67052.9	13.60	13820.3	(16.06)	
2019	111723.523	38.15	87301	30.20	24422.6	76.72	
2020	76082.43	-31.90	72873.538	-16.53	32089.05	31.39	
2021	93902.976	23.42	80087.269	9.90	28255.825	-11.95	

Source: From the work of the researcher based on the Central Bank of Annual Economic Reports, Directorate General of Statistics and Research, for various years.

Ministry of Finance, Budget Service and Final Accounts Service, for various years.
Values placed in parentheses Negative values

3. Analysis of the deficit and surplus of the general budget

A surplus or budget deficit is one of the most important fiscal policy axes in the non-oil economy because the latter is not without important connotations revealed by the additional analysis dealing with the specificities of the oil economy. The deficit represents a amount of government demand financed by borrowing or decreasing government balances exchanged for liquidity to finance the deficit, so it is known as the real increase in public expenditure by budget compared to the Government's general revenues during one fiscal year, As the deficit results from the expansion of the Government's role in social and economic development and thus the need for financial resources to cover this expansion increases, the surplus is a rare case in a normal economy and few countries have accumulated surpluses, including the Arab oil countries and China, Therefore, the surplus in the non-oil economy means the withholding of part of the national income from the course of aggregate demand, which has a deflationary effect that States have to pay off their indebtedness. In the oil economy, the surplus achieved as a result of higher oil prices has no deflationary effect. In other words, income in the normal economy reflects the level of production and operation and is commensurate with the rest of the macroeconomic indicators. Therefore, the deficit or surplus is seen as exceeding the proportion that maintains stability.

The post-2003 phase witnessed a transformation of Iraq's economy during the period 2003-2011, which was the lifting of the economic blockade imposed on the country. Iraq's oil revenues increased, resulting in increased public revenues owing to a dramatic rise in global oil prices and increased production leading to an improvement in the financial situation in Iraq beginning in 2003, resulting in a surplus in the general budget of approximately 11083.567 billion dinars, The state of surplus in the general budget continued until 2008, which achieved the highest state of surplus in the budget to record the amount of (21237.6663) billion dinars at an annual growth rate (33.29%). This surplus is attributable to the lifting of international economic sanctions on Iraq in 2003, higher crude oil production and export, and higher oil prices, which exceeded the price of a barrel ($94.45) per barrel, thereby achieving the highest oil prices and thus increasing oil revenues. The budgets after 2003 are therefore described as "rent budgets" because of the President's reliance on the oil sector to finance general budget revenues and its dependence on (dynamic stabilizer) the price of a barrel of oil.

The year 2009 saw a deficit in the general budget of 346.194% at an annual growth rate of 101.63%. This deficit was attributable to the negative effects of the global financial crisis on oil prices, which fell to its lowest level and thus reduced oil revenues. While 2010-2011 saw a surplus in the general budget to the highest surplus of 30049.723 billion dinars in 2011, this surplus is attributable to improved public revenues, including oil revenues, as a result of the return of oil prices. This confirms the general budget in the Iraqi economy's correlation with oil revenues mainly, which is determined in the light of the world oil prices (external factor) and the quantity of domestic oil production (internal factor). The changes in these factors will directly reflect their impact on the overall budget, this reflects the decline in economic diversification due to the many problems experienced by other economic sectors such as industry, agriculture and trade, making their contribution to government revenue very low.

It is noted that the years (2004-2012) have planned the budgets with deficits, but the reality indicates that the budgets have been implemented with surplus, which is a clear indication that the planning of the budgets is far from practical realities, as well as the weak implementation of the investment budget.

The years 2013-2016 show a deficit of 5287.48, 3927.26 billion dinars and a negative annual growth rate of (-136.02%) -(-73.05%). This deficit is due to the Government's policy of rationalization and austerity to reduce the budget deficit as a result of lower oil prices. The decrease in public revenues, as well as the increase in public expenditure, in particular the increase in military spending as a result of the country's recent war, whether political (ISIL's entry into some governorates) or economic (low oil prices).

The years (2017-2018) show a surplus of (1932.057) (25,696.644) respectively, owing to higher public revenues dependent on oil revenues and (95%). Any imbalance in oil prices or quantities exported therefrom will be reflected in estimated revenues and therefore on allocations of public expenditures. In 2019, the Federal General Budget recorded a financial deficit of (-4156.53 billion dinars) and a negative annual growth rate of (1116.18%), owing to the excess of current and investment public expenditures over public revenues despite a slight increase of (1%) over the previous year as a result of increased oil revenues.

Table 3. *Budget surplus or deficit in Iraq for the period (2003-2021) (billion dinars)*

Years	Public revenue	Overhead	Budget surplus or deficit	Surplus or deficit growth rate
2003	15985.527	4901.960	11083.567	
2004	32988.85	32117.491	871.3587	(92.14)
2005	40435.74	26375.175	14060.5649	1513.64
2006	49055.545	38806.679	10248.8657	(27.11)
2007	54964.85	39031.232	15933.6178	55.47
2008	80641.041	59403.375	21237.6663	33.29
2009	55243.527	55589.721	(346.194)	(101.63)
2010	70178.223	70134.201	44.022	(112.72)
2011	108807.39	78757.667	30049.723	68160.69
2012	119817.222	105139.575	14677.647	(51.16)
2013	113840.076	119127.556	(5287.48)	(136.02)
2014	97618.556	112192.126	(14573.57)	175.62
2015	66470.251	70397.515	(3927.264)	(73.05)
2016	54409.269	67067.434	(12658.165)	222.32
2017	77422.172	75490.115	1932.057	(115.26)
2018	106569.833	80873.189	25696.644	1230.01
2019	107566.993	111723.523	(4156.53)	(116.18)
2020	631996.69	76082.43	555914.26	(134.7)
2021	369781.84	93902.976	275878.864	(50.37)

Source: Researcher's work based on Central Bank of Iraq, Statistical Group of the Central Bank of Iraq Special Issue (2003-2021), Directorate General of Statistics and Research.Iraq's Ministry of Finance, Budget Service and Final Accounts Service, for various years.

The second requirement: Analysis of financial depth indicators in Iraq for the period (2003-2021)

1. Analysis of cash supply to gross domestic product:

It should be noted that the supply of cash is an internal variable that is indirectly constrained by fiscal policy, creating a strong correlation between government spending and the supply of cash. The exchange of central bank money as foreign exchange liabilities within the balance sheet of the central bank buyer from the government as an asset, This is in line with the new view of monetary thinking that money is an internal variable (Endogenous) that is subject to the cash demand function by virtue of the dominance of the government sector in a country such as Iraq with an impact on the components of GDP in general and oil resources in particular, which is one third of that output. In light of this, the rent dominance of the Iraqi economy has made the supply of cash one of the indicators of fiscal policy as a result of the reliance of government expenditure on oil resources, as evidenced by its ratio of 95%. The concept of autonomy is limited to the existence of the law solely in accordance with expenditure indicators and fiscal policy pressure, which is merely labelled because of the Central Bank's inability to control the monetary basis exclusively because it is the exporting currency and bank reserves, Since the exported currency is the result of two operations, namely, the ongoing government expenditure enhanced by the Central Bank's foreign currency sales, and foreign currency sales to the private sector, and the fact that the Central Bank cannot avoid its accumulation of foreign assets because it is governed by oil resources and its disposal by the Government,

This situation is known as petroleum financial dominance, that is, double dominance that reflects the characteristics of the oil economy and is not related to the laws governing the Ministry of Finance or the Central Bank. It can therefore not be influenced by legislation and regulations, but only by radically changing the economy's structure by diversifying the productive structure.

Table 4. *The development of the supply of cash to the gross domestic product in Iraq for the period (2003-2021) (billion dinars)*

Years	Net currency in circulation (1)	Current deposits (2)	Cash offer M1(3)	Annual growth rates %	Quasi money (5)	Wide criticism offers M2 (5+3)	Annual growth rate (7)	Gross domestic product GDP(8)	Broad money supply/GDPM2/GDP	Compound Growth rate of broad money supply
2003	4629.79	1143.80	5773.6		1179.82	6953.4		66398.2	0.10	
2004	7162.95	2985.70	10148.63	75.8	2105.37	12254	76.23	101845.3	0.12	
2005	9112.84	2286.30	11399.13	12.3	3284.88	14684	19.83	103551.4	0.14	
2006	10968.1	4492.00	15460.06	35.6	5619.94	21080	43.56	109389.9	0.19	
2007	14231.7	7489.50	21721.17	40.5	5234.91	26956.1	27.88	111455.8	0.24	-2003) (2011 33.97
2008	18492.5	9697.40	28189.93	29.8	6729.74	34919.7	29.54	120626.5	0.29	
2009	21775.68	15524.40	37300.03	32.3	8137.89	45437.9	30.12	124702.8	0.36	
2010	24342.19	27401.30	51743.49	38.7	8642.6	60386.1	32.90	132687	0.46	
2011	28287.0	34187.00	62473.93	20.7	9704.02	72178	19.53	142700.2	0.51	
2012	30593.65	33142.20	63735.87	2	9565.32	75466	4.56	162587.5	0.46	
2013	34995.45	38835.51	73830.96	15.8	11730.13	87679	16.18	174990.2	0.50	
2014	36071.56	36620.86	72692.45	(1.5)	13848.04	90728	3.48	178951.4	0.51	
2015	34855.26	34757.89	69613.15	(10.3)	18035.55	84527.3	-6.83	183616.3	0.46	
2016	42075.23	33448.72	75523.95	8.5	14942.42	90466.4	7.03	208932.1	0.43	-2012) 4.45(2021
2017	4034.31	36643.28	76986.58	1.9	15870.46	92857	2.64	205130.1	0.45	
2018	40498.07	34330.92	77828.98	1.1	17561.74	95390.7	2.73	210532.9	0.45	
2019	47638.6	39791.57	86771.00	11.5	16669.48	103440.5	8.44	211789.7	0.49	
2020	59987.09	43366.00	103353.5	19.11	16553.05	119906.6	15.92	1881126.6	0.06	
2021	53812.84	41578.78	95062.27	(8.02)	16611.26	111673.5	-6.87	1046458.1	0.11	

Source: Researcher's work based on: Central Bank Annual Statistical Bulletins (2003-2021), Directorate General of Statistics and Research, miscellaneous pages.Columns (4) (7) (10) of the researcher's work.

Note from Table (4) that the period (2003-2011) increased the supply of cash in a broad sense despite monetary policy endeavours to control and control the offer of cash which was one of the Central Bank's first concerns on the changes witnessed is the promulgation of the new Law No. 56 of 2004 The Central Bank's autonomy in the monetary policy administration, in the light of which the reform package was taken, but the supply of cash continues to suffer from an imbalance in control of the size of the monetary bloc, as the supply of cash in the narrow sense of M1 increased from (5773.60- 62473.93 billion dinars for the same period, Either for the cash supply components, they represented an increase in the net currency in circulation, as well as the current deposits for the same period, the same as for the widespread

cash offer, it also took an increase from 6953.4-72178.0 billion dinars for the period (2003-2011) and a CAGR of 33.97%. The cash supply index in the broad sense to GDP for the same period has seen a steady rise of 51% in 2011 from 10% in 2003. This is due to many developments that have maximized people's confidence in Iraqi dinars after deteriorating in previous years, as well as the efficiency of the monetary authority through its indirect monetary instruments (currency windows) in controlling the size of the monetary bloc as a dynamic stabilizer aimed at mitigating fluctuations in the exchange rate of the Iraqi dinar, The Central Bank was also able for the first time to achieve positive real interest rates by using the monetary policy rate signal as a tool to attract attractive deposits, develop cash savings and financial intermediation, as well as for many reasons such as replacing the old national currency with the new currency in 2004. IQD 4 trillion of the old currency was replaced by a new currency, combined with an increase in surplus foreign cash reserves as a result of higher oil prices (Kennedy, Schmitz, & DeLong, 2020).

The duration (2012-2021) continued to offer cash in a broad sense up by 75466.0-111673.5 billion dinars for the same period, This increase in local liquidity (M2) was the result of the growth of its core components, namely the supply of cash in a narrow sense and the likeness of cash (fixed deposits, savings, mail and insurance), the reason for the Central Bank's continued use of monetary policy tools through the introduction of investment windows and the development of new financial products The issuance of medium-term securities and issuance of Islamic depositary certificates for the purpose of achieving its objectives of maintaining the stability of domestic prices and controlling and managing liquidity platforms commensurate with demand and aggregate supply as well as continuing to adopt the interest rate (policy rate) of 4%; Recourse to domestic debt borrowing through the issuance of two types of bonds and treasury transfers in order to meet the budget's financing needs (Kikulwe & Asindu, 2020).

These figures theoretically reflect the growth of the banking sector's efficiency in providing funds for private sector investment. However, most of these loans have been used to speculate and not to increase productive investments in the commodity sectors of the economy, so the financial depth has reflected its positives on financial development. The banking sector, however, was not reflected in the real economy and this is due to the fact that the swift and large profits earned by speculators in the financial market are greater than those received by the real investor (Malla & Brewin, 2020).

In the broader sense, 2014 and 2015 saw a decline in the capacity (84527.3 billion dinars) in 2015 at a negative annual growth rate (6.83%) in 2015, compared to (90728.0 billion dinars) in 2014, owing to a decrease in the balance of net foreign assets, As a result of the decline in oil revenues, which is the primary source of government expenditure, the expanding impact of the widespread cash supply on the decline in government deposits as well as the expansionary impact of the government's net debt, private sector and other sectors' debt,

The monetary depth of the widespread cash supply to GDP is also witnessing a volatile growth situation that reached its highest level in 2014, reaching 51%, where there is a monetary depth as a result of the outperformance of money over GDP. The speed of the growth of the tunnels has increased by making the supply of money an internal variable controlled by the size and quality of government expenditure, while the lowest level was in 2021 (11%) as in figure (4) due to the increase in domestic output was greater than the increase in the supply of money, The Iraqi economy's economic shock could be attributed to the supply shock in the sector to real costs concentrated in the energy and fuel processing sector's deficit, which reflected transport and communications and marketing and production costs.

2. Analysis of total deposits to GDP

This ratio reflects the degree of progress of the banking system and the ability to mobilize savings, and therefore the decrease in this ratio means an increase in bank deposits and the use of financial instruments to settle non-cash transactions. The larger the informal system, the greater the volume of cash in circulation, and the greater the liquidity ratio.

Table 5. *Evolution of total deposits to GDP in Iraq's economy for the period (2003-2021) (1 billion dinars)*

Years	total deposits	rate of change	Gross domestic product	total deposit/GDP (2:1)	Compound growth rate of total deposits
	(1)	(2)	(3)	(4)	(5)
2003	8097		66398.2	0.12	
2004	8115	0.22	101845.3	0.08	
2005	10769	32.70	103551.4	0.10	
2006	16928	57.19	109389.9	0.15	
2007	26188	54.70	111455.8	0.23	27.30(2011 - 2003)
2008	34524	31.83	120626.5	0.29	
2009	38582	11.75	124702.8	0.31	
2010	47947	24.27	132687	0.36	
2011	56150	17.11	142700.2	0.39	
2012	62005	10.43	162587.5	0.38	
2013	68855	11.05	174990.2	0.39	
2014	74073	7.58	178951.4	0.41	
2015	64344	-13.13	183616.3	0.35	
2016	62398	-3.02	208932.1	0.30	3.77(2021-2012)
2017	67048	7.45	205130.1	0.33	
2018	76893	14.68	210532.9	0.37	
2019	82106	6.78	211789.7	0.39	
2020	84924	3.43	1881126.6	0.05	
2021	86515	1.87	1046458.1	0.08	

Source:Central Bank of Iraq, General Directorate of Statistics and Research, Annual Statistical Bulletin, for different years.

Column (2) (4) and (5) by the researcher.e note from Table 5 that the period (2003-2011) saw a successive increase for the period mentioned in 2003, the ratio of total deposits to GDP (12%) increased by 39% and a composite growth rate of 27.30%. This is due to the increase in the volume of deposits. After the total deposits were 8097 billion dinars in 2003, the total deposits were 56,150 billion dinars in 2011.

The total deposit to gross domestic product (GDP) ratio increased by 38% in 2012, but the increase in this index varied, with the increase in 2014 being about 41%, the highest during the study period; at the end of the study period in 2021, it was 8%, with a composite growth rate of 3.77%.

3. Analysis of the ratio of credit to the private sector to gross domestic product

Credit targeting sectors prioritized by the Government can be limited at the expense of other sectors, as well as credit caps on loans granted to certain sectors

Credit controls are an impediment to the efficiency of the financial system owing to inefficient allocation, as they result in lower levels of both domestic savings and investment, adversely affecting economic growth rates.

Enterprises turn to commercial banks for credit when their savings are unable to meet their investment needs, after banks act as intermediaries between savers and investors, and providing such savings to investors helps increase production and thus achieve economic development.

This effect is evident when the State pursues an expanded monetary policy that increases savings as well as commercial banks' reserves and thus increases their ability to grant credit to enterprises for investment purposes.

To support the process of economic development requires the provision of investment bank credit in order to increase productive capacity, especially for important enterprises that produce industrial goods that contribute to the process of economic development, Therefore, commercial banks should provide all support to these projects in order to develop and expand them, and give importance to infrastructure projects in the economy to finance them, thereby contributing to their importance in supporting the economic development process

The State's policy of expanding it by increasing commercial banks' reserves and lower interest rates on credit encourages small investors to undertake investment projects that drive the national economy, increasing production and incomes and achieving economic development.

Commercial banks' provision of credit to individuals on concessional terms reduces their hoarding, resulting in productive investment projects.

Table 6. *Development of private sector credit to domestic output in Iraq's economy for the period (2003-2021) (1 billion dinars)*

Year	Credit granted to the public sector	Credit to the private sector	total cash credit	GDP	Private Sector Credit Ratio/GDP (2:4)	Compound growth rate of total deposits
	(1)	)2(	(3)	(4)	(5)	(6)
2003	202	610	812	6639	0.09	
2004	204	620	824	10184	0.06	
2005	767	950	1717	10355	0.09	
2006	783	1881	2664	10938	0.17	
2007	1072	2387	3459	11145	0.21	(2003 - 2011)25.50
2008	609	3978	4587	12062	0.33	
2009	1044	4646	5690	12470	0.37	
2010	8837	2884	11721	13268	0.22	
2011	16589	3755	20344	14270	0.26	
2012	13788	14650	28438	16258	0.90	
2013	13004	16948	29952	17499	0.97	
2014	16378	17745	34123	17895	0.99	
2015	18683	18070	36753	18361	0.98	
2016	18999	18181	37180	20893	0.87	.3(2021-2004)33
2017	18501	19452	37953	20513	0.95	
2018	18271	20216	38487	21053	0.96	
2019	21010	21042	42052	21178	0.99	
2020	31510	18307	49817	18811	0.97	
2021	26260	19674.5	45934.5	104645	0.19	

Source: Central Bank of Iraq, Directorate General of Statistics and Research, Annual Statistical Bulletin, for various years.Column (6) by the researcher

We note from Table 6 that the period (2003-2011) has seen a successive increase for the period mentioned in 2003, the ratio of credit granted to the private sector to GDP (9%) has risen to 26% and a composite growth rate of 25.50%. This is due to the increase in the volume of deposits. After the credit granted to the private sector amounted to 610 billion dinars in 2003, the credit granted to the private sector amounted to 3,755 billion dinars in 2011, as shown in figure 9.

The duration (2012-2021) of the private sector's credit to GDP increased to 90% in 2012. However, the rate of increase in this indicator varied, with an increase of about 99% in 2014, the highest during the study period. At the end of the study period in 2021, it was 19%, with a composite growth rate of 3.33%.

The conclusions:

1. The country's most revenues go towards operating expenses, i.e. to pay salaries, wages and procurement of local goods, resulting in the injection of more local liquidity, which exerts its effects on the level of aggregate demand under a lagging commodity production apparatus
2. The rises in the cash supply index in the broad sense of GDP are due to many developments that have maximized people's confidence in Iraqi dinars after they deteriorated in the 1990s, as well as the efficiency of the monetary authority through its indirect monetary instruments (currency windows) in controlling the size of the monetary block as a dynamic stabilizer aimed at mitigating fluctuations in the exchange rate of Iraqi dinars
3. After 2003, as a result of increased oil revenues, public revenues increased, reflected in increased public expenditure and the same current expenditure.

Recommendations

1. Restructuring public expenditures to scale up government support and reduce government administration requirements, as well as channelling spending towards infrastructure projects, helps the monetary authority reduce domestic pressure on the exchange rate to implement an efficient monetary policy aimed at eliminating structural imbalances affecting the Iraqi economy.
2. The need to create a sophisticated financial market for government bonds with all the evolving characteristics of the market in order to offer government bonds in order to achieve the necessary funding for the government by increasing the transparency and credibility of this market
3. Diversify public revenue sources to balance such as taxes, fees and the like to avoid ultimately reaching dual financial dominance.

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