



ANALYSIS OF INDICATORS OF FINANCIAL RULES AND THEIR IMPACT ON FINANCIAL DISCIPLINE IN IRAQ FOR THE PERIOD (2004 – 2021)

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Abstract:

Financial discipline is one of the most important goals sought by oil-producing countries, including Iraq, because it achieves maximization of revenues and financial sustainability, and reduces the risks of oil price fluctuations, as financial rules contribute to establishing transparent, credible and applicable financial policies. This is what the government must cover its current expenditures from current revenues, or that the financial deficit does not exceed a certain percentage of the gross domestic product, so that public spending is estimated in light of the available financial capabilities and not according to the financial needs presented by the various administrative units and bodies. This requires paying more attention to current and future needs and curbing excessive spending and then deficits to maintain sound financial discipline through indicators of financial rules.

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a financial surplus of 44.5% in a total of only eight years out of eighteen years, which is the research period (2004/2021). Financial discipline is closer in concept to implementing something than re-engineering public expenditures and technical allocation of financial resources, especially operational ones, that is, raising the degree of adequacy of the return on the expenditure itself compared to the cost of collecting the corresponding revenue based on financial rules indicators.

First: The research problem

Introduction:

With the escalating global economic and financial developments that have occurred in countries, Iraq is not far from the fluctuations in oil prices that the world has witnessed, as increasingly important goals have emerged in the context of financial policy making that determine the extent of closeness or distance from the indicators of the financial rules adopted to achieve financial discipline. The percentage of years has reached In which Iraq achieved



the term financial discipline appeared, and the definitions given were numerous. According to him, financial discipline is defined as the total expenditures not exceeding the amounts allocated to them in the general budget, or the fiscal deficit not exceeding a certain percentage of the gross domestic product, as public expenditures are estimated according to the available financial capabilities and not according to the financial needs presented by the units and bodies. Various administrative (2). He also defined financial discipline as the set of rules that guide the government to determine public expenditures in a way that is consistent with public revenues (3). Thus, we find that financial discipline requires that governments maintain a financial position that supports stability and economic growth and does not lead to macroeconomic imbalances. Therefore, governments must avoid the need for excessive borrowing and debt accumulation, and thus governments fail to fulfill their obligations, as countries with high public debt tend to grow slowly. The government can achieve an optimal combination between its revenues and expenditures by controlling its financial conditions, that is, its expenditures can be controlled in light of available revenues, and the deficit and public debt do not exceed certain percentages as a percentage of the gross domestic product. Three uses of the country's financial discipline can be stated, as shown in the following.(4)

1. The first use: which was brought by economist Richard Musgrave and its content is that achieving a balance between revenues and expenditures achieves financial discipline and that the government's current expenditures must be financed through current revenues only and not financed through borrowing, as increasing current expenditures over

The Iraqi economy is considered one of the unilateral economies and dependent on oil, and the fact that the financial policy is the only one capable of achieving financial discipline through indicators of the financial rules in the Iraqi economy, although it also suffers from problems and a clear imbalance in the structure of public expenditures and revenues on the other hand, so the problem of research It attempts to answer the following question (what is the required role of financial policy in achieving the relationship between financial discipline and financial rules indicators).

Second: The aim of the research Analysis of the impact of the relationship between financial discipline and indicators of financial rules in Iraq for the period (2004-2021).

Third: Research hypothesis The research is based on the hypothesis that "there is a relationship between financial discipline and indicators of financial rules in achieving economic growth and the productivity of public expenditures in maximizing public revenues in Iraq.

First: Financial discipline is a conceptual framework.

1- The concept of financial discipline. In 1989, economist John Williamson presented a political prescription for development in developing countries (1), which was a list of ten items that included specific policy reforms in them. This prescription gained broad agreement in Washington and was known as the "Washington Consensus." This recipe aimed to make reforms in all Latin American countries, as this economist indicated in the first of these items the necessity of achieving a disciplined financial policy while avoiding the occurrence of a large financial deficit to gross domestic product ratio. From here,

and future obligations, its revenue flows must be sufficient to compensate for its obligations to prevent default or resort to restructuring (6). The International Monetary Fund has defined it as the situation in which the borrower can continue to service its debts without the need to make a fundamental change in public expenditures and revenues in the future (7).

Third: Analysis of indicators of financial rules and their impact on financial discipline in Iraq.

There are many financial discipline rules that aim to know the level of financial stability in the country and the extent of applying appropriate economic standards and policies for the success of this. The most important of these financial rules can be applied and their impact on financial discipline in the Iraqi economy can be applied, which will be discussed and analyzed in turn.

1- Analysis of the budget base index and its impact on financial discipline in Iraq.

This rule is based on a clear and applicable standard, which is the principle of equality of public revenues with public expenditures in Iraq, which was previously reached within the period of the study from 2004 to 2021. This rule also includes other specific principles that can be taken into account in the Iraqi economy along with the principle of equality between revenues and public expenditures, which allowed for an exception to this, which is the occurrence of a deficit in some years that Iraq is going through as a result of circumstances beyond its control that Iraq cannot control alone. This is what we observed in some years in which a financial deficit occurred and it can be considered one of the circumstances that Iraq had no hand in creating. Regardless of the stable structural imbalance in the Iraqi economy, we note that Iraq went through three exceptional cases whose effects

revenues causes a deficit, which increases the burden on future taxpayers to finance the deficit and the result is the absence or weakness of fiscal discipline.

2. The second use: brought by economist Mikesell John, which supports Musgrave's opinion on the necessity of restricting spending based on available revenues, with an emphasis on monitoring the procedures and implementation of the budget by an independent body and spending the approved amounts on the planned goals in order to fully achieve them.

Second: Financial rules are a conceptual framework

1- The concept of financial rules

The concept of general financial rules is a concept specific to how to achieve financial stability and discipline for the country. Thus, it has received wide attention among developed and developing countries alike as a major indicator of the interrelation between economic policies, including fiscal policy, and macroeconomic performance in general, in addition to focusing on the actions taken by them. Governments in order to reduce the degree of dependence on depleted resources or dependence on foreign aid, and give diversification of sources of income and give a greater role to internal resources in order to reduce the public budget deficit and ideally manage it (5). It can also be defined as having the ability to maintain or support government programs in the future. In other words, fiscal rules indicate the government's ability to maintain current policies without making major adjustments in the future, and on this basis it works to maintain its fiscal policies in the long term. Without negatively affecting the government's financial solvency or in the event of failure to pay some of its financial obligations, according to the economist Tanner's vision, in order for the government to fulfill all its current

affected by these variables and does not affect them. As for the third direct reason, it is what we noticed of a significant increase in the volume of public expenditures. Although there are efforts and a need for tunnels to liberate the occupied governorates (Mosul, Salah al-Dari, Anbar) and parts of Kirkuk and Diyala governorates, they have not yielded results in liberating those areas. No tangible development was achieved in the other governorates, and therefore public spending was partly due to the change in the state's consumption and spending habits and its learning of a type of luxury or entertainment spending that is not economically, health-wise, or educationally beneficial. As for the third period, it was also for four years, and came due to a decrease in Global crude oil prices are the main source of revenue for Iraq, in addition to the spread of the Corona epidemic (Covid-19), which led to the cessation of commercial activity and then the cessation of factories and production facilities and thus the complete closure. The second main reason is the high volume of expenditures in Iraq, which came to meet requirements.

And the health needs of the pandemic, and thus we note that Iraq has gone through eight exceptional years out of a total of eighteen years, which is the specified study period, and there is no standard for knowing whether the exceptional years as a total have a certain percentage or not, after the percentage of exceptional years in Iraq reached 55.5% of the total. Years of research.(9)

extended from two to four years, as shown in Table (1), which shows that Iraq suffered from a financial deficit in the first period from 2009 to 2010. Firstly, due to the decline in global oil prices, which is a standard that is beyond Iraq's ability to control because it is subject to the standards of global supply and demand, OPEC, and OAPEC. The second main reason is the increase in public expenditures without justification, which is a negative indicator that indicates mismanagement of the Iraqi funds collected and not directing them in the right direction. Towards investment, employment and income generation again, and what our analysis indicates is the failure to achieve tangible economic development in the health, educational and other services sectors that are supposed to achieve growth in later years and recovery in the industrial, agricultural and tourism sectors, and this is what we did not find on the ground in Iraq and indicates it.(8) All official national and international reports. As for the second exceptional period that Iraq was subjected to, it extended for four years from 2013 to 2016, and part of it, although it was said that it was exceptional and outside the control of the state, was represented by the security deterioration and the terrorist occupation of some Iraqi provinces, but it was also due to negligence and corruption in To a large extent as well, and it was, and the immediate exceptional circumstances are the decline in global crude oil prices, which coincided with the first reason, which is out of control. Iraq is a country

Table (1)
General budget base indicator In Iraq (exceptional years) within the study period 2004-2021

| The main reason | Indicator | Ratio of exceptional years to the duration of % study | The length of time | Duration of exceptional years |
|--|-----------|---|--------------------|-------------------------------|
| -Decrease in global oil prices - Unjustified increase in public expenses | Inability | %11.1 | Two years | 2009-2010 |
| -The deterioration of the security situation and the occupation of some Iraqi provinces by terrorism - Decrease in global oil prices - Unjustified increase in public expenses | Inability | %22.2 | four years | 2013-2016 |
| - Decrease in global oil prices - The global spread of the Corona epidemic (Covid-19) - Complete trade closure between countries of the world - Increased public expenditures for the health sector | inability | %22.2 | Four years | 2018-2021 |

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Source: Table prepared by the researcher, based on analysis, approved scientific sources, and official reports.

surplus, as we mentioned above. The percentage of years in which Iraq achieved a financial surplus amounted to 44.5%, with a total of only eight years out of eighteen years, which is the period of the study, and is shown in the following table (2), which shows that during the period from 2004 to 2008, Iraq achieved a surplus. Financially, this was due primarily to the lifting of the economic blockade, in

When looking at this rule by allowing the existence of a financial surplus on the condition that it is used to achieve balance in years in which there is a financial deficit, Iraq did not benefit from this advantage significantly due to the low size of the financial surplus achieved in general, in addition to the fact that most years it achieved a deficit and not a



financial surplus achieved by Iraq, and we conclude from the above that Iraq did not reach the greatly desired result, which is to benefit from the years of financial surplus to cover the deficit in other years. This is due to several reasons, including weak financial management in general, and the small number of years of financial surplus compared to years of financial deficit. Also, the achieved surplus did not equal the amount of the deficit and the actual need to bridge this financial gap, so it is difficult to estimate that the years of financial surplus contribute as planned to addressing the financial deficit and that the state relies on it to achieve this, especially since it achieved only a 44.5% surplus rate while it was the deficit rate is 55.5%. This raises the question of the extent to which these years are considered exceptional according to the international standards adopted by the budget balance rule and its application in Iraq.

addition to achieving oil financial revenues from selling oil to global markets. This period was for five years, and 27.8% was the years of financial surplus achieved within the period of the study adopted by the researcher. As for the second period, it was for two years. It was only in the years 2011 and 2012, and Iraq achieved a good financial surplus, and it occupied 11.1% of the total years of financial surplus in Iraq. This period is due to the establishment of security in most of the governorates of Iraq, the resumption of land trade, and the operation of suspended oil pipelines, in addition to the approval to increase capacity. Export exports to Iraq and granting it the oil quota assigned to it within OPEC. The rise in global crude oil prices has helped significantly and directly in achieving a financial surplus for Iraq during this period. Also, the year 2017 achieved a financial surplus during this year, which occupied only 5.6% of the total years. The

Table (2)
Indicator of the general budget base in Iraq (years of financial surplus) within the study period 2004-2021

| The main reason | Indicator | Ratio of exceptional years to the duration of study % | The length of time year | Years of financial surplus |
|---|-----------|---|-------------------------|----------------------------|
| - Lifting the economic blockade on Iraq - Achieving oil revenues from sales in global markets | surplus | % 27.8 | 5 | 2008-2004 |
| - Security stability in most governorates of Iraq - Increase in global oil prices - Increasing the capacity and export share of Iraqi oil | Surplus | % 11.1 | 2 | 2012-2011 |
| - Increase in global oil | Surplus | % 5.6 | 1 | 2017 |



| | | | | |
|--|--|--|--|--|
| prices | | | | |
| - Liberating the provinces of Iraq from terrorism and achieving security stability | | | | |

Source: Table prepared by the researcher, based on analysis, approved scientific sources, and official reports.

years. They can be viewed as exceptional years, as they amounted to only four years out of a total of eighteen years, which is the study period specified in our research. The percentage of these years in which public spending increased significantly amounted to 22.2%, which is a percentage that can be considered somewhat acceptable according to what is permitted by the organizations. Specialized international finance, and when referring to the justifications for spending,(11) we find that they are not far from extravagance and financial mismanagement in most cases and years, with justifications for some of them, for example in 2006, and the urgent need to restore security stability and prevent internal and external population migration. As for 2008, their justifications were initiatives. Agriculture which had no effect on the ground and was merely ink on paper as trillions of dinars were spent without financial control over it, which contributed significantly to increasing public spending. As for the years 2012 and 2018, they were characterized by an increase in government spending in ministries, including government appointments and an increase in Unjustified spending.

2 - Analysis of the spending base index and its impact on financial discipline in Iraq.

The rule for controlling public spending in Iraq depends on the indicators and working principles that this rule adopts for its application. To begin with, it focuses on the principle of controlling the rate of growth of spending and that it does not exceed the limits set for it, which are usually estimated at a rate not exceeding 30%. It is a general standard that guarantees the achievement of financial stability for the state in In the event that economic stability does not occur (10), it must also be proportional to the growth in the volume of annual public revenues. The standards cannot be applied without being proportional to the amount of financial revenues achieved. One of the conditions for the success of this indicator is also that attention must be given to the general economic situation of the country if Was it in a state of economic boom or recession? Table (3) shows the state of the Iraqi economy according to this indicator for controlling public spending and the extent of its impact on achieving financial discipline in Iraq. We note from the aforementioned table that the years in which a large financial deficit occurred are very few

Table (3)
Index of spending control base in Iraq within the study period 2004-2021

| The main reason | Indicator | Ratio of years to duration of study % | The length of time year | Years of public spending more than 30% |
|--------------------------|-----------|---------------------------------------|-------------------------|--|
| - Achieving oil revenues | اعلى من | % 5.6 | 1 | 2006 |



| | | | | |
|--|-----------------------|-------|---|------|
| from sales in global markets - Increasing the volume of spending on areas affected by terrorism | المحدد | | | |
| - Initiating agricultural and industrial initiatives that the state has guaranteed for the community - Opening the door for appointments for thousands of graduates in state institutions | Higher than specified | % 5.6 | 1 | 2008 |
| - Increase in global oil prices - Increasing current public spending in ministries | Higher than specified | % 5.6 | 1 | 2012 |
| - Unjustified spending in ministries and government agencies | Higher than specified | % 5.6 | 1 | 2018 |

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Source: Table prepared by the researcher, based on analysis, approved scientific sources, and official reports.

economy, especially the global oil markets, which are the main source of financial revenues for Iraq, and there is no doubt that Iraq depends almost entirely on the export of crude oil abroad, and therefore all financial resources come from those oil resources. In light of the neglect of the rest of the other productive sectors, and since crude oil is a commodity whose value is determined in light of changes in global supply and demand as a result of the changes that occur in importing countries and the extent of their dependence on oil in the production of their industries or the extent of the availability of quantities of

3 - Analysis of the revenue control rule index and its impact on financial discipline in Iraq.

When applying the revenue control rule in the Iraqi economy in order to know its impact on the extent to which financial discipline is achieved, we note that according to its standards, it requires an estimate of the upper and lower limits of the financial revenues that can be achieved during the year or the next year, and this matter is difficult to achieve and estimate in Iraq from a practical standpoint. Because the financial revenues generated are linked to the extent of achieving stability in the global

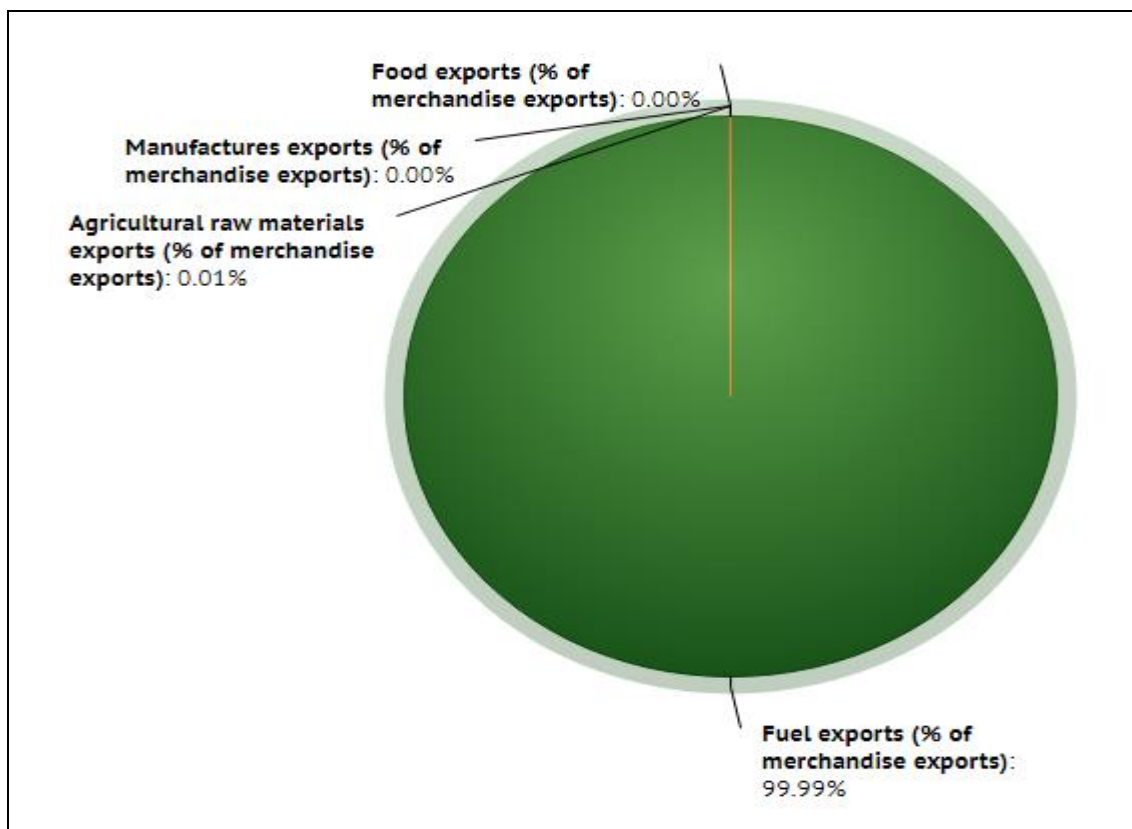


exports absolutely dominated the volume of total exports, and there is no comparison between them and other economic sectors, and they need an actual study based on the experiences of successful countries for real economic reform. The reason for this decline in the diversification of commodity exports to Iraq can be explained by its exposure to wars and economic sanctions,(12) and the cessation of the process of importing or manufacturing raw materials for machines and equipment in many production projects, which resulted in the backwardness of means of production and their exposure to corrosion and cessation and the inability to keep pace with global developments and technologies used. As for other factors It is the decline of the climate supportive of industry and agriculture through the flooding of Iraqi markets with various products, as well as the obsolescence of production lines in industrial companies.(13)We conclude from the above that applying the revenue control rule is difficult to achieve in Iraq for the reasons mentioned above, and that Iraq is unable to achieve tangible progress in changing the pattern of these revenues, and it needs a study that focuses first on diversifying production and exports abroad, as well as adjusting financial estimates in order to reach A certain degree of stability and financial discipline in Iraq.

crude oil in global markets and changes in strategic reserves in countries The developed world, including the United States, and therefore changes in oil prices are possible and oil shocks occur continuously and affecting the Iraqi economy. Many unexpected oil shocks have occurred that have confounded the Iraqi economy in general if these shocks affect the size of the gross domestic product and the Iraqi balance of payments. In addition to the impact on other macroeconomic variables, its impact was clear on the decrease in the volume of financial revenues achieved. Iraq also has trading partners who participate in exporting to it only various products of goods and services, but Iraq has nothing to export to these countries, as its trade balance is concentrated in exporting only crude oil, which is shown in Figure (1). As for the rest of the exports, they are almost 0%, as Iraq suffers. From stopping the export of food products abroad, as well as stopping the export of basic agricultural raw materials, as well as stopping the export of industrial products, or that these exports do not exceed hundreds of thousands of dollars only, and they are paper waste for recycling, or they are skins of slaughtered animals to be manufactured abroad. It is possible that Iraq will import it later at several times its selling price. As throughout the period of the study from 2004 to 2021, oil

Figure (1)

The percentage of oil exports' contribution to achieving Iraq's financial revenues Regarding other important Iraqi exports For the period 2004-2021



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<https://datacatalog.worldbank.org/dataset/world-development-indicators>

controlling the volume of its spending and rationalizing it. Correctly, as for revenues, the International Monetary Fund allows for there to be unintentional fluctuations in revenues, which are the result of global changes, for example, what the world is going through in terms of economic boom or recession, and this also applies to the Iraqi economy because it cannot control the size of its financial revenues. Because of its dependence on the export of crude oil by more than 99%, it is therefore a recipient of what is happening around the world and is affected but not affected by what is going on around it. This rule is concerned with taking the financial surpluses achieved in the years of prosperity and nourishing them in the years of depression and deficit, and this comes through the establishment of investment funds. A sovereign state in which financial surpluses are deposited, invested and their revenues are returned

4- Analysis of the optimal financial base index (golden) for developing countries and its application in financial discipline in Iraq

This rule is considered one of the most important, effective and applicable financial rules that the International Monetary Fund urges developing countries to work on implementing, (14) in order to reach an acceptable level of financial discipline. Iraq is one of these countries that really needs to apply this rule with the possibility of applying the aforementioned financial rules. Mentioned, however, according to international studies, this is the most appropriate in achieving financial stability and financial discipline in Iraq, and this financial rule is based on a basic principle, which is controlling the fluctuations of public expenditures in particular and making them follow an almost constant line, which is what Iraq can achieve by

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to the same fund. It is used to address fluctuations in the volume of financial revenues and to fill the deficit that occurs in some years in a large way. Iraq lacks these sovereign funds despite their importance, and many countries of the developing world adopt them and they are successful, such as The State of Algeria, the Kingdom of Saudi Arabia, the Emirates, Qatar, Kuwait, and other.(15)

Conclusions:

1-Financial discipline contributes greatly to enhancing economic growth and maximizing revenues in the long term, as curbing the deficit and achieving a budget surplus is a form of discipline in the future.

2- Indicators of financial rules indicate that they were positive in some years, and this improvement is not due to financial discipline stemming from a directed financial policy, but rather to the increase in prices and quantities of oil production in those years.

Recommendations:

1- Working to achieve more financial discipline in financial policy in order to reduce the state of economic instability in Iraq.

2- Adopting the idea of economic diversification by developing the rest of the productive sectors, reducing dependence on oil to finance public revenues, and directing the surplus of those revenues to investment areas in the infrastructure of the Iraqi economy.

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