



## Relationship analysis Between government spending and economic stability in Iraq for the period (2004-2020)

**Dr. Ali Khalid Abdalaa**

University of Missan  
[alikhaliid@uomisan.edu.iq](mailto:alikhaliid@uomisan.edu.iq)

**Sarah jabbar Naima**

Imam jaafar Al-Sadiq Universiy

### Abstract

This research deals with the role of government spending and its role in achieving economic stability in Iraq during the period (2004-2020) by clarifying the concept of government spending, economic stability and the nature of stability.

The research aims to analyze the relationship between government spending and economic stability in Iraq for the period (2004-2020). The study concluded that there is a relationship between spending and stability. A qualified private sector must be built to lead the economy and reduce the role of the state or carry out partnerships between the public sector and the private sector in preparation for playing a greater role. In achieving economic stability, as well as the immediate review of the structure of government spending and the rationalization of aspects of public expenditures by combating administrative and financial corruption.

**Keywords:** economic stability , government spending , Iraqi economic.

### Introduction

Government spending represents a special importance and is the tool that the government relies on in achieving what it aspires to in terms of progress and development in all aspects of life. Therefore, the spending policy largely reflects the goals set by the government, which seeks to advance the national economy by advancing development and achieving economic stability. The development in financial thought refers to the call for the importance of developing advanced spending policies capable of achieving the set goals and the need for government intervention in economic activities.

Government spending is also one of the tools of fiscal policy, and it expresses the role of the state in intervening in economic life and directing economic activity to achieve growth and economic stability Public spending is one of the tools of the state through which it seeks to increase production, achieve economic and social goals, and achieve economic stability.



### Research Importance:

In general, the importance of studying the issue of government spending and the role it plays in achieving economic stability comes through a statement of the special nature of the above spending in order to reach the desired economic stability, leading to an analysis of the components of government spending that include achieving economic growth and identifying the phenomena of inflation and unemployment.

### Research problem:

Despite the increasing growth rates in government spending in Iraq, it did not reach its goal of achieving economic stability. There are many opinions about the impact of government spending on growth and economic stability, some of which are seen as a catalyst, the other shows that it is decreasing, and the other shows that there is no effect, and this depends on the time period and on the level of development in the country and the economic situation.

### Research aims: The research aims to

- 1- Disclosing the mechanism of the Iraqi government's work in drawing and directing macroeconomic variables through government spending in a way that aims to achieve economic (stability for the period from (2004-2020
- 2- Studying the reality of public spending and economic stability and the relationship between them, then examining the role of government spending in determining indicators of economic stability such as inflation and unemployment, and determining the impact of government spending in achieving Iraqi economic stability.

### Research hypothesis:

The study assumes the hypothesis that the role of government spending policies varies in their ability to achieve economic stability depending on the different economic conditions of the country.

### First: The theoretical framework for government spending and economic stability.

Public spending reflects the role of the state in economic life, as it has become the main tool for fiscal policy that aims to achieve economic stability. Therefore, the study of public spending aims to know the impact it achieves on economic stability, or in a second form its effectiveness in achieving the goals of economic policy.

The study of the Iraqi economic reality reveals the fact that the economy has been subjected to shocks that no economy in the region has been exposed to, as it suffers from problems and crises since the eighties of the last century until the present time, as unemployment levels increased dramatically, and poverty cases increased among the groups of society and the large disparity between incomes, not to mention The large amount of indebtedness in favor of the countries of the world and the spread of corruption of all kinds in all economic sectors. These problems have become major challenges facing the process of building the economy and obstructing the process of development and economic stability.

### 1-The concept of government spending:



The study of public spending has occupied an important position in financial studies, because it has developed at the same level of development as that of financial thought and fiscal policy. economic needs to satisfy those needs, and this is done through public spending. **(Al-Obaidi, 2011:32)** Economists did not differ in giving a specific concept of public expenditure as much as they differed in its effects, resorting to it in a way that made it a priority for any economic policy in this field, and by virtue of the fact that public expenditure is concerned with the economic and social activity of the state alike. Its divisions and its economic and social effects.

Government spending can be defined as a set of expenditures that the state spends in the form of a certain amount of money during a specific period of time aimed at satisfying specific needs of the society organized by this state. **(Abdul Muttalib: 2005, 173)** Government spending can be defined as (the amounts spent by the state to provide services to citizens or to purchase goods in order to be able to provide its services or help a class of society or to establish various economic and social projects). **(Rasheed: 1986, 126)**

### **2- The concept of economic stability:**

Stability linguistically means constancy and stillness, and it can be defined in economic terms as preserving the existing economic situation, regardless of whether it is ideal or not, in order to create the appropriate conditions to improve that situation. **(Bakhit: 2007, 4)** Stability also means preparing for the restoration of balance, and this is achieved when none of the economic variables tend to change negatively during a certain period, and it reaches a state of equilibrium when this condition is achieved. Economic stability in developed countries is represented in reaching full employment, however, what is meant by employment is not reaching zero unemployment rates, but rather pressing them to that space that only allows what is called frictional unemployment.

**(Ayeb: 2010, 70)** If the problem with stability is the high rate of unemployment, then the response in this case is through two methods: fiscal policy or monetary policy, or both. Fiscal policy tools can be used through increased spending, or through monetary policy tools by increasing the money supply, and this is recognized by many Effectiveness of monetary policy. It also means achieving full employment without inflation, i.e. reaching the production of the largest possible amount of material output or real national income, i.e. the highest levels of exploitation of economic resources available to the national economy and at the same time preserving the value of money.

### **Second: The structure of government spending in Iraq**

Studying the structure of government spending in any country shows us some indications of the directions and objectives of the agreement policy. It also gives an impression about what this policy can achieve by knowing the relative importance of each type of government spending. In the internal framework, the state's resources are concentrated in oil export revenues that It constitutes more than (95%) of the state budget, with its two parts related to operating (current) and investment expenses. However, continued dependence on this resource requires the allocation of large investments so that it can give a greater financial return to meet the requirements of the country's economic policy and external obligations. A large financial investment can even be converted into real resources ready for use. As for the financial and monetary policies of the state,



it still suffers from many problems and needs serious treatment. Perhaps the first problem is formulating a sound financial budget towards price liberalization and reducing government spending resulting from the large support provided by the state for many goods, services and institutions, which amounts to more than (40%) of the value of spending. The government budget is approached by removing or alleviating the external financial burdens resulting from debts and war compensation inherited from the previous regime **(Al-Hafiz: 2009, 64)**

### **1-Investment spending:**

Investment spending is one of the most important tools of fiscal policy that can contribute to stimulating the activities of the national economy and achieving the desired growth if used optimally. Economic growth, through government investments, which are difficult to segment according to the logic of the strong impulse theory, as it has a major role in determining the rate of economic growth, as every increase in this spending represents either adding new production capacity or repairing broken production capacity. **(Al-Marsoumi: 2015, 15)** Accordingly, public investment spending is the main driver of the Gross Domestic Product (GDP), and it is considered the true representative of the state's role and function in planning, directing, and employing its resources in establishing and developing the main infrastructure. Investment spending has a special importance as it is the second component of income after consumption, and its exposure to fluctuations leads to many fluctuations in the whole economy.

Investment in its general sense is a stream of spending on new fixed capital goods such as factories, machinery or roads, as well as additions to inventory such as raw materials, intermediate goods, final goods and new housing constructions during a certain period. In other words, it refers to spending on capital equipment for periods (more than a year), building new projects, or expanding its production capacities, which means adding to the stock as well as implementing long-term plans and strategies set by the state. **(Hossam and Mustafa: 2010, 118)** Investment spending plays a major role in determining the rate of economic growth, as each increase in this spending represents either adding new production capacity or repairing new broken energy. **(Jamil: 2012, 23)**

### **2- Consumer spending:**

Public consumption spending consists of two parts. The first includes the public services provided by the state and the requirements related to these services provided by the state, as it includes wages, salaries, government purchases, its military expenditures. **(Ministry of Planning: 2010,7)** Spending in its two parts, current and investment, has a role in achieving economic development through increasing the gross domestic product and thus increasing the national income, which leads to an increase in per capita income. The greatest impact of investment spending is in achieving an increase in national income and raising the standard of living of the population. As for consumer spending, it will play a specific role in raising the growth rates of the gross domestic product.

### **3- The reality of the Iraqi economy after 2004:**

Iraq is unique from other Arab countries in that it combines abundant water and large areas of arable land, as well as natural resources represented by oil, phosphate, sulfur and red mercury, which constitute important areas for investment in what serves and develops the Iraqi economy,



although the Iraqi economy is one of the The various resources it possesses are important natural, agricultural and human resources, but it continued to suffer from structural imbalances in its various sectors, as the extractive sector continued to control the largest part of the national product and constitute the bulk of Iraq's foreign exchange earnings due to the decline in growth rates of other sectors, their modesty and limited exports. (Al-Amili: 2007, 6) As it reached until the year (2005) about (81.7%), and it includes the extraction industry of oil, gas, sulfur, phosphate and other non-metallic ores. Oil represents the first place in this field and can be considered the basis on which the Iraqi economy is based. Among the oil exporting countries (OPEC), the amount of proven reserves is about (15) billion, while the semi-fixed or converted to fixed reserves is estimated at about 40 billion. (Al-Hayawi: 2009, 105)

#### 4- The problems that the Iraqi economy suffers from after 2004:

The Iraqi economy includes various basic sectors, such as the agricultural and industrial sectors, the transport and communication sector, the banking sector, tourism, health, education, and education. All these sectors have been neglected for three decades and have not received the necessary attention despite the natural resources that Iraq enjoys from other regional countries or many countries. The world, which reflected negatively on the economic and social situation of the Iraqi citizen, and Iraq was classified among the poor countries in the statistics of the United Nations and came before Yemen, the most underdeveloped among the countries of the world. It does not lead to overcoming the state of underdevelopment, and others see that underdevelopment means scarcity of economic resources, misuse of resources, or both. There are many challenges and difficulties facing the Iraqi economy because of the real and monetary shocks it was exposed to, and many crises over the past decades, such as mismanagement of the economy, special economic policies, the war of the American occupation, as well as the war on ISIS, and the problem resulting from the decline in global oil prices, which in general led to the destruction of the infrastructure and the depletion of Financial resources, lagging behind in the main economic sectors, high rates of inflation and unemployment, not to mention the problems of external debt.

**table (1) Inflation and unemployment for the period 2004-2020**

Year	%INF	% INM
2004	27	26.8
2005	37	17.7
2006	53.2	17.7
2007	30.8	11.7
2008	13	15.39
2009	7.1	15.4
2010	6.1	15.2
2011	5.6	15.2
2012	6.1	15.2
2013	1.9	15.3
2014	2.2	15
2015	1.4	15
2016	1.2	15.1





2017	0.8	14.8
2018	0.8	22.6
2019	-0.2	12.76
2020	0.6	13.74

**Source: Central Bank, Economic Report for the years 2004-2020**

Based on the above, these negative phenomena deepened and intensified after 4/9/2003 and to the present day due to the destruction of the economic infrastructure, which had a negative impact on total production, especially the production of the main important commodity sectors in the economy (agriculture, industry, health services, and education). This destruction included the oil sector, which is the main engine of activity and economic growth. The policies pursued by the occupation forces represented in demolishing the institutional structure of the Iraqi state by dissolving the ministries and state departments with their military, security and cultural activities, which further deepened the phenomenon of structural imbalance in the Iraqi economy and the emergence of severe economic crises represented by The most important of which is the dangerous spread of unemployment in various economic sectors, high prices, and the low level of social and health services for society. **(Ajlan: 2005, 5)**

That the fundamental transformation in the Iraqi economy after the change in April 2003 has become a unilateral rentier economy, and this characteristic is inherent to structural imbalances, as oil dominated the structure of foreign trade and contributed to more than half of the gross domestic product and the main source of financing the state's general budget, and this rentierism has led to A group of economic, social, political and negative phenomena termed (the perverted effects of rents) such as excessive consumerism that was secured through imports, which led to the leakage of a large part of the oil rents and the imbalance between saving and investment and the imbalance between public and private consumption. In addition to dependency and its effects on the course of the economy. **(Burahi: 2011, 50)**

### **Third: The challenges that faced the Iraqi economy after 2004**

#### **1-High unemployment rates:**

The phenomenon of unemployment is one of the main problems that threaten the stability of different countries and impede their progress and economic development. Iraq is large, and there is no doubt that the public sector alone cannot provide additional job opportunities. The departments and companies of the public sector are saturated with labor and suffer from the problem of disguised unemployment due to the weakness of the local private sector. The state finds it difficult to find the necessary job opportunities to solve the problem of unemployment.

**(Saud: 2017, 57)** The most prominent characteristic of the Iraqi labor market is the high growth rate of labor supply as a result of the high growth rates of the population and the labor force in light of the slowdown in the growth of demand for work, which is caused by several factors, the most prominent of which is the low ability to increase the total supply in a way that is commensurate with the volume of effective aggregate demand, which results in the growth of The volume of imports exceeds exports, and this means a decrease in investment opportunities and capital formation as a result of the exit of foreign currencies. As a consequence of this, the



increasing difficulties for the Iraqi economy to direct economic activities in areas that achieve economic development. **(Al-Eidami: 2014, 441)**

From table (1), we notice that the unemployment rate reached about (26.8%) in 2004, and it was (20.2%) and (16%) among females, then it decreased to (17.7%) in 2005. These rates continued to decline, reaching in 2007 about (11.7%), and decreased further to reach (15%) in 2010. This decrease is due to the state's interest in reducing unemployment rates through the employment of large numbers in public sector institutions and in the army and police, in addition to the increasing number of migrant workers to work outside Iraq. Accelerate the reconstruction of the economic sectors and infrastructure destroyed by the war, which would create new job opportunities that contribute to withdrawing or employing the unemployed, especially young people of working age, and this works to substantially reduce unemployment. Creating and providing an appropriate and suitable climate for local and foreign investment, which increases investment and employment opportunities, with a focus on directing investment to industries that provide real job opportunities (labour-intensive) and serve the employment and operation process and are capable of absorbing a large part of the workforce and thus reduce unemployment rates, as actually happened in Some Arab countries, such as Tunisia and Morocco, have helped industrial investments with a labor intensity in reducing unemployment rates.

## 2- Inflation

Inflation is an economic and social disease that affects most economies, whether developed or developing, especially when it exceeds the upper limits of inflation. It represents a monetary phenomenon affected by economic policy measures, whether monetary or fiscal policy.

**(Al-Ward: 2006, 32)** Inflation as a monetary phenomenon can be defined through its causes, as it is (an increase in the amount of money that leads to a rise in prices), whether that increase emerged through the money supply (i.e. through the issuance of money or the expansion of credit creation) or appeared through the demand for money (spending private and public consumption), and it can also be said that inflation is nothing but a self-sustaining (upward movement) resulting from excess demand in excess of supply capacity. **(Al-Dhabawy: 2008, 72)**

In addition to the role of the economic policies at the time that contributed to the deterioration of the economic situation and this was reflected in the high inflation rates, and despite the many economic changes witnessed in the post-2003 period, including the lifting of economic sanctions and the independence of the Central Bank of Iraq, the inflation rates, even if they recorded a decline until 2007 to reach about (30.8 %) compared to what it was in 2006, which was about (53.2%), it was increasing due to the cessation of many economic aspects and the rise in the prices of some commodities, including oil derivatives, which had a negative impact on the standard of living of citizens, but in 2008 it recorded a decline Obviously, as a result of the procedures of the Central Bank of Iraq and its role in achieving stability in addition to improving the security situation, however, the data contained in the above table indicate a continued decline in inflation rates until they reached about (4.1%) in 2015, and this is due to the ability of the bank's monetary policy The Iraqi Central Bank and maintaining low rates of inflation within acceptable limits, and the reason for the volatility and continuation of inflation after 2008 was between the rise in one year and the decrease in another year. **(Ministry of Planning: 2015, 79)**



And that the phenomenon of inflation is not a new phenomenon for the Iraqi economy, but rather it is a product of previous accumulations, wrong economic policies, and political decisions that were not rationally calculated. With a significant decline in living standards and the cessation of its oil exports, on which it depends to cover public spending, the economy continued to suffer after the political change that took place in 2003 and through successive governments that faced many challenges that contributed to this. **(Saleh: 2003, 44)** Among the other reasons that increase inflation rates is the scarcity of energy and the unstable security situation, in addition to the improvement in the salaries of employees, which was not accompanied by an increase in the production of produced goods and services. imposed by the International Monetary Fund, and the effects of this phenomenon have been reflected on the poor segments of society. However, some believe that the effectiveness of monetary policy appeared through reducing primary inflation from an annual growth level of (32%) in January (2007) to an annual level of (12.4%) in June (2008), which clearly confirms the role of the price signal. The interest adopted by the Central Bank within the monetary movement movements and its importance in containing the phenomena of regression in the level of inflationary expectations of the public. **(Al-Khafaji: 2011, 122)**

In addition to the exacerbation of external indebtedness as a result of wars and international sanctions, some of its debts are what is declared according to Iraqi sources that have determined it at about (65) billion dollars, but the World Bank and the Bank for International Settlements estimate it at (127) billion dollars, and it is the one that Iraq deals with, including (40) ) One billion dollars to European countries and (35) billion dollars in loans to Gulf countries, and the rest is not available with accurate information about it, and it is undoubtedly a large debt that reduces the country's political and economic importance and degrades its international capabilities. As well as the lack of a clear and comprehensive strategy at the level of the Iraqi economy as a whole targeting the structure of the Iraqi economy and also relying on oil as a sole source for financing government spending. The most important challenge is achieving security and political stability for the sake of reconstruction and construction, especially infrastructure, by bringing in foreign and national investment. **(Strategic Report: 2008, 304)**

### **3-Balance of Payment**

It is an account statement that records the values of all goods, services, donations, foreign aid, all capital transactions, and all quantities of monetary gold entering and leaving this country, during a specific period of time, usually a year. The balance of payments expresses the balance of the state's transactions with the outside world, as it is considered one of the most important tools Economic analysis during a certain period, especially with regard to the structure of exports and imports, as when the balance of payments, especially the trade balance, achieves a surplus, this means that the economy is in a good position, which means achieving high growth rates that contribute to the recovery of the economy and thus achieving economic stability at the macro level.

**(Al Habib: 2013, 4)**

### **4-The general budget:**

The general budget is only a draft until it is approved by the legislative authority to become a budget, which is a detailed and approved estimate of public expenditures and public revenues for a



future fiscal period, usually a year, and the general budget is of great importance in the economy, where taxes are relied upon as a type of revenue Which is used to finance expenditures, which have a positive impact in many economic fields, where part of it is directed to increase consumption, especially for the unemployed group, which contributes to building investment projects that allow eliminating the problem of unemployment and this enables the state to achieve an increase in economic growth rates, Which means achieving economic stability. (Mustafa: 2010, 107)

**Table (2) The general budget in Iraq for the period (2004-2020) (Million dinars)**

year	general revenue	Government spending	Gr re deficit or surplus %	deficit or surplus
2004	32982736	32117491	-	865248
2005	40502890	26375175	1532	14127715
2006	49063361	38076795	22-	10986566
2007	54599451	39031232	41.7	15568219
2008	80252182	59403375	33.91	20848807
2009	55209353	52567025	87-	2642328
2010	70178223	70134201	98.33-	44022
2011	108807392	78757666	68.16	30049726
2012	119817224	105139576	51.15-	14677648
2013	113767395	106873527	56.23-	6894368
2014	105386059	83556226	216.64	21830397
2015	66470252	70397515	117.98-	3927263
2016	54409270	76067436	222.31	12658167
2017	77335955	75490115	114.58-	1845840
2018	106569834	80873189	1.29	25696645
2019	107566996	111723523	116.17-	4156528
2020	63199689	76082443	209.94	12882754

**Source:** Central Bank of Iraq, General Directorate of Statistics and Research, statistical website, different years (2004-2020)

It is clear from the above table that the general budget of Iraq during the period (2004-2020) achieved a surplus in its budget. During the period (2004-2008), public revenues in Iraq amounted to (32,982,736) million dinars in 2004, achieving a surplus of (865,248) million dinars, which is The lowest surplus value reached during the study period, as the surplus rates continued to rise in the period (2005-2008), as the value of public revenues in the year (2008) amounted to (80,252,182) million dinars, offset by the public expenditures, which amounted to (59,403,375) million dinars, thus achieving A surplus in the general budget amounting to (20,848,807) million dinars, with a growth rate of (33.91%), due to the global crisis, whose effects were clear on the rise in global crude oil prices, and the fact that Iraq's economy is a rentier economy, which resulted in



an increase in public revenues as a result of increased revenues oil, and achieving surpluses in the general budget during that period.

Then this surplus recorded a clear decrease during the period (2009-2010) to reach in 2009 to (2,642,328) million dinars and a negative growth rate of (-87), but in the year (2010) it recorded the lowest value of the surplus during the period of the study, which amounted to (44,022 ) million dinars, with a negative growth rate of (98.33%). The reason for this decline is attributed to the decline in oil revenues, which constituted a large part of public revenues due to the drop in global oil prices after the global real estate crisis. Then the surplus rises again during the period (2011-2014) the highest value of the surplus was recorded during the study period, as it reached in 2011 (049,726,30) million dinars, with a growth rate of (68.16%), while in 2014 the value of the surplus amounted to (397,21,830 ) million dinars, with a growth rate of (216.64%), due to the high rate of public revenues due to the increase in oil exports, accompanied by an increase in global crude oil prices. However, these surpluses were wasted due to the volume of ill-conceived operational spending, and not being directed towards investment spending or the establishment of a sovereign fund. Then this surplus decreases until it reaches the deficit. During the period (2015-2016), the deficit reached (3,927,263) million dinars, with a negative growth rate of (117.98%) in 2015. In 2016, the general budget deficit reached (12,658,167) million. Dinars, with a growth rate of (222.31%). The reason for this deficit is due to the coincidence of that period with the dual crisis represented by the drop in oil prices and economic stagnation, and the increase in public expenditures over public revenues, as a result of the decrease in oil revenues, which constitute a large proportion of public revenues. Because of the drop in crude oil prices ISIS terrorist gangs invade many oil wells and border crossings, as well as increase public expenditures due to the poor security situation and the increase in sugar expenses to confront these gangs.

As for the period (2017-2018), it recorded a surplus. In 2017, the surplus amounted to (1,845,840) million dinars, with a negative growth rate of (114.58%). amounted to (1.29%), due to the increase in public revenues, compared to public expenditures, and this increase is due to the restoration of some oil wells and border crossings under ISIS control and the increase in oil export rates, which led to an increase in revenues to cover what was under expenditures, as well as an increase in both taxes and Fees and winds of the public sector.

### **5- Economic growth:**

What is meant by it is the occurrence of an increase in the gross national income, which achieves an increase in the average share of real income, and we must distinguish between two types of growth:

a-Comprehensive growth, which is achieved when a country's production grows, measured by the real GDP.

b-Intense growth, which is achieved when the country's production grows in real GDP, taking into account the per capita share of this output.

Thus, economic growth means: Achieving an increase in the average per capita share

- That this increase be real and not nominal to be

- An increase in the long term, that is, we exclude what is known as circumstantial or transient growth

**Table (3) Percentage of public expenditures in the gross domestic product in Iraq for the period (2004-2020) (Million dinars)**

Year	GDP	public expenditure	expense base GDP(%35-30) G/GDP
2004	53235358	32117491	60%
2005	73533599	26375175	35%
2006	95587954	38076795	39%
2007	111455813	39031232	35%
2008	157026062	59403375	37%
2009	130643200	52567025	40%
2010	162064566	70134201	43%
2011	217327107	78757666	36%
2012	254225491	1.05E+08	41%
2013	273587529	1.07E+08	39%
2014	266332655	83556226	31%
2015	194680972	70397515	36%
2016	196924142	76067436	38%
2017	221665710	75490115	34%
2018	268918874	80873189	30%
2019	276157868	1.12E+08	40%
2020	219768798	76082443	34%

**Source: Central Bank of Iraq, General Directorate of Statistics and Research, (statistical website, different years (2004-2020)**

It is clear from the above table the proportion of public expenditures to the gross domestic product in Iraq for the period (2004-2020). Percentage during the study period due to the increase in the rate of gross domestic product, which amounted to (53,235,358) million dinars, then it decreased in 2007 to reach the standard percentage (35%) due to the increase in imports, especially oil, as a result of the increase in the rate of oil exports accompanied by a decrease in public expenditures, then It rose again during the period (2008-2010), as it reached a rate of (40%) in 2009, which is thus higher than the standard ratios, due to the decline in the gross domestic product, which amounted to (643,200,130) million dinars, as a result of the decline in oil revenues due to the drop in prices. Oil globally after the global crisis. Then these percentages decreased again during the period (2011-2014). In 2014, they decreased to reach the standard percentages (31%), due to the high rate of GDP, which reached (266,332,655) million dinars as a result of the rise in oil prices on the one hand and the increase in oil exports on the other hand.



Then this percentage increased, but at a small rate, as it reached (36%) in 2015, due to the increase in military expenditures due to the poor security situation that accompanied that period. As for during the period (2016-2018), the proportions of expenditures from the GDP decreased to reach (30%). % in 2018, which is the lowest percentage recorded during the study period, due to the high rate of gross domestic product, which reached (874.268,918) million dinars due to the high rates of oil imports as a result of the restoration of oil wells and some border crossings that were under the control of ISIS gangs. Then it rose again. In 2019, this percentage reached (40%) as a result of the increase in public expenditures after the spread of the Corona epidemic, which was accompanied by a decrease in oil prices and the closure of border crossings between countries, as it amounted to (111,723,523) million. However, during the year 2020, the percentage decreased again to reach (34%) at the end of the study period.

#### **Fourth: The most important mechanisms are achieving economic stability**

**1-Monetary policy:** The task of monetary policy is to correct the money supply in the economy, in order to achieve a combination of inflation and stability of production. Monetary policy is generally the first line of defense in stabilizing the economy during periods of economic recession (the exception is found in countries with fixed exchange rates, where monetary policy is completely linked to the goal of the exchange rate) **(Jaballah: 2010, 130)** Because fiscal policy takes time when enacting changes in taxes and agreements, and once these changes become laws, it is politically difficult to cancel them, not to mention that it is one of the best policies in fighting the phenomenon of inflation, and in order for monetary policy to play its role efficiently, the central bank should be given a kind of independence.

**2-Fiscal policy:** As it is represented in the use of government spending and taxes to influence economic activity and is no less important than monetary policy in that, and coordination between the two policies is necessary because each of them has common effects on economic activity, and they aim to achieve stability for output, prices, balance of payments and employment. That is, economic stability is achieved if stability indicators know a change in growth rates, which affects stability, by reducing unemployment rates and bringing inflation rates to the lowest rate, in addition to achieving the balance of payments and the general budget. **(Abdul Hamid: 2003, 89)**

#### **Fifth: The role of the International Monetary Fund in achieving stability**

The policies of the economic stabilization programs related to reducing the aggregate demand, through which inflation is addressed, are represented in the policies related to the state's general budget, as from the point of view of the International Monetary Fund, work must be done to curb the growth of public spending and work to increase the state's public resources through. **(Shayq: 2011, 105)**

a-Public Expenditure Rationalization Policies: There is a need to reduce and rationalize public expenditures in order to correct the state's general budget deficit.

b-Special policies for increasing public revenues and the tax in particular: increasing the prices of energy materials, raising indirect tax rates

**1- International monetary reserves:** The International Monetary Fund (IMF) defines reserves as those external assets that are available, within reach, and under the control of monetary

authorities to meet balance of payments financing requirements, or to influence the currency exchange rate through intervention in the exchange markets, or for other related purposes such as preservation and confidence-building. In the local currency, in addition to forming a basis for the external borrowing process. **(International Monetary Fund: 2013, 3)**

It can also be defined as those assets of the state, which are from the currencies of other countries with general acceptance and consist of foreign exchange and all kinds of deposits, gold and special drawing rights, in addition to any financial rights of the state over other countries and international bodies that are in foreign currency and based on the basic concept of foreign reserves, and because they are A group of assets denominated in foreign currency, in which the country, which is represented by the monetary authorities, can resort to these reserves in the event of any temporary emergency deficit on the side of the balance of payments. Desirable such as imposing restrictions on imports or devaluation of the currency, which may result in deflationary effects, or through external borrowing, and bearing the cost and burdens of loans. **(Al-Shazly: 2014, 3)** Based on the foregoing and from this standpoint, it can be said: The foreign reserves are a combination of assets in the possession of the monetary authority in the country, and they serve as assets that support liabilities, either to be used directly or to follow the mechanism of converting them into other assets to support the exchange rate of the local currency, as well as Facing the economic fluctuations that occur, whether internal or external.

**Table No. (4) The main components of foreign reserves for the period (2004-2020)  
billion dinars**

Year	foreign precautions	Special Drawing (SDR) Rights	gold reserves	Balances in foreign banks (investments)	Foreign exchange in bank vaults
2004	10109	1061	115	6138	2796
2005	17846	980	142	12776	3948
2006	26157	922	159	21170	3906
2007	38375	498	191	36029	1657
2008	58958	477	191	54472	3818
2009	52224	2442	243	47627	1912
2010	59263	2384	311	55035	1533
2011	71120	2339	348	66887	1546
2012	81312	2009	1860	75133	2310
2013	90097	1810	1902	81040	5345
2014	76974	848	4038	65904	6184
2015	63434	--	3626	57590	2218
2016	53106	--	3957	46723	2426
2017	57893	--	4433	51626	1837
2018	76017	--	4689	68875	2453
2019	79918	--	5572	73184	1162
2020	78293	--	8487	64919	4887



**Source: Annual statistical releases of the Central Bank for the years 2004-2020**

And that many economies of the world, especially developing economies, have worked to maintain a sufficient level of reserves to face the local and global financial crises and their negative effects on most macroeconomic variables, as well as to benefit from them in achieving stability in the exchange rate and thus the stability of the general level of prices. Therefore, it has become necessary to monitor indicators of adequacy of international reserves, especially in unilateral economies, in which the oil sector constitutes a large proportion of the sources of international reserve formation. With regard to the Iraqi economy, after the developments it witnessed after 2003, especially the economic openness and the increase in oil exports with the rise in international oil prices, this has led to an increase in the volume of international reserves at the Central Bank. (Shandi: 2019, 76)

**Sixth: The evolution of government spending in Iraq for the period (2004-2020)**

Government spending in Iraq witnessed many developments that affected its course in terms of volume and the party on which it is spent, due to the economic sanctions imposed on Iraq, which led to reducing the means of financing government spending due to the ban on exporting crude oil, which is the main funder of the public budget, passing through the recent conditions it went through. Iraq after the occupation, and we will include in the table below the rate of gross domestic product, as well as the rate of public spending and the rate of growth for each of them for the years in question for the period from (2004-2020).

**Table (5) shows the evolution of the volume of expenditure and its year of growth for the period (2004-2020).**

Year	GDP	public expenditure	growth % rate	growth % rate
2004	26990	33661	28.2	-33.1
2005	99803	35231	4.6	69.9
2006	109941	20963	44.6	10
2007	111456	51727	1.5	1.3
2008	120627	59862	15.7	8.2
2009	124703	69165	15.5	3.3
2010	132687	84657	22.4	6.4
2011	142700	96662	14.2	7.5
2012	162588	117123	21.2	13.9
2013	173277	138424	18.2	6.5
2014	173377	163416	18	0.1
2015	178613	119462	-26.9	3
2016	193711	105895	-11.4	8.4
2017	201500	100671	-4.9	4
2018	197720	104158	3.5	-1.8



2019	262.8	111.7	38.1	4.4
2020	198.8	26082.4	-31.9	-15.7

**Source: Central Bank, Economic Report for the years 2004-2020**

From Table No. (5), the growth in the domestic product rate appears clear, as it reached its highest point for the year 2005, when it reached (69.9%). The lowest growth rate in the domestic product recorded during the research period, as it reached (-33.1) in. (1) mentioned above that unemployment rates have been fluctuating for years, , especially for the period (2008-2016), as the relationship did not indicate any possibility of a decrease in unemployment rates with an increase in growth rates In the GDP, especially in the year (2011-2012), despite the high growth rate in the GDP from (13.9-7.5%), the unemployment rate did not witness any response, so it maintained a rate of (15.2%), and the reason for this can be attributed to the fact that Any growth in (GDP) in Iraq generated by the increase in prices or quantities of crude oil production did not lead to an increase in investment generating an increase as the latter leads to an increase in the level of employment and a reduction in unemployment rates, in accordance with the logic of economic theory. (Naif: 2020, 56)

**Conclusions:**

- 1-Government spending sometimes has a negative impact on achieving economic stability, in other words, government spending curbs private spending and its role in straightening and stimulating the economy mainly and parallel to government spending and its effective contribution to reaching the desired economic stability.
- 2-The exposure of the Iraqi economy to political and economic crises, as well as to abnormal conditions from external and internal influences represented by fierce wars, which negatively affected the overall life, the last of which was the war on terrorism represented by the Takfiri ISIS.
- 3-Failure to follow special and well-studied policies regarding government spending that secure or achieve economic stability, in the sense of rationing spending on the operational side and directing the bulk of the aforementioned spending towards the investment side.
- 4-From the above conclusions, it can be said that government spending has not succeeded in performing its main function of achieving economic stability.
- 5-Economic stability requires the presence of an economic political system that enjoys an efficient and independent economic will that adopts policies capable of establishing large projects in important sectors such as industry and agriculture.
- 6-The dependence of government spending on a single resource represented by oil revenues and what this resource may be exposed to from repeated declines in prices puts the state in a position in which the required economic stability cannot be achieved.

**Recommendations:**

- 1-Limiting or reducing government spending to aspects that the private sector is working or unable to carry out and directing efficiently towards the areas of social and economic development such as the health sector, housing and other public services, and education.
- 2- Building a private sector that is qualified to lead the economy and reduce the role of the state or carry out partnerships between the public sector and the private sector in preparation for playing a



- 3- Maintaining greater role in achieving economic stability. acceptable inflation rates, which contributes to achieving price stability, which in turn is reflected in general economic stability.
- 4-Immediate review of the structure of government spending and rationalization of public expenditures by combating financial and administrative corruption.

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