Analysis of the fiscal space in the Iraqi economy and the possibilities of measuring it for the period (2004-2019)

تحليل الحيّز المالي في الاقتصاد العراقي وإمكانات قياسه للمدة (2004-2019)

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المستخلص:

الاقتصاد العراقي ريعي (أحادي الجانب) يعتمد بصورة كبيرة في تمويل نفقاته على الإيرادات الريعية والتي تعتبر عرضة للصدمات الخارجية وهي غير مستقرة، ومن أجل ذلك يتطلب توفير إمكانات مالية لاستدامة الإنفاق وتمويل الاستثمار لهذا يتوجب معرفة تلك الإمكانات المالية ومراقبة القدرات التي يوفرها الاقتصاد والتي يكون أحدها هو الحيّز المالي والذي يُمكن للدولة بعد الحصول عليها تنفيذ سياستها الإنفاقية والتنموية بما يحقق الاستقرار الاقتصادي الذي تسعى إليه، تبين عن طريق تحليل مؤشر الدين العام أن حيّزه المالي ضعيف إذ بلغ معدل هذا الحيّز المالي لسنوات الدراسة (-22.1926%) عن النسبة المسموح بها ويتطلب معالجة ذلك تخفيض واطفاء الديون سيما الخارجية منها، واستحصال المنح. أما مؤشر الاحتياطات الأجنبية فتميز باستغلال حيّزه المالي إذ بلغ معدل الحيّز المالي المستغل النسبة (32.309%) وهذا يشير إلى ارتفاعه عن النسبة المقررة (20%) من الناتج المحلي الإجمالي ويتطلب ذلك الحفاظ عليه فضلاً عن تنميته، أما مؤشر صافي الموازنة فأغلب سنوات الدراسة شكلت فائضاً موفرة بذلك حيّزاً مالياً مهمة للاقتصاد، يتعين توجيه ذلك إلى تمويل المشاريع التنموية والاستثمارية التي تحقق عائدات تعزز من قدرة الاقتصاد المالية، كما يتطلب تحسين عمل السياسة المالية بما يحقق التوجيه الصحيح للموارد وضبط كفاءة الاستغلال الصحيح لها.

الكلمات المفتاحية: الحيّز المالي ، الاستدامة المالية، الاحتياطات الأجنبية، الموازنة العامة

Abstract:

The Iraqi economy is rentier (unilateral) largely dependent in financing its expenditures on rentier revenues, which are vulnerable to external shocks and are unstable, and for this, it requires the provision of financial capabilities to sustain spending and finance investment, for this it is essential to know those financial capabilities and observe the abilities that provided by the economy, which is one of them is the fiscal space, that the state can after obtaining it, execute its spending and development policy in order to achieve the economic stability that it seeks. By analyzing the public debt index, it was found that its fiscal space is weak, as the rate of this fiscal space for years of study was (-22.1926%) over the permissible ratio Addressing this requires reducing and amortizing debts, especially external ones, and obtaining grants. As for the foreign reserves index, it is distinguished by the exploitation of its fiscal space, as the rate of the exploited fiscal space reached (32.309%), and this indicates an increase from the prescribed percentage (20%) of the gross domestic product, and this requires its preservation as well as its development. As for the net budget index, most years of study formed a surplus, thus it provides an important fiscal space for the economy. This should be directed to financing development and investment projects that achieve returns that enhance the financial ability of the economy. It also requires improving the work of financial policy in order to achieve the correct direction of resources and control the efficiency of the correct use of them.

Keywords: fiscal space, financial sustainability, foreign reserves & public budget

Introduction:

State financial policy makers, especially in developing countries, are interested in ways to increase government spending and encourage investment operations, in addition to alleviating and repaying sovereign public debts, especially external ones, that fiscal space is a concept shrouded in ambiguity in general.(1)

This requires the provision of financial capabilities to sustain spending and finance investment, so it is necessary to know those financial capabilities and monitor the capabilities provided by the economy, one of which is the fiscal space. The concept of fiscal space belongs to one of the people working in the International Monetary Fund (Peter S. Heller), who is the deputy director of the Department of Financial Affairs, and is considered a reference thinker on this subject. He defined the fiscal space: the space in the budget of any government that allows the provision of financial resources to achieve its goals, without endangering its economy or the sustainability of its financial

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(*)The research is extracted from a master's thesis.

(1) Helene Barroy, Susan Sparkes, Elina Dale, Assessing Fiscal space For Health Expansion in Low-And Middle Income Countries (A Review Of The Evidence), Health Financing Working (Paper no 3: 5), World Health Organization.

position.[2] The fiscal space has to be created or found, if the state wants to create additional resources for new worthy government spending, as stated by Heller, in addition to that it requires a deep assessment of the macroeconomic conditions of the concerned country, to determine its fiscal space, as well as the structure of expenditures and revenues, primary financial position, debt structure and external economic environment.[3]

The Research Importance:

The importance of the research comes from the need to create a fiscal space to face urgent situations and shocks, in addition to repaying the debts owed by the state and strengthening its financial sustainability ability, and providing recommendations for what allows to know the available space, which may arise as a result of taking the correct procedures to ensure its expansion to face urgent situations and shocks, and to show the effect of rentier revenues in that space, considering that Iraq revolves in the orbit of the rentier economy.

The Research Objective:

Clarify the capabilities of the available fiscal space in the Iraqi economy according to several financial and monetary indicators, clarify the possibility and method of creating fiscal space in the Iraqi economy, and presenting the results of the research to achieve an economic knowledge base for researchers in this regard.

The Research Problem:

The problem of the research lies in the Iraqi economy's dependence on rentier revenues to a large extent in financing the increasing expenditures and repaying debts, and these revenues are unstable and linked in the external market, making it necessary to move to provide a suitable alternative (fiscal space) in case of hesitation.

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(2) Peter S. Heller, Understanding Fiscal Space, IMF Policy Discussion Paper, International Monetary Fund, Fiscal Affairs Department, (March 2005: 2).

(3) Hoi Wai, Jackie Cheng, Ingo Pitterle, Towards a more comprehensive assessment of fiscal space, Working Paper No. 153, United Nations, Affairs UN Secretariat, Department Of Economic and Social, January 2018: 3).

The Research Hypothesis:

The research assumed the weakness of the fiscal space for the public debt, the strength of the foreign reserves space, and the existence of fiscal space in the budget (the availability of budget surpluses).

The Research Methodology:

Descriptive approach has followed in clarifying the basic concepts of research by looking at sources, specialized research and economic reports in this field, and conducting analysis of important economic indicators that are related to the subject of the fiscal space.

The Research Limits:

Iraq represents the spatial limits of the research, while the temporal limits are represented by the sixteen year period (2004-2019), as the Iraqi economy has witnessed political, social and economic transformations.

The Research Structure:

The research structure included two parts, the first dealt with the theoretical premise of the fiscal space, while the second dealt with the reality of the Iraqi economy and the capabilities of the available fiscal space in it, during the period (2004-2019).

Previous Studies (Arabic and Foreign):

1. Study: Bouhraira, Abbas, **The necessity of building fiscal space for economic resumption in Palestine, 2018:**

This study aimed at highlighting and building the fiscal space, for the economic resumption of the economic policy makers, based on the new plan that proposed by the International Monetary Fund, which resulted in the state of Palestine having no fiscal space to make financial corrections, as the automatic adjustment tools in economy are not able to adjust economic elements, the study recommended the need to adopt an approach to the wise management of expenditures and revenues, as a goal to reduce the economy's dependence on support provided from abroad, and to ensure the stability of the financial situation and reduce the budget deficit. These procedures will be enough to build a fiscal space away from public financial influences and the intensification of geopolitical changes, as well as laying the foundations for a stable and diversified economy.

2. Jones. Samuel, and Arndt. **Channing, Aid Revenue and Fiscal space, 2007:**

This study emphasized the importance of increasing domestic financing for the economy, in order to achieve financial sustainability. In its presentation, it focused on countries that depend on foreign aid, and according to this study, it is economically unacceptable and illogical that some countries depend on government spending by (25%-50%) on foreign funding aid, and it is necessary to address this situation, in order to achieve in the long term balance, through the strategy of technical tax reforms, this study reached some results, it concluded that the success of the technical tax reform strategy must be in line with the tax system's interest in achieving greater efficiency and justice, in turn, not neglecting the great role of external financial aid in creating fiscal space through the use of this funding in developing tax charters in a tighter manner, this will lead to a more efficient and more favorable tax system, and will bring sustainable tax gains to financing.

The differences between the previous and current studies:

It was obvious by reviewing the previous studies that were viewed, it was found that this study is distinguished from the mentioned studies as follows: the research community and its sample differ from previous studies, as they did not deal with the Iraqi economy, while this study dealt with the Iraqi economy for the period (2004-2019), as well as the subject of the research did not agree with any of the previous studies on the method of linking and measuring the relationship between variables. This study considers the first of its kind to discuss the issue of the fiscal space in the Iraqi economy.

The First Part: (The theoretical premise of fiscal space)

First: The fiscal space concept:

The term fiscal space is newly appeared, and it means the most possible solutions to address financial crises in developing markets in particular, and markets that are exposed to turbulent market crises, or that have been affected by crises.

In countries where public debt are high, including Iraq, the financial expansion dissipates due to the large public debt, which limits the support of economic growth that comes from the inability of the expansionary financial policy, and because these countries have little fiscal space, which limits their ability to financially stimulate of the implementation of plans.(44)

The fiscal space according to international financial institutions is defined as the amounts spent after paying the debt service, as it shows the government's ability to spend without compromising, whether in the present or the future, with its ability to serve its debts. The fiscal space means: that which the government can reach from the maximum debt limit without exposing its worthiness to the risk of loss.(5)

Second: The fiscal space measurement:

1. Measuring the fiscal space through the debt sustainability index: To measure the fiscal space according to economic and financial propositions, we find there are empirical studies and adopted methodologies in this, and the most important of that, is calculating the tax gap between the fixed financial balance that proves debt in the long and medium term - the financial sustainability indicator - and the current balance, and the indicator that often used is the gap, or the difference between the estimated sustainable debt (maximum debt tolerance) and the country's current debt level.(6)

The new plan developed by the International Monetary Fund on how to measure fiscal space at the end of the year (2017) related to the assessment of fiscal space helps determine whether a country is pursuing a discretionary policy without exposing to debt risks and economic absorption capacity, and according to the new methodology of the International Monetary Fund, the financial space is analyzed based on three basic stages, which are as follows:

a. Assessment of the initial and structural state of the economy.(7)

(4) Emmanuel Baldacci, Sanjeev Gupta, Policies of Financial Expansion, Journal of Finance and Development, December 2009, p. 37.

(5) Fabiano Bastos, Emilio Pineda, Fiscal Space Of Brazilian States, Inter-American Development Bank (IDB), Fiscal and Municipal Management Division (IFD/FMM), Discussion Paper No. IDB-DP-31, ugust 2013: 2-3.

(6) - Hoi Wai, Jackie Cheng, Ingo Pitterle, Towards a more comprehensive assessment of fiscal space, Working Paper No. 153, United Nations, Affairs UN Secretariat, Department Of Economic and Social, January 2018: 4).

(7) International Monetary Fund, Saudi Arabia, Fiscal adjustment-Scope and Pace, Selected Issues, IMF Country Report No. 17/317, 2017, P04.

b. By means of financial stress tests and assessment of debt and financing dynamics in the base scenario.

c. Sustainability in the long and medium term to the public debt grade.

d. Assessment of expansionary financial scenarios, and their impact on growth and debt sustainability under reasonable stress and financial expansion scenarios.[8]

2. Measuring the fiscal space through some total indicators:

The fiscal space is not determined on the basis of the public debt level only, nor a static concept, and it can be varied with different economic and market conditions, and this sometimes happens very quickly.

The International Monetary Fund framework avoids any single metric, and instead depends on a multifaceted approach using tools and indicators that have been built up over many years.

We can measure the amount of fiscal space for a particular country by looking at a set of indicators which we can conclude the size of the fiscal space and the flexibility of the country's financial policy as follows: [9]

a. The indebtedness as a percentage of the gross domestic product (GDP).

b. The budget deficit as a percentage of the gross domestic product (GDP).

c. The ratio of tax revenue to the gross domestic product (GDP).

d. The size of the tax base.

e. The national saving rate

Third: <u>Means of creating and using fiscal space:</u>

The state can create financial space in several ways, such as loans that are productively and effectively employed, and with the inevitability of paying its service fees and repaying the previous loan to prevent its growth through the accumulation and inflation of its interests and the search for aid, external

[8] International Monetary Fund, Press Release No. 18/260, Op-Cit, P11.

[9] The Jordanian Strategies Forum, a position paper on the optimal use of the state's public financial policy and the principles guiding it, published on (June 11, 2015), accessed on (1/1/2021), through the Internet at the following link: (https://www.js.org)

[*] The national saving rate is defined as: the difference between GDP and final consumption (for the private sector and the public sector) and it is expressed in percentages of GDP.

grants and its good exploitation and management, or from the banking system, and this is considered an option for monetary expansion. Because borrowing of this kind must be motivated by the monetary policy objectives, which is to create sufficient liquidity to support the real growth of the economy with inflation that does not exceed the actual corresponding low, and what is clearly adopted in the budget items is only a guide to creating money with the aim of facilitating and monetizing public expenditures even If it was high, there are clear and explicit limits to the potential inflationary effect, if not certain, to become sufficiently productive.

One of the most important ways or means to expand the fiscal space of the state is:

1. Determining the priority of capital and current spending: Setting a roof for current spending that is not economically feasible, which can achieve subsequent savings for the government in the expenditure item and can be directed to capital expenditures with higher economic returns.
2. Improving efficiency: setting procedures to control the public sector, and reduce financial waste, as well as administrative slack resulting from hiring redundant workers.
3. Revenue enhancement: by increasing the tax revenue resulting from the income tax (by increasing the tax base, not by increasing tax rates), social justice can be achieved if these revenues are associated with a qualitative increase in capital spending that benefits society.(10)
4. Determining the tax community and setting rules that help obtain the taxes due on it, and the need to expand the tax community.
5. Participation of debtor countries in demanding exemption from paying the interests of debts due on them, to international foundations and other institutions, and a significant reduction in the interests of domestic debts through the policy of the Central Bank.(11)
6. To expand fiscal space, governments must gradually reduce fuel subsidies, reduce non-priority spending, and contain the public sector

(10) The Jordanian Strategy Forum, a position paper on the optimal use of the state's financial policy and its guiding principles, previous source.

(11) Abdel Fattah Al-Jabali, Fiscal space and employee wages, Al-Ahram Gate, on the Internet, published on (13/5/2020), reviewed on (18/1/2021), through the Internet at the following link: https://www.maaal.com/archives/20201102/162541

wage bill. Medium-term budget plans and better governance are beneficial for reducing fiscal risks and not only expanding fiscal space.(12)
Strengthening financial policy tools to direct the economy, by strengthening and supporting public finances and thinking about the governance framework in financial policy, and as a result reducing the possibilities of bias towards debt, would control spending policy to create and expand the fiscal space, and recently the International Monetary Fund stressed the necessity and importance of Laying the basics for the rational management of public finance.(13)

Fourth: The relationship between rentier revenues and fiscal space:

It is important to say that the study of rentier revenues and how they affect the economy and the state, and the behavior and characteristics that dominate the economy as a result of rent for countries that most of their revenues depend on oil rents, as well as to identify the nature of economic policies, especially financial policy, which are considered the government's economic tools through which we can implement the desired plans and objectives, dealing with shocks and directing the economy of any country, and we understood the fiscal space as the available space to economic policy makers through which it can address these fluctuations and shocks or to activate and stimulate the process of economic growth. The relationship can be linked and clarified between them due to its importance in this study.

The exceptional importance in the rentier economy (very unilateral), which is the state of the Iraqi economy, is gained by economic policy, especially financial policy, as rentier (oil) revenues constitute the largest weight of the total public revenues of the state, which leaves room for shocks, whether positive or negative, external or internal. The oil revenues in the economies of the rentier countries play a fundamental and important role in the

(12) Jitya Menkolasi, and others, "The Monetary Fund": 7 things you should know about challenges facing public finances in the Middle East and Central Asia, Mal Economic newspaper, on the Internet. Published on November 2, 2020, accessed on 01/18/2021. through the following link: https://www.maaal.com/archives/20201102/162541

(13) (Christine Lagarde, Laying the Foundations of Good Fiscal Management in the Arab World, International Monetary Fund, February 2019. (Dis ponible Sur Le Lien): https://www.imf.org/en/News/Articles/2019/02/08/spo209-md-laying-the-foundations-of-good-fiscal-management-in-the-arab-world (19/01/2021) (23:10)

concerned countries, as they finance the countries the most of their public expenditures and provide foreign currencies, and also affect all economic variables of the state, and the dependence of the economy on the rentier (oil) sector highlights negative and positive effects in general on the total economy.(14) Here it becomes clear the important role that economic policies can play in maintaining economic progress and stability through the rational allocation of rentier revenues that have an effective and important impact on economic growth.(15)

The Second Part: The reality of the Iraqi economy and the capabilities of the fiscal space that are available in it, during the period (2004-2019)

First: Analysis of the financial policy in Iraq during the period (2004-2019):

1. The reality of the budget and public expenditures:

Table No. (1) below shows the reality of the general budget as well as the behavior of public spending in Iraq during the study period (2004-2019), and through it we see the year (2004) the total public expenditures amounted to (31521427) million dinars, while in the year (2006) the total public expenditures amounted to (37494608) million dinars, and this is between the escalation of public expenditures, as a result of the increase in military and security spending and the adjustment of salaries, which led to the rise in those expenditures.

As for subsequent years, public expenditures have escalated. In the year (2009) the total public expenditures amounted to (55589062) million dinars, while in the year (2010) it amounted to (70134201) million dinars. The year (2013) reached the maximum increase in public expenditures, which recorded (119127555) million dinars, and this is due to the rise in rentier (oil)

(14) Darwish, Hussein Rikan, Abdul Razzaq, Saif Ali, Measuring and analyzing the impact of the oil revenue shock on the exchange rate in the Iraqi economy for the period (1999-2015), research extracted from a master's thesis, College of Administration and Economics, University of Babylon, Iraq, p. 5.

(15) Falah.K.Ali.Alrubaie, Analysis of changes: in The Orientation Of Economic Policy in Iraq, 15-March-2010, MPRA Paper No. 28371, Posted (25-Jan-2011), p. 25, Online at: https://mpra.ub.ub.uni-muenchen.de/28371/

revenues, which raised the level of public revenues, and in turn threw the rise on public expenditures, as a result of the rise in oil prices in the mentioned period. After that, public expenditures decreased. In the year (2014) and as a result of the political and economic conditions that Iraq went through, public expenditures decreased to reach an amount of (83556226) million dinars. This decline is the result of another drop in international oil prices, and because of budget revenues topped by (90%) oil revenues. It is worth mentioning that the energy sector, defense and security sector, and services sector got (19.7%) and (14.5%) and (8.9%), respectively, which is the highest percentage of spending on sectors in that year.(16)

Table No. (1): The nature of the public budget and the distribution of public expenditures in Iraq during the period (2004-2019). Amounts in million dinars:

Year	Total of public expenditures	Total public revenues	Deficit or surplus	Investment expenditures	Current expenditures
	Column No. 1	Column No. 2	Column No. 3	Column No. 4	Column No. 5
2004	31521427	32988850	1467423	3924260	27597167
2005	30831124	40435740	9604616	3765000	27066124
2006	37494608	49055545	11560937	5277000	32217608
2007	39307836	54964848	15657012	6588000	32719836
2008	67277181	80641041	13363860	14976000	52301181
2009	55589062	55243525	-345537	9648000	45941062
2010	70134201	70173223	39022	15553341	54580860
2011	78757665	103989088	25231423	17832112	60925553
2012	105139574	119817223	14677649	29350951	75788623
2013	119127555	113840075	-5287480	40380749	78746806
2014	83556226	105386623	21830397	24930767	58625459

(16) Al-Halfi, Abdul-Jabbar Abboud, The difficult balance between the price of a barrel of oil and the preparation of the public budget in Iraq, Al-Mustansiriya Journal for Arab and International Studies, Volume (12), Issue (51), Year 2015, p. 42.

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2015	**70397515**	**66470252**	**-3927263**	**18564676**	**51832839**
2016	**67067437**	**54409270**	**-12658167**	**15894009**	**51173428**
2017	**75490115**	**77335955**	**1845840**	**16464461**	**59025654**
2018	**80873189**	**106569834**	**25696645**	**13820333**	**67052856**
2019	**111723523**	**107566995**	**-4156528**	**24422590**	**87300933**

Source: Prepared by the researcher based on:

1. Iraqi Ministry of Finance, Final Accounts, Various Annual Reports, Years (2004 to 2019).
2. Central Bank of Iraq, Department of Statistics and Research, various annual reports, years (2004 to 2019).

The decline continues after that, to rise again in (2018) to reach (80873189) million dinars, while in (2019) public spending rose significantly, reaching (111723523) million dinars, which is the highest increase in public expenditures after a year (2013).

In terms of deficits and surpluses, the budget for the year (2004) recorded a surplus of (1467423) million dinars. In the year (2005), the total public revenues were recorded at an amount of (40435,740) million dinars, and the total public expenditures were recorded in the amount of (30831124) million dinars, and this resulted in a financial surplus of (9604616) million dinars for the same year. The surplus in this year is more than twice as much as in the previous year. It is important to note here that one of the basic rules for preparing the public budget is the rule of budget balance (public revenues are equal with public expenditures).(17) This is not found in the two mentioned years because of the superiority of public revenues over public expenditures. The financial surpluses continued until the year (2009), which recorded a financial deficit of (-345537) million dinars. Here, when the state falls into a deficit, and in order to cover that deficit, it comes to its resources (taxes, new cash issuance, or loans), according to the degree of deficit it has.

(17) Bin Qirat, Ahlam, and others, The Impact of Monetary and Financial policy on the Stock Market, memorandum for obtaining a master's degree in economic sciences, Faculty of Economics and Management Sciences - Department of Economic Sciences, University (May 08, 1945, Guelma), Algeria, year (2010-2011).), p. 76

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[18] As for the following three years, it recorded a financial surplus. In the year (2013) the deficit returned to record (-5287480) million dinars, then the year (2014) recorded a surplus of (21830397) million dinars, while the two years (2015 and 2016) recorded a deficit of (3927263)) million dinars and (12658167-) million dinars, respectively. The year (2019) also recorded a deficit of (4156528 -) million dinars, after public expenditures exceeded public revenues in it.

2. The nature of public revenues:

As we mentioned above, public revenues depend largely on rentier (oil) revenues, and therefore the source of rentier income is pivotal in financing the Iraqi state's expenditures, as we note that the financial policy approach in Iraq gave a secondary role to tax revenues, while the largest share for rentier (oil) revenues), in view of the ease of collecting them, and the ineffectiveness of the components of tax revenues. In the year (2004) the public revenues amounted to (32988850) million dinars, the largest percentage comes from oil revenues, which reached to (98.90%) amounting to (32625108) million dinars, as for tax revenues, they reached to (0.48%) and other revenues reached to (0.62%), which together amounted to (363742) million dinars, as well as in the year (2019), where oil revenues reached the largest percentage, as the amount constituted (99216318) million dinars, and reached (92.24%) of the total public revenues, while the tax revenues amounted to (4014531) million dinars and reached (3.73%) of the total public revenues, and other revenues amounted (4336146) million dinars. It reaches (4.03%) of the total public revenues. As shown in Table No. (2) below.

[18] Al-Hassan, Dardori, The State's Public Budget Deficit and Its Treatment in the Positive Economy, Journal of Economic and Administrative Research, Issue 14, Year: December 2013, Algeria, p. 111.

Table No. (2): The reality of public revenues in Iraq during the period (2004-2019). Amounts in million dinars:

Year	Total oil revenue + tax +other	Oil (rentier) revenue	Percentage of rentier revenue out of total revenue (%)	Tax revenue	Percentage of tax revenue out of total revenue (%)	Other revenues	Percentage of other revenue out of total revenue (%)
	Column No. 1	Column No. 2	Column No. 3	Column No. 4	Column No. 5	Column No. 6	Column No. 7
2004	32988850	32625108	98.90	159858	0.48	203884	0.62
2005	40435740	39453950	97.57	491570	1.22	490220	1.21
2006	49055545	46908043	95.62	593887	1.21	1553615	3.17
2007	54964848	53163644	96.72	1762502	3.21	38702	0.07
2008	80641041	70551179	87.49	2916838	3.62	7173024	8.90
2009	55243525	48871708	88.47	3335124	6.04	3036693	5.50
2010	70173223	60131518	85.69	1503516	2.14	8543189	12.17
2011	103989088	90189095	86.73	1408184	1.35	12391809	11.92
2012	119817223	117271044	97.87	2311139	1.93	235038	0.20
2013	113840075	111107939	97.60	2518683	2.21	213451	0.19
2014	105386623	97072410	92.11	1885127	1.79	6429086	6.10
2015	66470252	51312621	77.20	2015010	3.03	13142621	19.77
2016	54409270	44267063	81.36	3861896	7.10	6280311	11.54
2017	77335955	65071929	84.14	6298272	8.14	5965754	7.71
2018	106569834	95619820	89.73	5686211	5.34	5263803	4.94
2019	107566995	99216318	92.24	4014531	3.73	4336146	4.03

Source: Prepared by the researcher based on:

1. Central Bank of Iraq, Department of Statistics and Research, various annual reports, years (2004 to 2019).
2. Iraqi Ministry of Finance, Final Accounts, Various Annual Reports, Years (2004 to 2019).
3. Column No. (3), (5) and (7) of the researcher's work.

Second: <u>The capabilities of the fiscal space through the index of financial sustainability in the Iraqi economy for the period (2004-2019):</u> Financial sustainability is defined as the ability to pay off debts through the future surplus over a long period of time, which makes the government able to pay its debts, during that period.[19]

The future or current ability of the state to meet its financial obligations and service its debts, without the need to accumulate savings or reschedule them, that is, its ability to bear debt burdens without the need for major future adjustments in financial policy, in order to achieve a balance between public expenditures and revenues, and when the situation in which debt accumulates to an indefinite date at a rate faster than the state's ability to serve, means the opposite of financial sustainability (it means non-sustainability), and the concept of sustainability revolves around an initial achievement of liquidity and solvency in financial sustainability. The method of the International Monetary Fund depends on stabilizing the public debt ratio of gross domestic product (GDP) at a certain level, or setting a specific percentage to be targeted, that to be considered as a pivotal way to anticipate the future under policies for a certain period that depends on it, usually five Years, that if financial policies achieve stability in the public debt ratio of the (GDP), the International Monetary Fund considers them sustainable.[20]

1. Measuring the fiscal space through the public debt ratio index to gross domestic product (GDP):

The public debt ratio of the (GDP) is one of the pivotal indicators in measuring the capabilities of the fiscal space, by calculating the financial gap, which means the difference between the current level of debt for a certain country and the sustainable level of debt, using the standard of the European Union Agreement (1992), which according to it, the debt ratio to

[19] Al-Rifi, Hussam Khalid Hussein, The Factors That Help the National Authority to Achieve Financial Sustainability (1996-2013), Master's Thesis - College of Commerce, Islamic University, Palestine - Gaza, Year 2014, p. 40.

[*] Financial solvency: is the state's ability to meet financial obligations, and if the current discount rate for future or current spending, is less than the discount rate for future and current revenues, minus debt receivables, it means meeting financial obligations when they are due, while having financial resources.

[20] Banafa, Waheed Abdul Rahman, and Ali, Abdul Aziz Abdul Majeed, Assessment of Financial Sustainability in the Kingdom of Saudi Arabia, Arab Economic Research Journal, Issue (74), Year 2016, p. 183.

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(GDP) must be less than (60%).[21] That is, the maximum limit of the debt that the concerned country can bear is specified not to exceed (60%) of the (GDP).

The country that public level of debt is less than (60%) of the (GDP), as a result of its ability to serve its high debts, has a large fiscal space, represented by obtaining financing loans with low terms and interest. What makes the fiscal space limited is the rise in public debt above the limited level, in order to give it a perception that the ability to bear debts and access to financial markets is at risk. Looking at table No. (3) below, we see the low debt service and the ability to bear it, as the table data indicates the limited fiscal space for the state, due to the debt level exceeding the permissible (60%) of the (GDP). As column No. (7) of the table shows the percentage of the total public debt of (GDP), in (2004) the total public debt amounted to (191946839) million dinars, and it achieved a percentage of (360.563%) of (GDP), which is more than three times it. It is the largest percentage during the study period, and the ratio of external debt was (349.43%) and internal debt (11.13%), and this is due to the accumulated debts on Iraq as a result of wars and the economic siege before (2003), and the fiscal space for debt reached a negative percentage (-300.563), as in column No. (8), and it is considered the largest negative ratio of fiscal space in this indicator, and it is more than double of the permissible percentage.

Table No. (3): The capabilities of the fiscal space according to the financial sustainability index in the Iraqi economy during the period (2004-2019). Amounts in million dinars:

Year	Total public debt	Gross domestic product	External debt	External debt ratio to (GDP) (%)	Internal debt	Internal debt ratio to (GDP) (%)	[(Total public debt)/GDP] *100 (%)	Financial space capabilities based on (60%)
	Colum No. 1	Colum No. 2	Colum No. 3	Colum No. 4	Colum No. 5	Colum No. 6	Colum No. 7	Colum No. 8
2004	191946839	53235358	186021778	349.43	5925061	11.13	360.563	-300.563
2005	154352578	73533598	148097000	201.40	6255578	8.51	209.908	-149.908
2006	101057565	95587954	95422175	99.83	5645390	5.91	105.722	-45.722

[21] Ayumu yamauchi, Fiscal Sustainability – Cas of Eritrea, IMF, Working Paper, WP. 10417.2004.

2007	**98951705**	**111455813**	**93758000**	**84.12**	**5193705**	**4.66**	**88.781**	**-28.781**
2008	**81403058**	**157026061**	**76947489**	**49.00**	**4455569**	**2.84**	**51.840**	**8.160**
2009	**84423647**	**130643200**	**75989598**	**58.17**	**8434049**	**6.46**	**64.622**	**-4.622**
2010	**76813642**	**162064565**	**67632836**	**41.73**	**9180806**	**5.66**	**47.397**	**12.603**
2011	**80722191**	**217327107**	**73275332**	**33.72**	**7446859**	**3.43**	**37.143**	**22.857**
2012	**81760519**	**254225490**	**75213000**	**29.59**	**6547519**	**2.58**	**32.161**	**27.839**
2013	**76573549**	**273587529**	**72318000**	**26.43**	**4255549**	**1.56**	**27.989**	**32.011**
2014	**77648019**	**266332655**	**68128000**	**25.58**	**9520019**	**3.57**	**29.155**	**30.845**
2015	**100733205**	**194680971**	**68590400**	**35.23**	**32142805**	**16.51**	**51.743**	**8.257**
2016	**118767051**	**196924141**	**71404800**	**36.26**	**47362251**	**24.05**	**60.311**	**-0.311**
2017	**125815396**	**225722375**	**78136600**	**34.62**	**47678796**	**21.12**	**55.739**	**4.261**
2018	**121173318**	**251064479**	**79350400**	**31.61**	**41822918**	**16.66**	**48.264**	**11.736**
2019	**115008452**	**262917150**	**76660000**	**29.16**	**38331548**	**14.58**	**43.743**	**16.257**
Fiscal space rate								**-22.1926**

Source: Prepared by the researcher based on:

1. The Iraqi Ministry of Planning, Central Statistical Organization, various annual statistics of the Directorate of National Accounts, the years (2004 to 2019).
2. Central Bank of Iraq, Department of Statistics and Research, various annual reports, years (2004 to 2019).
3. Column No. (4), (6), (7) and (8) of the researcher's work.

In the following years (2005-2007), the debt gradually decreased to reach in (2008) the total debt of (81403058) million dinars, constituting (51.840%) of the (GDP), as the share of the external debt amounted to (49.00%) and the internal debt amounted to (2.84%), which is under the permissible percentage roof, and its fiscal space is positive at a rate of (8.160%), and this indicates the possibility of borrowing due to the presence of untapped fiscal space, so that the fluctuation continues in the period (2009-2012), in 2013, the total debt amounted to (76573549) million dinars, and it constituted of (GDP) the ratio (27.989%), and the external and internal debt of (GDP) respectively amounted to (26.43%) and (1.56%), and it achieved fiscal space that its percentage is (32.011%), which is the largest fiscal space during the study period. As for the subsequent years at the end of the study period, the percentage of fiscal space increased, and for the years (2017-2019) the percentages were (4.261%), (11.736%) and (16.257%).

The result of this analysis shows the high indebtedness in Iraq during the study period (2004-2019), and the largest share of the total debt is external debt, and that its fiscal space is weak and unreliable, and that the rate of this fiscal space for the years of study amounted to (-22.1926%), which is negative, that is, it exceeded the allowed percentage (60%). We also notice that the duration of the positive increase in the ratio of fiscal space, falls in the years of high activity and global economic growth, and the improvement in security that affects oil prices globally and its rise, which is reflected in Iraqi oil revenues, and in turn improves the gross domestic product and its economic activity.

2. Measuring the financial space provided by foreign reserves in the Iraqi economy during the period (2004-2019):

To show the capabilities of the fiscal space provided by the foreign reserves, and what these reserves constitute of a fiscal space through which the government can practice its policy and objectives, whether economic or social, and this is of course due to the efficiency of its management of these reserves, and on the basis that foreign reserves should constitute (20%) of the gross domestic product in developed countries and we will take this percentage as a measure to show the availability of space for reserves. We see by looking at Table No. (4) below at the beginning of the study in (2004) the foreign reserves amounted to (13586741.46) million dinars, thus forming a percentage (25.52%) of the (GDP), that is, it provided a fiscal space, which is the lowest percentage in a period of time. The study's GDP amounted to (532353558) million dinars, and the amount of fiscal space (based on a 20% reserve) has exceeded it by (5.522%), which is the lowest value for it during the study period, as shown by column no. (3) in the table mentioned, that is, it exceeded the percentage (20%) that established as a basis, the foreign reserves of public spending amounted to (43.103%) and the money supply ratio (110.88%). After that, foreign reserves continued to rise. In the year (2009) they amounted to (52404844.68) million dinars, forming a (GDP) of a fiscal space of (40.113%). This year, its fiscal space reached (20.113%), which is also a positive ratio that it exceeds the prescribed percentage. Then, in the period (2010 to 2017) the reserves fluctuated, as well as their fiscal space, but it did not become negative. In the years (2018 and 2019) Foreign reserves rose over the previous years, with an amount of (76017000) and (79918000) and a positive fiscal space of (10.278%) and (10.397%), and the percentage of public expenditures, respectively (94.129%) and (71.532%).

Table No. (4): The capabilities of the fiscal space provided by foreign reserves in the Iraqi economy during the period (2004-2019). Amounts in million dinars:

Year	Foreign reserves	[(Foreign Reserves)/(GDP)] *100 (%)	Fiscal space provided by foreign reserves based on (20%) (%)	[(Foreign Reserves)/Public Expenditures] *100 (%)	Money supply (M2)	[(Foreign Reserves)/Money Supply] *100 (%)
	Column No. 1	Column No. 2	Column No. 3	Column No. 4	Column No. 5	Column No. 6
2004	13586741.46	25.522	5.522	43.103	12254000	110.88
2005	19874325.76	27.028	7.028	64.462	14683617	135.35
2006	28172986.75	29.473	9.473	75.139	21080249	133.65
2007	39787867.07	35.698	15.698	101.221	87679504	45.38
2008	60271406.76	38.383	18.383	89.587	34919675	172.60
2009	52404844.68	40.113	20.113	94.272	45437918	115.33
2010	60038842.42	37.046	17.046	85.606	60386086	99.42
2011	74340593.46	34.207	14.207	94.392	72177951	103.00
2012	86713215.66	34.109	14.109	82.474	75466360	114.90
2013	95779610.08	35.009	15.009	80.401	87679504	109.24
2014	79353741.28	29.795	9.795	94.970	90727801	87.46
2015	66264407.82	34.037	14.037	94.129	82595493	80.23
2016	56757900	28.822	8.822	84.628	88067169	64.45
2017	61011842.64	27.030	7.030	80.821	89441338	68.21
2018	76017000.00	30.278	10.278	93.995	95857047	79.30
2019	79918000.00	30.397	10.397	71.532	103441000	77.26
Space rate for foreign reserves		32.309	12.309			

Source: Prepared by the researcher based on:

1. Dagher, Mahmoud Muhammad, and others, Public Bank Debt and Recording of Foreign Reserves in Iraq for the Period (2004-2017), Journal of Administrative and Economic Sciences, Volume (25), Issue (113), Year 2019, p. 311, foreign reserves data from (2004- 2017).
2. Central Bank of Iraq, Annual Reports, Reports of Years (2018, 2019).
3. Iraqi Ministry of Planning, Central Statistical Organization, Directorate of National Accounts, Column No. (5) Data of Money Supply.
4. Converting Column No. (1) data from (2004) to (2017) from the US dollar to the Iraqi dinar, depending on the rate of the Iraqi dinar against the US dollar from the reports of the Central Bank of Iraq.
5. Table No. (1) and (3).

The foreign reserves of the broad money supply were a high percentage at the beginning of the period and then gradually decreased at the end of the period. As for the percentage of foreign reserves of public spending, at the beginning of the period it was low, and in the middle, it rose and after that it witnessed fluctuation. The rate of fiscal space provided by foreign reserves during the study period is (12.309%), that is, it exceeded the prescribed percentage (20%) by (12.309%), so that the rate of fiscal space during the period of the exploited study, reached (32.309%), and this indicates the availability of fiscal space and that it is exploited in according to the prescribed percentage that is mentioned as a measure, for this indicator in the Iraqi economy throughout the study period, that is, it is fully exploited.

3. Measuring the fiscal space through the net budget index in the Iraqi economy for the period (2004-2019):

The public budget is one of the pivotal means that determines the state's financial policy, in according to its general strategy and vision, and the achievement of economic growth, through its ability to direct economic activity, as well as improving the income rate of individuals and reducing the unemployment rate.[22] The public budget is no longer a plan that only contains public expenditures and revenues, but it has become an annual plan that contains long and medium term strategic plans, in order to achieve the desired development goals, whether social or economic.

There are two important concepts of budgeting; The first is the concept of the budget surplus, which expresses the superiority of public revenues over public expenditures, and it is considered a necessity as it provides the state with revenues more than the expenditures that need to be financed, while the

[22] Al-Hafiz, Mahdi, (2008 Budget and the Plight of the Iraqi Economy), Al-Hiwar Journal, Al-Takadum Institute for Development Policies, Year (3), No. (13), January 2008, p. 3.

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second concept is the concept of budget deficit; It means the superiority of public expenditures over public revenues, and here the state faces the problem of deficit, which it finances through borrowing or other means available to it, which occupies great importance for economic policies.(23) The deficit and surplus are the net budget and its ratio to the gross domestic product, shows the amount of fiscal space that is available in the public budget, which the government can use to achieve its goals, through the policy that will follow, whether financial spending in the event of a surplus, or transferring surpluses to other areas such as savings, or to finance investment projects to finance the deficit by increasing taxes and others. The ratio of the deficit to (GDP) should not exceed (3%), and this is what the Stability and Growth Treaty stipulates.(24) We can show the capabilities of fiscal space through the net budget indicator for the period (2004-2019) by looking at Table No. (5) below.

Table No. (5): The capabilities of the fiscal space according to the public budget net index in the Iraqi economy for the period (2004-2019). Amounts in million dinars:

Year	Total public expenditures	Total public revenues	Net budget (surplus or deficit)	[(Net Budget)/GDP] *100 (%)
	Column No. 1	Column No. 2	Column No. 3	Column No. 4
2004	31521427	32988850	1467423	2.756
2005	30831124	40435740	9604616	13.062
2006	37494608	49055545	11560937	12.095
2007	39307836	54964848	15657012	14.048
2008	67277181	80641041	13363860	8.511
2009	55589062	55243525	-345537	-0.264
2010	70134201	70173223	39022	0.024
2011	78757665	103989088	25231423	11.610
2012	105139574	119817223	14677649	5.773

(23) Khalil, Sami, Macroeconomic Theory, Al-Ahram Agency, Kuwait, Year 1994, p. 330-331.

2013	**119127555**	**113840075**	**-5287480**	**- 1.932**
2014	**83556226**	**105386623**	**21830397**	**8.197**
2015	**70397515**	**66470252**	**-3927263**	**- 2.017**
2016	**67067437**	**54409270**	**-12658167**	**-6.427**
2017	**75490115**	**77335955**	**1845840**	**0.818**
2018	**80873189**	**106569834**	**25696645**	**10.235**
2019	**111723523**	**107566995**	**-4156528**	**-1.580**

Source: Prepared by the researcher based on:

1. **Table No. (1) and (2).**

We see at the beginning of the study in (2004) that the budget surplus amounted to (1467423) million dinars, and the public revenues, which amounted to (32988850) million dinars, that exceeded public expenditures, which amounted to (31521427) million dinars, and the net budget form of (GDP) the ratio (2.756%). This surplus is considered a fiscal space in the budget. As for the period (2005 to 2008), the budget formed financial surpluses as a result of the rise in rentier financial revenues resulting from the increase in the production and export of Iraqi oil, as well as the rise in oil prices. In the year (2009) the public budget recorded a deficit, so the net budget deficit was (-345537) million dinars. The problem of the deficit ratio of (GDP) that rated (-0.264-percent), which is a permissible percentage according to the previously mentioned percentage (3%) and it has not been reported, this deficit shows that there is no (negative) fiscal space, which the government must use its policy to finance the deficit, whether by increasing taxes or reducing expenditures, or financing it through debts, which are economically unfavorable except for necessities. As for the period (2010-2012). the net budget witnessed a surplus, and the period (2013-2016) recorded most of it as a deficit, and it was the largest deficit in the study period in (2016) as it amounted to - (126,58167) million dinars, and its percentage of (GDP) amounted to (6.427) which is the only percentage during the study period that exceeded the permissible percentage (3%), as the government must address the deficit through the aforementioned treatments, then in (2017 and 2018), the surplus rate was (0.818%) and (10.235%), respectively, and this is considered an available fiscal space for the government to implement its policies, while in (2019) the net budget recorded a deficit of (-1.580) of (GDP), and as shown in column No. (4) in the table, which shows the capabilities of the fiscal space that available through the net budget. The fiscal space as a result of the superiority of public revenues over public expenditures, is due to the growth of Iraq's oil exports, which constitute a large proportion of Iraq's exports, which In turn, it decreased in some years of study, or its prices decreased, to record a deficit in the net budget. In surplus years, the fiscal space can be used to sustain the expenditures of subsequent years (deficit years).

Conclusions:

1. The financial policy in Iraq is represented in the public budget, as current expenditures constituted the largest proportion of the total expenditures, and the length of the study period has exceeded the investment expenditures. As for the revenues, the largest share in their financing was for rentier (oil) revenues, as their average exceeded (90%) during the study period, because of the ease of collecting them. The tax revenues show their ineffectiveness and their role was secondary, as for the other revenues, their role was not better than the tax revenues.
2. The capabilities of the fiscal space for public debt, so the ratio of debt to gross domestic product (GDP) must be less than (60%), and according to that, the result of this research showed the high indebtedness in Iraq during the study period (2004-2019), and the largest share of the total debt was for external debt. Its fiscal space is weak and unreliable, and that the rate of this fiscal space for years of study amounted to (-22.1926%), which is negative, that is, it exceeded the permissible percentage of (60%).
3. The capabilities of the fiscal space for foreign reserves in this research was based on the basis that foreign reserves should constitute (20%) of the GDP in developed countries, and accordingly the rate of fiscal space provided by foreign reserves during the study period reached the ratio (12.309%), that is, it exceeded the prescribed ratio (20%) at (12.309%), so that the ratio of fiscal space during the study period is (32.309%). This indicates the availability of fiscal space and it is exploited according to the stated prescribed percentage set as a measure for this indicator in the Iraqi economy throughout the study period, meaning that it is fully exploited.

4. As for the capabilities of fiscal space for the net budget, the deficit ratio to (GDP) should not exceed (3%), and this is what the Stability and Growth Treaty stipulated, that is, below the percentage (3%) of the (GDP), and only one year (2016), where it amounted to (6.427%), as most years of study formed a surplus, thus providing the budget with fiscal space, but it is considered as a result of rentier revenues to reach the largest percentage of the total revenue.

Recommendations:

1. Economic policy makers in Iraq must direct public spending to achieve development returns, that is, to direct attention from current to investment spending, reduce unnecessary expenditures that burden the public budget, and improve the efficiency of spending management.
2. Reducing the public debt ratio to GDP as much as possible below the maximum permissible percentage (60%), especially the economically undesirable external debt.
3. Work seriously on exempting the debts owed by Iraq to other countries, which were left by the previous authority, as well as converting the grants offered into development investment opportunities that achieve the state's goals, due to the large fiscal space for the state.
4. Maintaining and enhancing the space for foreign reserves, which constitutes an important source of providing the economy with hard currency and enhances the exchange rate of the Iraqi dinar.
5. Using the surpluses resulting from the public budget for the development of basic infrastructure and directing them as well to supply the sovereign funds that must be established for the purpose of ensuring the stability of the financial situation.
6. The importance of adopting a policy of stimulating and supporting the non-oil economic sectors (industrial and agricultural) in order to gradually correct the structure of the Iraqi economy, and depend on sources that are characterized by constancy and relative stability, and that, these corrective measures gradually ensure independent economic growth of the rentier sector.

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