

# Finance and Monetary Policy in the Iraqi Economy After 2014 a Vision in Reality and Future Prospects

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**Abstract:** Iraq's financial and monetary policy in 2014 witnessed deep economic crisis, squandering affected most of the resources that Iraq obtained after 2003, offset by the decline in oil income revenues due to a sharp drop in prices, added to it is the high costs of managing security stability, Also the accumulation of the need for spending to absorb unemployment and the needs of citizens to spend on the services sector. The authorities turned to managing the economic crisis with the available resources, as well as resorting to borrowing and seeking assistance from international financial institutions, which eased the crisis. And this made the Iraqi economy regain an important part of its stability in the years 2017-2019, and it is expected that the recovery of the Iraqi economy will continue in light of the economic reform plans pursued by the government.

**Keywords:** Iraq's financial and monetary policy, economic, government.

## Introduction:

In 2014, Iraq suffered from an economic crisis, it was accompanied by other security and political crises, it requires from the government to make great efforts to stop its repercussions through economic policies, and to seek the assistance of the efforts of international economic institutions.

The economic crisis revealed what the economy is suffering from a severe structural crisis, which the pre-2014 stages were unable to find radical solutions to, but there were patching up treatments for it.

All the Iraqi economic crises in the year 2014 do not go back to the year 2014, but each of them has roots that preceded it, but a critical stage was reached when the rate of unemployment, poverty and weak human development indicators rose, although monetary policies effected in reducing inflation, and the stability of the exchange rate the currency.

Also, throughout the period between 2014-2019, the Iraqi governments: the government of Mr. Haider al-Abadi and the government of Mr. Adel Abdul-Mahdi, worked to stop the sharp economic decline, and work to find solutions to some economic problems, caused by the decline in oil prices, and the need to expand security spending, while addressing the crises of the services sector, and some positive results have been achieved, but this does not deny that most of the imbalances continue without strategic treatment.

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The government has three integrated policies: **a monetary policy** (the responsibility of the Central Bank), which is independent, and it is a policy that performed great tasks in achieving its goals, and **a financial policy** (which is the responsibility of the Ministry of Finance), meaning that it follows the government, and there is a deficit in its development and implementation, and the last policies is **economic policies** (it is linked to the government approach, according to which it obtained parliamentary confidence), and there are errors and negatives, because the management of the economy is carried out according to the method of dealing with what is available, and the absence of strategic planning.

Iraq has many resources, advantages, and elements of success suitable for growth, but waste or mistakes in exploiting what is available, and the pressure of political considerations related to setting up an industrialization and import policy that serve Iraqi interests, affects those resources and ingredients, and is weaker than growth rates outside the circle of oil rents, which is taking Iraq more weight of external debt, and the negatives of the accumulation of unemployment and the expansion of poverty, and the weakness in building human resources, and the limited reconstruction and reconstruction.

### Methodological Structure:

The problem: The Iraqi economy suffers from sustainable problems, the events of 2014 caused: the drop in oil prices with the need to raise defence spending, with the accumulation of the deficit in providing services to citizens, that showed the size of the structural imbalance that the economy suffers, on all sectors, which needs for standing on its causes and consequences.

The problem raises the following questions:

- What are the main components of the economy in Iraq after 2014?
- What are the structural imbalances in the Iraqi economy after 2014?
- What are the consequences of economic imbalances?
- What are the future prospects for this economy?

**Research objectives:** The research aims to provide a description of the Iraqi economy, and its important structural imbalances, and it is not possible to stand at a specific defect to say that it is the cause of the economic problem in Iraq. The research also analyzes the causes of those imbalances that appeared in 2014 or continued before, as well as addressing the most prominent results, and what the Iraqi economy can settle on in the foreseeable future, and the mechanisms that can be resorted to in order to address the existing imbalances or that can continue.

**Research hypothesis:** In this research, assume that Iraq suffers from problems in the economy, the aggravation of which appeared in the year 2014, and despite government measures to push the economy to relative stability in view of the size of the crisis that afflicted it, but these measures caused interim treatments, and established long crises, including the high volume of indebtedness, also the emergence of errors in managing the file of licensing rounds, errors in economic policies, especially in the absence of a perspective on economic development, and errors in estimating and evaluating the meaning of oil revenues and how to invest them.

**Research Methodology:** The researcher will depend on the deductive approach: that is, moving from the parts to constructing a holistic picture of the research subject.

**Structure of the research:** The research goes on to address the reality of fiscal and monetary policy in the Iraqi economy and its most prominent components, and search for the most prominent structural

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imbalances that it suffers from, with a search for their causes, the results that can result from them, and expectations of what could happen to the economy in the foreseeable future, as follows:

### First - The main components of the economy in Iraq:

The Iraqi economy enjoys much potential for growth, by virtue of the available resources: human, financial and material. If we follow human resources, the population of Iraq has reached about 38 million people, according to estimates by the Central Bureau of Statistics at the end of 2018, of whom about 45% are less than 15 years old (Ministry of Planning, Central Statistical Organization, 2018), that is, the Iraqi society is classified among the young societies, despite the trends of a decrease in the volume and level of learning after 2003, and the high rate of migration and asylum to other countries, where there are no academically accreditable data.

As for the financial resources of the Iraqi state, the following resources can be noted: The size of the gross domestic product of Iraq amounted to about 30, 53, 74, 96, 111, 157, 139, 171, 185, 218, 232, 196, 175.9, and 171. 4, 197.7, and 225.9 billion dollars between 2003-2018, respectively (Central Bank of Iraq, Ministry of Planning, 2018).

Iraq obtained the following revenues from oil revenues, taxes and fees, as confirmed in the federal general budgets: 21.4, 32.9, 40.5, 49.55, 54.5, 80.2, 55.2, 70.1, 108.8, 119.8, 113.8, 119.7, 66.4, 81.7, 90.2, 91.6, and 105.5 trillion Iraqi dinars, for the period between 2003-2019, respectively (the general budget of the Iraqi state, 2004-2019), which is Good revenues, giving the government great flexibility to manage advanced spending, except for the year 2015, which witnessed a sharp decline in oil prices and the escalation of defense spending costs.

In addition, Iraq has good financial and gold reserves with the Central Bank. The financial reserve was estimated at about 9.3 billion dollars in 2004, and the reserves amounted to about 88 billion dollars in 2013, but the government resorted during the two years 2014-2015 to the depletion of most of the reserves in foreign currency At the Central Bank (Faril, 2021,4), which made the reserve decline. Reserves amounted to \$77.7 billion and 74.64 tons of gold at the beginning of 2014, to \$57 billion and 89 tons of gold at the end of 2015, to \$44.5 billion and 89 tons of gold in 2016, and to \$48.49 billion and 89 Tons of gold in 2017, and to 55.7 billion dollars and 89 tons of gold in July 2018, and in April 2019 it reached the level of 62 billion dollars and 96 tons of gold, according to the data of the Central Bank of Iraq (Mahmoud Dagher and others, 2019, p. 311) , with the tendency to open the door to diversify the basket of foreign currencies, and raise the amount of investment in US treasury bonds (the monetary policy reports of the Central Bank of Iraq for the years 2013, 2015, and 2017).

Furthermore, to human and financial resources, Iraq has important natural resources, including the wealth of oil, natural gas and other natural resources. With regard to the oil resource, for example, the volume of the confirmed reserves amounted to about 147 billion barrels; this is about 12% of the confirmed global reserves. The reserves of natural gas are about 6.4 trillion m<sup>3</sup>, which is equivalent to about 3.4% of the global reserves, and it produces about 4.4 million barrels / day, of which about 3.5 million barrels / day are exported (which fluctuates slightly for reasons related to security stability), and it produces about 15 billion m<sup>3</sup> annually from natural gas according to the 2018 statistics. Which is achieving for Iraq sources of foreign currency that cover most of its needs in the general budget?

Tracking the volume of revenues obtained by Iraq from oil rents shows that it obtained: 17.3, 18.4, 26.6, 37.2, 61.1, 45.6, 51.2, 79.4, 93.8, 89.4, 83.5, 46.2, 59.1, 77.0, and 87.8 billion dollars during the period 2004-2018, respectively (2013, 2015, 2016, 2018 International Monetary Fund).

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The previous elements do not deny that tracking and diagnosing the reality of the economy in Iraq shows that there is a problem in the dual characterization of this economy, on the other hand, that the theoretical basis is based on granting freedom to the market in managing and regulating economic affairs, and the trend towards investment and privatization, so, as Article 25 states: "The state guarantees the reform of the Iraqi economy according to update economic foundations, that guarantees the full investment of its resources, diversification of its, and the encouragement and development of the private sector" (Article 25, Iraq's Constitution of 2005 in force), however, on the other hand, the constitution encourages more state intervention in the economy, including Article 112, second: "The federal government and the governments of the producing regions and governorates shall together formulate the necessary strategic policies for developing oil and gas wealth in a manner that achieves the highest benefit for the Iraqi people, depending the latest techniques of market principles. and encourage investment" (Article 112, Iraq's Constitution of 2005 in force), also, the Article 30, first: "The state guarantees to the individual and the family – especially the child and woman – social and health security, and the basic requirements for living a free and dignified life, providing them with adequate income and adequate housing" (Article 30, Iraq's Constitution of 2005 in force), and Article 110: "The federal authorities have the following exclusive competencies: First: ... the policies of borrowing, signing and concluding them, and drawing up the sovereign foreign economic and trade policy" (Article 110, Iraq's Constitution of 2005 in force.), and Article 30, first: "The state guarantees to the individual and the family – especially the child and woman – social and health security, and the basic requirements for living a better and dignified life, providing them with adequate income and adequate housing" (Article 30, Iraq's Constitution of 2005 in force), and Article 110: "The federal authorities have the following exclusive competencies: First: ... the policies of borrowing, signing and concluding them, and drawing up the sovereign foreign economic and trade policy" (Article 110, Iraq's Constitution of 2005 in force.).

If privatization and raising fees and taxes reflect a capitalist activity, the increase in the employment in the governmental public sector, and the increase of expansion of government spending by adding people included in government salaries, is evidence of the tendency to expand by withdrawing from the capitalist trend.

In the year 2003 and beyond, Iraq witnessed a great destruction of the economic structure, a clear imbalance in the contribution of the economic sectors to the GDP, an expansion of unemployment, poverty, capital flight, an imbalance in the trade balance, a decline in the value of the currency, an increase in the concentration of capital, that is, the absence of social justice, and mistakes in monetary and financial policies, and wasting oil rent resources, Despite this, most of the governmental and independent institutions concerned with dealing with these crises made efforts to reduce their impact, but in the wake of the events of June 2014 Iraq found itself in a deep crisis, with regard to the economic aspect, as it holds the following aspects:

1. Oil prices have fallen dramatically, from about \$140 per barrel to about \$20 per barrel, as long as the oil licensing rounds were signed on the basis of a price exceeding the \$20 per barrel barrier as production costs, because when signed those agreements was supposed to the price of oil will rise and the higher revenue will benefit to the Iraq, however, what happened is the opposite (Abdul Rahman Al-Mashhadani, 2011, p. 13), which made Iraq produce to meet expenses and not to obtain revenues at the beginning of the crisis, which is shown by a rise in the expenditures of the two sectors of the Ministry of Oil ( 15.5%) and the Ministry of Finance (16.5%) of the federal budget for the years 2015-2016 (Ministry of Finance 2015, 2016).

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2. Iraq has suffered from high needs on the security and defence sector, due to the repercussions of terrorism, and despite what Iraq spent on this sector after the year 2003, it turned out that it was absurd spending, which included a great waste of resources and corruption, so arms deals included poor quality at prices Imaginary, and the number of fighters was exaggerated due to the presence of what is known (alien fighters, that is, fighters who do not exist in reality), as well as, the presence of a large proportion of them at the disposal of the political class and not to perform real security tasks, and their preparation to perform their tasks is insufficient and incomplete, therefore, entire military and security units were subjected to disintegration in the wake of a security crisis, which required a comprehensive treatment of this file through reorganization arming, equipping, training and deploying security and military forces, until security and defence spending reached 13.8% in the 2015 budget, 18.9% in 2016, 22.5% in 2017, and 15.2% in 2018, out of government spending (Ministry of Finance, 2015-2018 budget).

Without mentioning the security and defence spending that took place in the form of future contracts that arrange subsequent obligations on Iraq to pay, besides, Iraq has reached a critical stage in terms of providing services, including electricity, health, education, infrastructure and housing, and the crisis has proven that what was allocated to the previous sectors in Investment budgets that either it was absurd spending and high waste or that corruption had become endemic in it, or the projects were covers to finance partisan and political activities, some of which revealed in the years 2015 and 2016 what is known as the economic committees of parties in all state institutions, and therefore the what was allocated from the investment budget (28.5%, 23.7%, 32.2%, 26.2%, 48.1%, 33.6%, 35.2% and 46.2% of the total federal public budgets for the years 2005-2013, respectively) (Ministry of Finance, the budget of 2005 - 2013), did not achieve its purpose to support development and enhance welfare by supporting government investment in the national economy.

The results of the above, through the widening of unemployment and poverty, also the high rate of popular protests against government performance in the field of services (Ali Taher Al-Hamoud, 2017, pp. 729-730), showed that the three crises that appeared in 2014 clarified that there is a problem in the Iraqi economy. If the Iraqi economy did not suffer from structural imbalances, it would have been able to absorb these crises and achieve stability, although Iraq had drawn up a national development plan for the years 2010-2014 (the national development plan for the years 2010-2014), and then developed a national development plan for the years 2013-2017 (National Development Plan for the years 2013-2017), all of which did not achieve their goals.

Iraq continued to suffer from a major imbalance in the contribution of different sectors to the GDP. The agricultural contribution to the GDP amounted to 7.3% in 2004 and 2% in 2017, while the contribution of the building and construction sector reached 1% and 9%, respectively for the same period, and the transport and communications sector 7.6% and 4%, the wholesale and retail trade sector 6.4% and 6.9%, the banking sector 0.7% and 1.9%, and the oil 63% and 49% for the same period, respectively (Central Bank of Iraq, for the years 2005-2018, separate pages). The available data show that there is a decrease in the contribution of the private sector to national development, and its contribution to capital formation reached 7% in 2007 and reached 15% in 2012, while the national development plan for the period 2010-2014 set a ceiling of 37%, and the reason for the weakness is due to a decrease Savings and non-oil investment, and although the government wanted to be a national investor by raising investment spending in the federal budget, its return was very weak at the economic level due to errors in economic policies, waste and corruption (Central Bank of Iraq, 2008, 2012 and 2017).

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**As a result of the crises, the government turned to the search for economic stability to address the crisis, so it resorted to:**

- A).** Borrowing and requesting aid from international donors, besides debt obtained by Iraq, the Kuwait International Conference for the reconstruction of Iraq was held in February 2018, while opening the way for the flow of foreign investment outside the circle of the oil sector remained worthless due to the low security and poor stability, the government also resorted to a relative freeze in employment in the government sector with the aim of addressing the problem of spending expansion (Faril, 2021, 46), improving the efficiency of government administration; However, on the other hand, it continued to expand its investment spending in the federal budget, as it reached 41.2%, 25.7%, 28.5%, 24.6%, and 33.04% of the total expenditures in the federal budget between 2015-2019, respectively. ((Ministry of Finance, budget for the year 2015-2019). Despite the lack of tendency to expand government spending, the rate of public spending / GDP remained high, which indicated a decrease in the efficiency of public spending index, which indicates weakness in Iraq due to its high value, which amounted to: (44%, 36%, 41.1%, and 43.7 %, 41.3%, 33.6%, 51.6%, and 45.5%, in the period between 2010-2019, respectively) (Ministry of Finance, Federal Budget Directorate, 2010-2019 budget), the government has also resorted to launching the (Poverty Reduction Strategy in Iraq for the period 2018-2022, which is based on packages of government measures that focus on granting loans, whether through funds allocated from the general budget or through funds allocated from international loans and grants, or by encouraging private banks to lend , with the aim of empowering the poor and transforming them into economically integrated forces in society (Poverty Reduction Strategy in Iraq, 2018).
- B).** The government has also launched what is known as the National Development Plan 2018-2022, which is based on the invitation for the application of standards of good governance, the development of the business environment, sectoral development and poverty alleviation (National Development Plan 2018-2022). There is no serious evaluation of the results of the development plan or poverty alleviation strategy, while the borrowing that the federal government resorted to, caused Iraq to be subject to the requirements of donors, in terms of directing public spending, expanding the applications of privatization and the market economy, and trying to reform some economic sectors, including The government administration sector and the banking sector.

## **Second - Structural imbalances in the Iraqi economy: manifestations and causes:**

Structural imbalances mean those problems that affect the structure of the national economy, in terms of elements, components, characteristics and relationships, any problem that occurs in one of them will result in structural crises, although some believe that the structure of the economy is often flexible that can redirect the economy and avoid it from falling into crises, and the economy then tends to contribute to raising the welfare rate in society (Zahraa, Abdel Karim, 2019, p. 19).

The imbalances that appeared in 2014 or continued in 2014 can only be observed and monitored, and their causes can be traced, Iraq found itself in the year 2014 failed to achieve development plans and to stimulate the economy to grow, and therefore the goal of raising welfare rates is actually met as a result of its content, the high rates of poverty, and unemployment, and instead of a large cash surplus, Iraq found itself strongly oriented towards borrowing, and despite the emphasis on the importance of the private sector, it remained weak, unable to stimulate growth or raise the rate of domestic product, and despite the capacity of available resources, waste and corruption are two features that overshadowed the reality of the economy.

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A number of factors interacted until the economy reached the previous results, and made it suffer from major imbalances, and there may be some difference between economists in classifying these imbalances, but what does not differ is that these imbalances could not appear except due to a weakness in the economic vision, and a weakness in concern for the citizen by describing his security and well-being as the goal of any policy, and the impact of the policy on the economy, weakness in the participation of non-oil halls in the domestic product, and excessive dependence on: oil rents and the public sector in employment, waste and corruption in the employment and use of available resources without commitment to the goal and objective of development and prosperity, Which made these imbalances of a semi-sustainable and cumulative nature (Lawrence, Jabbar, 2019, p. 308.), and we will refer to the causes of the imbalances and then their manifestations at this point.

As for the causes of imbalances, can be classified into the following headings:

**1) Economic reasons:** In the second half of the seventies of the last century, Iraq witnessed an accumulation of wealth due to the rise in oil prices, but this accumulation did not establish a real economy, and soon the wars of 1980, 1991 and 2003 drained most of the financial capabilities of the Iraqi state and pushed it towards debts, as well as About the destruction of most of the industrial and oil sector and infrastructure, and the obsolescence of industries and infrastructure in the country that have not been destroyed, and the country has not been able to build development projects or employ the available resources in light of the political and security instability, and among the economic reasons that indicate what it has ended up with Economy :

**A).** High population growth rate of growth in the growth rate of the economy outside the oil rent, the population growth is more than 3% annually, while the economy witnessed a growth contraction of 3.9% in 2013-2015, and a growth of 1.09% in 2016 at constant prices, while it witnessed a growth in GDP by about 1% at constant prices in 2017, due to the slight improvement in oil prices, then a limited contraction in 2018; as indicated in table (1).

The impact of oil rents on reducing the productivity of the non-oil sectors in the GDP, which has produced a culture of dependence on oil since the seventies of the last century, at the level of the commodity sectors (industrial and agriculture), they witnessed a significant decline, for example, the industrial sector decreased from about 11% in 1970 to about 3% in 2004, and to about 1.3% in 2014, and to about 0.4% in 2018, while the agricultural sector witnessed a decrease in its contribution to the GDP from about 22% in 1960 to 7.3% in 2004, to about 4% in 2014, and to about 3% in 2018, and the same applies over the rest of the other sectors, and the contribution of oil to the GDP remained at about 63% in 2004, about 47% in 2014, and about 49% in 2018. In addition, there is a growth in the size of the imbalance between the productive sectors and the services sector, as the latter grew to about 28% in 2014, and to about 30% in 2018, and this does not mean that there is a major transformation in the Iraqi economy, but this sector, i.e. the service sector, is a sector unproductive, it generates pressures that raise the rate of inflation and raise the unemployment rate, because the growth that occurs is associated with the demand for oil and not with local productivity, and for this there is pressure from the job offer on the government jobs sector, especially non-productive jobs: administrative or security (Central Bank of Iraq, annual bulletin, for the years 2005 - 2016, scattered pages).

**B).** The government still supports the public sector and contributes to the deterioration of the private sector, by not preventing policy pressure on the economy, and the weakness of measures to achieve work stability in that sector, weak coordination between the government and the private sector, and

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lack of interest in collecting data on the Iraqi market, consumption trends, and other related procedures and topics.

**Table (1): Iraq's GDP at constant prices for the period between 2014-2018**

No.	Statement	Years				
		2014	2015	2016	2017	2018
1	local production at current prices / trillion dinars	258.9	207.9	203.9	226	251.06
2	local production at Constant prices / trillion dinars	173.9	169.6	193.7	201.5	199.1

**Source:** Central Bank of Iraq, Annual Economic Report, for the years 2015, 2016 and 2017

- 2) **Political Reasons:** The political factor has a significant impact on the content of political development, the issue is not related to development plans, investment laws, and strategies to reduce poverty levels announced by the government, rather, it is related to the will to prevent politics from interfering with economic activity, and preventing the directing and concentration of resources for political reasons, and the lack of tendency to expand the public sector, and paying attention to the level and type of investment spending and its returns, and other political reasons, and for this we found that Iraq did not succeed in achieving an economic balance, rather, the tendency has been to raise the dependence on oil rents, which is basically an unstable factor since the eighties of the last century, due to its dependence on the trends of consumers and not the presentation of producers in the global market, and the authorities did not make serious efforts to prevent the transfer of resources and foreign currency, especially abroad, or to temporarily restrict imports in order to support the national productive sectors, and in view of the political, security and financial crisis in 2014, the economy found itself in an unfavorable political environment, i.e. the absence of the will to reach seriousness in supporting the national economy (Hajir, Duha, 2022, p. 84).
- 3) **Social Reasons:** Iraq is witnessing unstable social conditions. On the one hand, despite the increase in the population in recent years and that nearly half of them are from the young groups (presumably productive or capable of production), the society is burdened with negative burdens, including:

The high level of illiteracy or unproductive levels of education, and the increase in the size of the trend towards the public sector and administrative jobs, offset by the presence of negative values in dependency and the weak tendency to work in technical professions, the culture of consumption, the culture of import, and the weakness in the equation (saving and investment / average income), besides, there is a cultural lack of interest in the issue of currency transfer abroad as a result of waste, corruption, currency laundering, or as a result of political practices linked to the presence of support for foreign political activities, and in addition to this, there is a weakness in the service structure: the electricity and transportation sector, in addition to a system of corruption and administrative and political corruption that makes any commercial or industrial business cost more than the advantages of its existence, and for this we find that society puts a lot of pressure on the limited resources available, in order to enjoy the services of education, energy, food, health, housing and transportation, in addition, the government resorted, under pressure from international institutions, to launch loan projects after the year 2015, with the aim of launching small and medium projects, but the process was marred by many defects, which made it lose the feasibility of launching it, this is because the loans and their terms were not suitable for launching



productive economic projects, and the process did not carry enough professional aspects at times to make a serious evaluation of the projects that were granted funding (Hind, Hanan, 2019, pp. 177-178).

Today, Iraq is faced with limited options to launch economic projects and launch development. It needs:

- A). As for the high rates of oil prices, in order to achieve suitable resources to launch real development programs; Although the experience of the period between 2005-2014 proved that Iraq, as a result of political reasons, obtained very large resources, from which nothing was employed to obtain a serious development return, but there was waste and corruption and the transfer of Iraq's money abroad.
- B). Or achieving a balance between launching limited development programs and projects and the resources available to Iraq, which is supposed to be a gradual launch of development programs through the organization of deliberate targeting of selected development sectors, but the problem remains that the needs are accumulating at rates that exceed the country's ability to treat them, Iraq needs to absorb the existing unemployment and about 500,000 of the labor force that enters it annually, in addition to its need to absorb the housing crisis that Iraq needs about 2.5 million housing units according to the data of the year 2018 to treat, and Iraq needs about 50 thousand new housing units every year to cover increased needs in proportion to population growth, while what was built or planned to be built is based on granting a contribution to the private sector estimated at 85% to treat the crisis, and the National Investment Commission directed the completion of a project (one million housing units in the form of vertical construction) in all governorates of Iraq, including 224 thousand units in Baghdad only, ending in the year 2020, however, these projects are still very expensive compared to the average income in Iraq and compared to the average costs and prices in all the countries surrounding Iraq (the investment map of Iraq 2019). In addition to the above, there are increasing needs in the sectors: health, energy, infrastructure and education, in light of the continued accumulation of annually due to the inability to provide all these services to the government.

The imbalances in the Iraqi economy can be distributed to the following addresses:

1. **Commodity imbalance:** The content of this imbalance is that Iraq produces goods and services less than its needs for the purpose of consumption, and then market forces tend to import to cover the shortage in the national market, meaning that the production forces are not flexible and cannot absorb most of the needs of the local market, especially in light of the openness of the local market to the consumption pattern of many imported goods and services (Jafar, Iman, 2013, p. 140).

The analysis of the above can be seen by tracking Iraq's non-oil exports, and we will find that it amounted to less than 1%, which is an indication that the productive sector does not issue little things outside of oil production, which is indicated by attached table (2). Tracking the volume of imports indicates that the country has low production rates, if it imports about \$57.4 billion in 2015 and \$48.5 billion in 2016, and about \$31.6 billion in 2017, of which more than \$2 billion annually is the value of energy imports from neighbouring countries, the annual import report issued by the Iraqi Ministry of Planning states that the reason for the decline in the import value for the year 2017 is the relative control over the outlets and the prevention of currency exit with major corruption operations, and the tendency of the Central Bank to require the importing authorities to declare an account to ensure their participation in the currency auction (obtaining foreign currency at prices preferential market), as well as relative austerity and its impact on the size of the citizen's ability to import (Import Report for the year 2017, Central Statistical Organization, Ministry of Planning, Baghdad, 2018, pp. 3-4)

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**Table (2): Oil exports to Iraq's total exports for the years 2014-2020 / billion dollars**

Year/Statement	Total Exports	Oil Exports	Oil Exports / Total Exports %
2002	13.2	12.5	95.04
2005	23.6	22.9	96.8
2010	52.4	51.5	98.2
2014	85.2	84.5	98.8
2015	49.4	49.2	99.8
2016	38.1	37.9	99.8
2017	77.4	77	99.8
2018	88.2	87.8	99.8
2019)Expectations(	96	95.5	99.8
2020) Expectations(	102.1	101.6	99.8

**Source:** OPEC,Annual Statistical Bulletin,2018, P: 37-38. International Monetary Fund, Country Report IRAQ, 2013 ,2015 , 2016, 2017, 2018

- 2. Financial imbalance:** In covering the majority of the financial needs of its citizens, Iraq depends on raising the volume of the general budget, in relation to the size of the domestic product, which is called the criterion or indicator of the efficiency of public spending, it is an indicator that shows the existence of a problem in Iraq as shown in table (3) attached, as the ratio (public expenditure rate / GDP %) reached 41.9% in 2004, 44% in 2010 and 41.7% in 2014, then 33.6% in 2015 and 51.6 % in 2016, 45.5% in 2017, 40.1% in 2018 and 50.2% in 2019, as shown in table (3). The reasons for rising public spending are due to the expansion of state intervention in various activities, and the use of public employment as a means to partly address the unemployment crisis.

**Table (3): The public spending efficiency index in Iraq for the period between 2014 – 2019**

Year/ Statement	public expenditure		Gross Domestic Production		Public Expenditure / Gross Domestic Product %
	Government spending/ trillion dinars	growth rate %	Gross domestic product / billions of dollars	growth rate %	
2010	70.1	26.1	171	22.2	44
2011	78.8	12.2	185	37	36
2012	105.1	33.4	218	17	41.1
2013	119.1	13.3	232	6.6	43.7
2014	83.5	-5.8	196	-0.5	41.3
2015	70.3	-37.3	175.9	-22.8	33.6
2016	105.8	66.4	171.4	0.97	51.6
2017	107.09	098	197.7	1.15	45.5
2018	104.1	-1.02	225.9	2.6	40.1
2019	133.1	7.8	224.1	-0.01	50.2
2020	144.5	9.8	228.4	35.5	60.5

Note: Numbers and percentages are approximate

Source: Ahmed Saleh Hassan Kazem, Requirements to Achieving Financial Balance in Iraq, Journal of Economic and Administrative Sciences, Issue 108, Volume 24, University of Baghdad / College of Administration and Economics, 2018, pp. 394-395.

Gross Domestic Product (present value in US dollars), World Bank website, dated 7/12/2019, at the link: <https://data.worldbank.org/indicator/ny.gdp.mktp.cd?start=2017>.

Despite this tendency to raise the size of the budget, the development did not achieve its goals, through the indicator of the weakness of non-oil revenues, as the oil revenue to the state's general revenue amounted to 93.3% in 2014, 95.4% in 2016, 85.7% in 2018, and 88.8 % in 2019, an increase caused by raising the rate of taxes targeting income and fees and not targeting profits from real production operations (National Development Plan document 2018-2022).

In order to address the high volume of the deficit in the federal budget between expenditures and revenues, which amounted to about 25.4 trillion dinars in 2015, or about 5.7% of the volume of public spending, and about 24.1 trillion dinars in 2016, or about 22.7% of public spending, and 25.01 trillion dinars in 2017, that is, about 11.2% of public spending, and 12.5 trillion dinars in 2018, or about 12% of public spending, and 27.5 trillion dinars in 2019, or about 20.6% of public spending, for this reason, the federal government resorted to addressing the deficit by raising the ceiling of internal and external borrowing, as for the external debt, it amounted to 57.3 billion dinars in 2014, or about 18.7% of the volume of GDP, and 57.6 billion dinars in 2015, or about 24.8% of the volume of output, and 66 billion dinars in 2016, or 41.7% of the volume of GDP, and 70 billion dinars in 2017, and the rise in the volume of debt carries the public budget annually about 8-9% of the volume of public spending to pay off parts of the debt and service the debt (Central Bank, Department of Operations and debt management for the period 2004-2018).

By analysing the causes of the financial imbalance, two factors can be added to that: a heavy monetary issuance before 2008 for various reasons in a way that helped raise the inflation index at the time, as the government's fiscal policy was based on expanding issuance to finance public expenditures, which made the financial imbalance continued until the Central Bank directed to target inflation through packages of monetary policies that clearly contributed to reducing inflation, and the second factor is that most of the government enforcement sector is a sector that drains expenditures without the existence of productive returns, specifically the (industrial) companies sector that due to The interference of political factors has become a losing company whose expenses are paid from the public budget, because self-financing does not cover their costs.

**3. Monetary Imbalance:** It was one of the manifestations of the economic imbalance in Iraq, but its impact seemed weak due to the procedures and policies of the Central Bank, which tended to target inflation and achieve stability in the currency exchange, as inflation reached about 33.6% in 2003, 30.8% in 2007, and 2.5% in 2010 and 2.4%, 1.4%, 1.2%, 1.1% and 0.8% for the period between 2014-2018 (Ministry of Planning, Department of Economic and Financial Policies, 2018).

However, the central bank's tendency to control monetary policies was countered by shortcomings in the financial policy that is subject to the government's management of its general policies, which is affected by factors including: corruption, waste, raising spending and borrowing, offset by weakness in saving and investment, all of these factors make the imbalance exist, and the control tools are unstable, and one of the most important reasons is the high money supply compared to the local commodity production, in addition to the weak confidence in the banking system, which is noted through the high mass of cod in the hands of

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citizens (about 40.7 trillion dinars in 2018) compared to the size of the mass of money Cash in Iraq (about 42 trillion dinars) (Mohammed Waddah, 2018, at the link)

<https://www.erehnews.com/economy/markets/276260>

#### 4. The imbalance in the relationship between development needs and saving and investment:

Savings and investment are important factors to help launch the growth process, in light of the limited resources of the government, with the aim of accumulating local capital or replacing it by attracting foreign investment. Iraq suffers from poor savings, which helps in the development of national capital, which encourages financing and the emergence of productive industries that can meet the local demand for goods and services. Iraq has resorted to borrowing to fill the shortfall in funding.

In addition, Iraq suffers from a weak rate of investment, whether national or foreign, at the national level, Iraq annually puts large sums of money into investment spending, but its revenues remain virtually unrealized, the National Development Plan for the period 2013-2017 set the goal of targeting or reaching an investment of about \$74 billion that the private sector and international institutions would cover in Iraq, but this was not achieved (Kamel Al-Adad, at the link: <http://iraqieconomists.net/ar/2013/05/31>), while foreign direct investment amounted to about (- 4.54 billion dollars in 2014, about - 2.09 billion dollars in 2015, and about 6.2 billion dollars in 2016 (Samer, 2018, pg. 492), the Deputy Head of the International Monetary Fund Division estimated the funding gap that Iraq suffers 36 billion dollars for the period between 2018-2022, provided that Iraq maintains the level of government debt as a percentage of no more than 50% of the gross domestic product, and that the debt service as a percentage of exports of goods and services does not exceed 16%, but if Iraq's indebtedness increases, the financing gap will rise to 87 billion dollars for the same period, and the proportion of public debt services will increase to 33% in 2023, therefore, Iraq has no choice but to resort to borrowing or improve the climate for local and foreign investment (Christian, in 2018), and in my case: weak savings and weak investment, and what leads to weakness in national industrialization, Iraq tends to rely on borrowing and importing to cover its needs of various consumer goods.

**5. External imbalance:** The implication of this imbalance is that there may be a deficit in the balance of payments, and if oil rent revenues are followed, Iraq suffers from an imbalance in the balance of payments, as non-oil exports amounted to 1.2% of the total volume of exports in 2014, according to the attached table (2), non-oil exports amounted to very small rates, not reaching half a billion dollars annually, while the import rate amounted to about 51 billion dollars in 2014, and about 57.4 billion dollars in 2015 and 48.5 billion dollars in 2016, and about 31.6 billion dollars 2017 as detailed above.

#### Third - The results of economic imbalances, Future Expectations:

The above-mentioned imbalances referred to in the foregoing of this research, made the Iraqi economy suffer on several levels, the most important of which are distortion of production, declining growth rates, budget deficit and trade balance deficit, which can be referred to as follows:

- 1) The effects of oil rent on the GDP:** as it is known that oil rent represents the majority of the state's public revenue source, and represents the largest aspect of GDP growth annually, and therefore the imbalance is clear in the growth of GDP and in the size of the productive economic sectors, this made the economy unable to absorb the lab or force, nor was it able to produce the goods and services required by the local market, the most dangerous thing here is the emergence of a culture of dependence on oil rents and a low production capacity, and dependence on the public sector for employment, the tendency to raise the annual import rate of goods and merchandise, this matter is

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dangerous for the reality and future of the economy, as it became clear in the year 2014, when oil prices fell globally, causing the national economy to suffer from a major crisis, which Iraq could not deal with except through loans and the intervention of international financial institutions, along with the rationalization of spending, and the tendency to reduce waste and corruption rates.( Hussein, 2017, pp. 23-24).

- 2) **Public budget deficit and indebtedness:** Iraq continued to suffer from a planned deficit in the federal public budget, and deals with filling the deficit in different ways, including loans and the budget surplus for the previous year, and additional revenues for oil exports, and perhaps the main reason for the rise in the deficit index is the tendency to raise public spending, and weakness in the management of economic resources, in light of the country's high development needs, Iraq witnessed a continuation of the budget deficit after 2014, and although Iraq enjoyed a relative surplus in 2014 that amounted to about 21.8 trillion dinars in 2014, it witnessed a deficit in the year of 25.4 trillion dinars, or about 23.3 billion dollars in 2015, and 24.1 trillion dinars, or about \$22.9 billion in 2016 and 25.1 trillion dinars in 2017, or about \$23 billion, and 12.5 trillion dinars, or about \$9.5 billion in 2018, and about 27.5 trillion dinars, or about \$24 billion in 2019, and 1.6 trillion dinars, or about 1.1 billion Dollars in 2020, and the budget will be stable without a deficit in 2021 and 2022 according to the existing expectations related to the International Monetary Fund (IMF Iraq Country Report, 2018).

Some public funding is difficult to reduce, including salaries, and the government realizes that it is facing the problem of the need to finance development projects and realizes that it is difficult to rely on savings, and that loan returns are still not coherent, and for this reason it continues to raise the investment spending by raising the deficit rates, the continuation of the deficit resulted in a rise in debt rates, and what concerns us is the foreign debt, as the ratio of foreign debt GDP amounted to about 38.3% in 2017 and is expected to reach about 27.9% in 2022 (Ahmed Salih, 2018, pg. 6).

- 3) **The high rate of unemployment and poverty:** In addition to the budget and debt problem, Iraq suffers from two simultaneous problems, namely the problem of unemployment and poverty, and there are no accurate statistics for each of them, but there are estimates, and unemployment is of types, and what matters is natural unemployment and disguised unemployment, as the labour force in government jobs, which exceeds 4.5 million employees, but does not represent the needs of the administration and public utilities from this number, the expansion came to settle part of the unemployment problem, and the available estimates put the unemployment rate in Iraq at a ceiling of 10.6% of the labour force in 2014 and 10.8% in 2016, and structural unemployment of about 28.1% in 2014, according to the (National Development Plan 2018-2022 document, pg. 49), while some statistics bring the unemployment rate to about 22.6%, according to the Ministry of Planning in 2018 (Central Statistical Organization 2018).

As for disguised unemployment, it cannot be estimated. It is clear that the supply of work is growing in a way that is not commensurate with the supply of the jobs or business sector, and the administrative apparatus cannot be expanded, and the vast majority of unemployment is either unqualified scientifically and that the level of educational qualification is formal due to errors in educational policies, in addition to unemployment, there is poverty, the previously mentioned development plan document estimated the poverty rate at 22.5% in 2014. The higher of poverty index, expected that there will be major social problems resulting from it, and there are no real projects to reduce poverty, and loan programs are still unstable and their results have not yet appeared.

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- 4) **Weakness in the management of human resources:** human resources are a resource in themselves, which requires attention to the fact that the large base of the population is young, and the second issue is the interest in receiving an advanced level of education, and then the constant search for expanding the business sector in the market, but the clear is that education is not in harmony with the expansion of the business sector in the market, the dissatisfaction rate increases, the welfare rate weakens, the inequality in the distribution of incomes increases, and the productivity of the Iraqi citizen decreases, and if we move to what the Iraqi economy can settle on with its general indicators, we will find that the expectations issued by the International Monetary Fund at the end of the year 2018 put a vision for Iraq in its content: that the gross domestic product will reach 296 billion dollars in 2024, and the average per capita income will rise from 5730 dollars in the year 2019 to about 6,660 dollars in 2024, and a growth factor will appear in domestic investment from the level of 28.9 billion dollars in 2018 to about 45.6 billion dollars in 2024, and the volume of domestic consumption will increase from 79.1% of GDP in 2018 to about 89.6% of that output The year 2024 (the Executive Board of the International Monetary Fund, report of the 2019 Article IV consultations with Iraq, dated 7/19/2019).

The development plan document for the period 2018-2022 states that Iraq will export about 3.9 million barrels / day in 2020, 4 million barrels / day in 2021, and 4 million barrels / day in 2022, and it is expected to get revenues of about 76.1 trillion dinars, according to the report. The International Monetary Fund estimates, in 2020, 77.2 trillion dinars in 2021 and 79.1 trillion dinars in 2022, while according to the estimates of the Iraqi Oil Ministry, it will get about 75.7 trillion dinars, 94.9 trillion dinars and 103.5 trillion dinars for the same years (National Development Plan Document 2018-2022).

Furthermore, Iraq is still suffering from the depletion of its resources on the security or military side, or the weakness of political and security stability imposes its impact on the business sector and investment in Iraq.

It is not expected that there will be a major change in the industrial and productivity sector, because it is severely affected by the political situation that puts pressure on the business sector to continue mortgaging the country and its trade with neighbouring countries, and our expectations are that there are no important indicators in terms of improving employment levels or reducing poverty levels.

The treatments that can propose in light of a vision of the continuation of the situation in the economy during the foreseeable future, moreover Iraq needs to link development to the human being, and after that adopt comprehensive treatments, given the size of the structural problem that the national economy suffers from.

The most important proposals that request for adoption to correct the situation of the Iraqi economy in light of the indicators available after the year 2014 and what could appear in the foreseeable future, are the following:

- 1) Accelerate support for national savings, with the aim of creating capital commensurate with the needs of Iraq's launch of business projects, and foreign investment should not be relied upon, because Iraq's political and security environment is unstable, and besides that, it is necessary to transfer part of Iraq's oil revenues to a sovereign fund that supports investment for the benefit of the country, and it is also necessary to reconsider investment spending and set restrictions and controls on it to be spending that achieves its goal by supporting economic growth.
- 2) Supporting the non-oil sectors to grow, these sectors have been affected by oil rents and mistakes in economic plans. Hence, their contribution to the GDP has gradually decreased, and moving these

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sectors will lead to a reduction in unemployment and poverty in the medium term. Supporting these sectors requires political will, in order to protect the local product, restrict imports, and educate them to reconsider the culture of consumption that is currently prevalent.

- 3) Reducing the role of the state in economic and social life, so as to let the economy move according to market forces, and for the state to be a guarantor of the stability of the economy, which will push market forces to fully employ the available resources, and gradually eliminate unemployment.

The general and limited remedies that have been proposed represent urgent needs for fiscal and monetary policy at the level of the national economy, starting from them will push the national economy into stimulus, and work on a gradual correction of its conditions.

### Conclusion:

In this research, after studying the reality of the Iraqi economy, there is a problem in economic policies, which is a problem that creates accumulation, and does not stop at a single problem or imbalance suffered by that economy, and this problem does not stop on the year 2014, however there is a previous accumulation of it, but in the year 2014 A severe crisis appeared at the level of financing, and it appeared that there was a great waste of resources that Iraq had suffered, and that development projects and government investment spending were mostly without a development return, and that Iraq was suffering from a great financial exposure, despite the relative success achieved by the Central Bank in stabilizing monetary policies.

Furthermore, the research showed that the solutions required to correct the structural imbalances require a comprehensive, balanced solution that addresses the problems of: national industrialization, capital formation by raising the national saving rate, addressing the two crises of unemployment and high poverty rates by improving the level of distribution of national wealth, and reconsidering privatization to be aimed at building a competitive economy not to get rid of the problem of public property, and to control the political and security scene so that the country would be able to attract foreign investments.

The research terminated the following conclusions:

- (1) In 2014, Iraq witnessed economic chaos, most of which has continued since an earlier stage: unemployment, poverty, weak industrialization and productivity, some of which were linked to the events of low oil prices and the rise in Iraq's needs to spend on security and services.
- (2) Economic policies still do not take into account Iraq's needs for development, prosperity and a proper distribution of wealth that prevents its concentration for non-economic reasons, despite the high government spending and the high rates of investment spending and the high level of public employment, and although the constitution adopts sound economic plans that call for: supporting the private sector, market economy and investment and resource recruitment.
- (3) Although Iraq has been issuing development plans for quite some time, the structural problems are still on-going, and the exposure of Iraq in 2014 appeared in a way that the errors of reliance on a single resource appeared, and the mistakes of financial policies in the absence of the objective of the tax policy in diversifying sources of income by targeting fixed incomes and not profitability in economic activity, with wasteful errors in the use of government fee revenues without a development or production return.
- (4) The oil wealth and the large rent revenue it generates still goes without a developmental return, but is wasted by wasting on the consumption aspects.

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- (5) The oil wealth is affected by the global consumption market and not by local factors or production forces, and its revenues are subject to continuous fluctuation, and thus linking revenues and the public budget to rentier income causes high risks to the state's financial policy
- (6) The dependence of the policy of oil licensing rounds has proven to be useless and a significant drain on the country's resources by raising the volume of costs associated with the production of one barrel that exceeds the production costs known regionally.
- (7) Iraq suffers from political pressures that make it a source of foreign currency abroad without a development return.
- (8) Iraq still does not provide a political, security, economic and cultural environment for the implementation of Investment Law No. 13 of 2006, which is amended and enforced, every investment that wants to come to Iraq is pressured through the benefits requested by those in charge of the investment or those who influence the type of economic activity, which makes the investment results unimaginable feasible as in the housing sector because of rising costs, or focusing investment on sectors that do not serve the Iraqi economy or solve its problem of unemployment, poverty and productivity.
- (9) There are problems that have existed for long time, and they can be settled by political-legal-economic measures, but the political will was absent, which made it reach the level of culture, the most important of which is: corruption caused by errors in the management of politics, and the absence of social justice in the distribution of wealth or the provision of services the basic needs of citizens, and poverty resulting from political pressures and mistakes in the distribution of wealth and its concentration in the hands of the higher political and administrative functions and actions of the state.
- (10) The most important causes of unemployment are errors in the policies of the education administration, which prepares the citizen to be an administrative employee and not a person destined to develop private businesses, in addition to the high rate of illiteracy that was treated by expanding the military and security agencies, and government jobs have reached the stage of saturation, and because of deficiencies in establishing and owning a national manufacturing and production capacity, or targeting what exists, and that is why unemployment accumulates annually at a rate of more than 400,000 citizens annually.
- (11) Economic sectors can be stimulated by means of stimulation, such as the agriculture, tourism and human resources sectors, and even the industrial sector can be stimulated, but all of these sectors require reducing the impact of political factors on them, and providing a temporary government support cover for them.
- (12) Iraq needs to reconsider the annual investment budget, through monitoring the goals and results, not the procedures, and the reason is that the monitoring of procedures can be penetrated through corruption operations, while the monitoring of goals and results is asked about what the spending of money and resources has ended up with.

Thus, the research has reached to prove the validity of the hypothesis from which it was launched, which is that Iraq suffers from problems in the financial and monetary policies in the economy, the exacerbations of which appeared in the year 2014, and the economic policies were not able to find some interim stability except through a relative freezing of appointment in the government sector, Raising the debt rate to fill the deficit in financial resources.

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However, other crises, for example, such as unemployment, poverty, weak industrialization, imbalance between the sectors of GDP, heavy dependence on oil, wrong policies for taxes targeting fixed incomes and not profit in economic activities, waste of resources realized for state institutions, whether related to waste and corruption in raising the costs of oil production or wasting government fee revenues without a development return, all of these which prove and indicate that there are mistakes in economic policies, especially in terms of the absence of a perspective for economic development, or to raise the welfare rate, or to reduce poverty rates through a fair distribution of national wealth.

**In conclusion, we recommend the following:**

1. Iraq is still unstable on a clear economic philosophy, as it applies a socialist philosophy by raising the rate of public employment, raising the rate of public spending, and wasting resources, while responding to the market economy policies advocated by the Bank and the International Monetary Fund without the cover of regulation from the state, but rather by targeting national production processes through exposure to imports and extracting hard currency with non-productive operations, which requires a political reconsideration of what the economy is required to achieve, is it achieving a socialist society or building a capitalist society or applying the philosophy of Islamic economics that marries socialism and capitalism.
2. That Iraq needs to adopt a comprehensive economic reform policy, by reconsidering the meaning of resources, also an employment of available human resources and time, and of the money that is collected through the method of raising self-financing across raising the rate of fees that are protected by the institution's financing system and not distributed as profits, reducing government spending, and transferring the bulk of oil money and revenues to financing major investment projects subject to the supervision of institutions independent of the legislative and executive authorities, which have final control over those funds.
3. Reconsidering some important funds in the state, especially endowment funds and border crossings, and researching the reasons and meaning of the endowment, and making its revenues finance important social, service and health sectors, such as funding the education, health, care and social security sectors, thus achieving two goals, reducing spending It also requires imposing fees on each sector to finance the sector's expenses with a portion of no less than a quarter of its real needs: salaries and investment projects, and supporting the scientific research sector in sectors the state, provided that it is a productive scientific research and not a formal research.
4. Iraq needs to rehabilitation at economic policy from the angles of development, welfare and social justice for all citizens, and reduce political influence in it
5. It is necessary to motivate all sectors for growth, including: tourism, agriculture, education and industry, in order to shift from a mind-set of resource consumption to a mind-set of production.

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