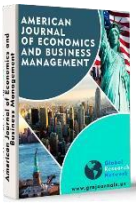

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Article

Financial programming is a tool to address fiscal policy imbalances... Iraq Case Study

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Abstract: Iraq needs to correct public finances to achieve stability and rebuild financial reserves, by adopting a program to measure and analyze the current situation and forecast macroeconomic policies to eliminate the imbalance between domestic demand and aggregate supply, which is usually manifested in the problems of the balance of payments, high inflation, and low output growth, and financial programming is an essential tool for managing policies to achieve stability and rebuild financial reserves.Analyze the current situation and forecast macroeconomic policies to address economic imbalances. However, there is a difficulty in applying the financial programming tool because of the lack of accurate information systems to estimate the rate of inflation, unemployment, economic growth, exchange rate, balance of payments and the general budget, in addition to irrational fiscal policy that depends on excessive expansion of government spending, with the sovereignty and control of the public sector over the macroeconomy, compared to the weak and weak role of the private sector. As a result of the policies pursued by successive governments and thus constitute weaknesses for the application of financial programming.

Keywords: financial programming tool, fiscal policy imbalances.

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1. Introduction

Fiscal policy directly affects full employment and the level of aggregate demand. It also affects the balance of payments, public debt levels in terms of internal and external watering, unemployment rates, inflation and economic growth, as well as the impact of monetary and exchange rate policies. In most cases, internal or external economic imbalances can be seen as a fiscal imbalance that policy has failed to correct. In light of the challenges facing the Iraqi economy in terms of external and internal shocks, globalization, slow growth and unbalanced economic development, debt risks, exacerbation of poverty, financial risks, in addition to internal imbalances that have been exacerbated by the large financial expansion and low oil prices.

Iraq needs fiscal adjustment to stabilize and rebuild fiscal reserves . By adopting a program to measure and analyze the current situation and forecast macroeconomic policies to eliminate the imbalance between domestic demand and aggregate supply , which is usually manifested in balance of payments problems, high inflation, and low output growth , financial programming is an essential tool for policy management because it enables data collection, processing and analysis between the four macroeconomic

accounts (national accounts; government finance statistics; balance of payments; monetary and financial statistics).). It also allows for interrelationships between these accounts in an integrated and consistent manner.

Problem: Iraq needs fiscal adjustment to stabilize and rebuild fiscal reserves . By adopting a program to measure and analyze the current situation and forecast macroeconomic policies to address economic imbalances.

Hypothesis: The research proceeds from the premise that "financial programming plays a key role in activating the management of macroeconomic policies by reaching the adoption and application of macro-corrective economic policies to achieve economic stability."

Research Objective: To identify financial programming and what imbalances facing the Iraqi economy and the extent to which financial programming can be applied and its ability as a tool to address economic imbalances.

Spatial boundaries: Iraq is a case study.

Time limits: 2004-2021

The first axis: the theoretical framework

First: The analytical framework for financial programming ...

Financial programming is one of the analytical tools in the field of setting monetary and financial goals that achieve or maintain macroeconomic stability as one of the basic requirements for economic growth, as financial programs emphasize the importance of the role of monetary, financial and exchange rate policies in influencing aggregate demand, correcting imbalances in the balance of payments and rebalancing the state's general budget.

It is one of the reform and adjustment programs supported by the Arab Monetary Fund, which is defined as integrated packages of policies and procedures to achieve balance of payments, while maintaining the necessary conditions to achieve a real growth rate in GDP in the long run in a non-inflationary manner.

The model of Pollack and Rubischek is the cornerstone of the IMF's program in designing reform and adjustment policies, as attempts to integrate monetary and credit factors into balance of payments analysis, thus deriving a relationship between money supply and changes in international reserves. On this basis, it proceeds from the premise that the money supply in an open economy, which operates under a fixed exchange rate, constitutes an internal variable affected by surpluses and deficits in the balance of payments, and not a foreign policy instrument as was usually assumed in closed economy models (Ohuche,2010,p3).

2. Materials and Methods

The main goal of financial programming is to achieve the optimal use of resources according to the formula that maintains price stability at the target level, which does not carry with it inflation rates and achieve rates of sustainable growth and balance of payments stability, and this is the main goal sought by economic stability policies coupled with fiscal and monetary policy measures of a short-term nature to address the problem of external indebtedness and return to the state of balance of payments (Bruce, 1999.p2).

The study uses both primary and secondary research methods in order to analyze Iraq's fiscal policy with consideration of financial programming principles. Data collection is mainly based on secondary sources which include government reports, central bank and other international sources such as the International Monetary Fund. There is focus on aspects like revenues, expenditure patterns, budget deficits, publicly owned debt, and they, economic development.

This simulation of relationships between fiscal, monetary and the external sector is done using a financial programming model which is calibrated with data specific to Iraq. Scenario analysis assesses the effects that fiscal measures such as spending reductions, changes in taxes, and innovations with subsidies on economic stability. Institutional analysis looks at logics, governance and dependency on the oil revenues based on literature studies and interviews with key persons. Comparative analysis refers the financial strategies for utilization of fiscal revenue in Iraq with those of other oil-dependent countries.

Analytical and interventionist in its application, this approach helps Iraq to correct fiscal disequilibria and offers policy prescriptions.

3. Results and discussion.

The approach to financial programming begins with the functional relationship that expresses the change in the money supply as the sum of the changes in its international and local components (IMF, 2014, P5):

$$\Delta M = \Delta R + \Delta D$$

Whereas :

(M) : money supply.

R)): Foreign assets in various negotiable foreign currencies held outside its borders to provide the necessary liquidity for the state (international reserves).

D: Assets PROVIDED BY FINANCIAL INSTITUTIONS TO THE FAMILY SECTOR AND COMPANIES IN THE FORM OF LOANS, PURCHASES OF SECURITIES, COMMERCIAL CREDITS, AND OTHER ACCOUNTS RECEIVABLE (DOMESTIC CREDIT).

Since the demand for money can be determined in different ways, let's assume that the demand for money function is related to the change in real income (δy), the change in the level of domestic prices (ΔP), and other unspecified variables. The latter is supposed to include interest rates paid on deposits and other financial assets, wealth, and expected inflation.

$$\Delta MD = \int (\Delta y, \Delta p)$$

As the condition that determines the equilibrium in the money market.

$$\Delta MD = \Delta M$$

Thus these three components can be combined to get:

$$\Delta R = \Delta M - \Delta D = \int (\Delta Y, \Delta P) - \Delta D$$

That is, the change in net foreign assets, the balance of payments is determined by the difference between the change in the money supply (equal to the change in the nominal demand for money from the equilibrium state) and the change in domestic credit. Basically, this equation says that the change in net foreign assets will be positive (i.e., the balance of payments will be in surplus) to the extent that the change in total money supply exceeds the change in domestic credit.

Since the balance of payments consists of the balance of trade and the balance of capital. $(\boldsymbol{CA})(\boldsymbol{BK})$

$$BP = CA + KB$$

When the balance of payments balance is unbalanced $(BP \neq 0)$, export and capital inflows are not equal to import currency inflows and capital outflows. A surplus in the balance of payments balance will lead to capital inflows and thus an increase in the money supply while a deficit in the balance of payments balance leads to capital outflows and thus a decrease in the money supply. During capital flows.

The current account therefore corresponds to changes in the net foreign assets of the banking system (ΔR) and in the net foreign debt of all non-bank residents (ΔFI).

$$CA = \Delta R - \Delta FI$$

Since the change in the net foreign assets of the banking system is also equal to the difference between the change in the money supply and the change in domestic credit from the balance sheet of the banking system, it can be seen that the combination of the two equations gives:

$$CA + \Delta FI = \Delta M - \Delta D$$

It is on this basis that the relationship becomes.

$$\Delta R = X - IM + \Delta FI$$

X and IM are the local currency values of exports and imports of goods and services respectively, and ΔFI is the change in net external indebtedness not held by the banking system.

The role of fiscal policy within the framework of financial programming requires the following:

- ✓ The change in a country's net external debt (ΔFI) is the sum of the changes in the net external debt of the private sector (ΔFIp) and the public sector (Δ FIg)

$$\Delta FI = \Delta\text{FIP} + \Delta\text{FIg}$$

- ✓ A similar analysis between the private and public sectors regarding changes in domestic credit is possible:

$$\Delta D = \Delta DP + \Delta Dg$$

ΔDpg is the change in credit directed to the private sector, and ΔD) is the change in credit directed to the government.

- ✓ Introducing the government budget constraint, where the government must finance any deficit either by increasing its net borrowing from abroad, or by increasing its net borrowing from the banking system:

$$G - T = \Delta Dg + \Delta FIg$$

where (G is total government expenditure and T) is total government revenue; therefore G — T) represents the fiscal deficit. This budgetary constraint implies the implicit assumption that in developing countries, the Government has no real alternatives but to finance its deficit by borrowing from abroad or from the banking system.

- ✓ Establish a relationship between monetary expansion and the government's fiscal position, to set ceilings on both the volume of foreign borrowing (ΔFIg) and the volume of bank financing (ΔD) $g$carried out by the public sector. Because the rate of credit expansion of the private sector (ΔDp) is generally an important secondary goal in financial programs: allowing the private sector a sufficient amount of credit for working capital and investment purposes is a goal that must be taken into account when targeting the share of financial resources that the public sector must absorb. Basically, once the monetary model is used to solve the overall credit expansion rate (ΔD), the public sector credit expansion rate (ΔDg) can be derived as the difference between the overall credit expansion rate (ΔD) and the target private sector credit expansion rate (ΔDp).

$$\Delta Dg = \Delta D - \Delta DP$$

The inclusion of fiscal deficits here as an extension of basic fiscal programming should not obscure the recurring importance of fiscal deficits in creating primary imbalances and the fact that imbalances often have to be addressed largely through fiscal adjustment, that fiscal policies are among the most directly responsive to strong and rapid government intervention, and that achieving growth may in some cases require the reallocation of resources from the public sector to more directly productive non-public sectors.

Second: Financial programming steps.

In order for financial programming to play its basic role of activating the management of macroeconomic policies by reaching the adoption and application of macro-corrective economic policies to achieve economic stability , including a continuous growth rate and

a price level commensurate with the value of money, as well as low levels for both inflation and unemployment, in addition to a balance in all the general budget (internal balance) through the elements of revenues, expenditures and balance of payments (external balance) of the movement of goods, services and the movement of capital, as a strategic goal. for all macroeconomic policies. It requires moving towards a set of steps, namely (Macroeconomic, 2021, p8):

- ✓ First Step: Determine the balance of payments target during the application period.
- ✓ Step Two: Make predictions or assumptions about the behavior of balance-of-payments variables that are believed to be externally determined, i.e. exports of goods and services and net non-bank capital flows. A "sustainable" level of external debt that corresponds to a country's current and future debt-servicing capacity can be determined, and then ensure that the increase in net external indebtedness is consistent with this sustainable level. Capital flows are supposed to include aid flows, direct investment, and foreign borrowing. Commercial. After obtaining export values and capital flows,
- ✓ Step Three: Use these values to get the increase in demand for money and increase imports.
- ✓ Step Four: Find the change in domestic credit in line with the target change in net foreign assets and the desired increase in nominal money balances.
- ✓ Step Five: Reach a domestic credit limit that is at the same time consistent with the Gross Balance of Payments Target (ΔR) and with the target or expected values of its components.

Third: Fiscal policy within the framework of financial programming .

The role of fiscal policy within the framework of financial programming is represented by restricting the demand of the government sector for credit, taking into account the credit needs of the private sector. Fiscal policy will affect total spending directly through public sector spending on goods and services, and indirectly through the effects of the spending and revenue sides of the public sector budget on private spending. The direct and indirect effects on total expenditure will be considered first by the expenditure side of the public sector budget, and then by the revenue side.

- ✓ **Public sector spending...**

  Public sector spending is classified into spending on goods and services, transfer payments, and interest payments. The impact of public sector spending on private sector spending can be illustrated through.

  Public spending on goods and services produced is yet an element of gross domestic expenditure, and this naturally represents its direct contribution to domestic demand. If public sector purchases are for domestically produced goods that cannot be traded internationally, they are an addition to the overall demand for domestic goods. However, public sector purchases of domestic goods that can be sold abroad at the prevailing world price do not directly affect aggregate demand for domestic goods. Public spending on these traded goods contributes to the deterioration of the trade balance while having no direct impact on real aggregate demand, or on economic variables. Aggregate such as real output and domestic inflation rate.

  There are several channels through which an increase in public spending may indirectly affect private spending (AIan, 1989, p12).

  - ✓ If the public sector purchases goods and services to provide public goods that are substitutes for or complementary to goods purchased by the private sector, private spending is affected.
  - ✓ Increased public spending increases the tax burden on the private sector, either during tax financing at present or because of the need to

repay public debt in the future, which would lead to lower private spending. As a result of the decrease in the disposable income of the current or future private disposal.

- ✓ Increased public spending leads to an increase in aggregate demand , which is reflected in higher price levels, while it may lead to a reduction in private spending. An amount equivalent to the increase in public spending, leaving no net change in aggregate real aggregate demand.

It is worth noting that the importance and priority of these factors depends on the structural and institutional characteristics of the countries under study.

Transfer payments from the public to the local private sector do not represent the purchase of goods and services currently produced, and therefore have no direct impact on domestic demand. However, they affect the disposable income of the private sector and may therefore have an indirect impact on private spending. As with transfer payments, interest payments by the public to the private sector do not directly affect aggregate demand; Their impact on private spending decisions. Increased public sector interest payments on external debt while public spending on goods and services remains stable will also have no direct impact on aggregate demand for domestically produced goods and services.

- ✓ **Public sector revenues.**

  Public sector revenues are divided from taxes collected from the private sector and remittances received from abroad.

  Taxes collected from the private sector have a macroeconomic impact opposite to transfers paid to the private sector. Although domestic demand is not directly affected, raising taxes would indirectly reduce private demand by reducing private sector disposable income. It should also be noted that attempts to raise taxes to levels beyond normal levels can lead to widespread tax evasion and the diversion of various economic activities to black markets.

  Just as remittances to the public sector from abroad do not have a direct impact on domestic demand, the disposable income of the private sector may rise, thus having a positive indirect impact on domestic demand (Bruce, 1999, p23).

  Remittances from the outside world differ from other revenues because they are often outside government control and are not predictable or sustainable. On the other hand, oil revenues are highly volatile because they are subject to external factors that are not controlled by the government and unpredictable; they are non-renewable, and their consumption reduces the government's wealth. Countries that rely heavily on oil (or other non-renewable resources) should also consider the non-oil fiscal balance, ideally as a proportion of non-oil GDP.

- ✓ **Public sector deficit**

  Public sector deficits are used as an indicator of changes in fiscal stimulus to aggregate demand, because an increase in public spending on goods and services and on transfers to the private sector simultaneously increases fiscal deficits and aggregate demand, while an increase in taxes on the private sector reduces aggregate demand and fiscal deficits.

  Therefore, the public sector deficit must be used very cautiously as an indicator of fiscal stimulus to aggregate demand, because public sector purchases of goods and services affect aggregate demand as a result of changes in taxes and transfers, and therefore the formation of the deficit, along with its size, is of great importance. In addition to public sector spending on imports, interest payments on external debt, and net inward remittances from abroad in open economies, they may have an impact on the fiscal deficit without Have a direct impact on the overall demand for domestic goods and services.Just as the effects of aggregate demand for public sector deficits vary depending on the composition of

expenditure and revenues, decisions on expenditure and revenue components may also need to be geared towards achieving the required degree of aggregate demand control.

There are four main ways to finance fiscal deficits (World Bank, 2008):

- ✓ Through foreign direct borrowing, through foreign governments, foreign private banks, international institutions, or by selling bonds to non-residents, foreign direct borrowing may at first glance cause the exchange rate to rise and thus reflect on the deterioration of the competitiveness of the traded goods sector.
- ✓ Through direct borrowing from the Central Bank, this borrowing results in an increase in the money supply and thus a rise in the general level of prices. The central bank may try to resist lending to the government or set limits on the amount of credit available, but these attempts may not succeed unless the central bank is truly independent.
- ✓ Through borrowing from local banks, and this borrowing results in the rise of credit directed to the government sector at the expense of credit directed to the private sector in the sense of displacing the private sector, and this borrowing may not cause an increase in the money supply at first glance as the Central Bank did not absorb the additional demand for credit and provide local banks with additional reserves.
- ✓ By borrowing from non-bank institutions. This borrowing results in financing the fiscal deficit without increasing the money supply or decreasing state reserves, and avoiding high inflation rates or crowding out the private sector or external crises, so borrowing from non-banking institutions is considered a safe way, but it can carry with it risks if it becomes excessive.

The second axis: Analysis of the reality of fiscal policy in Iraq

First: Investment and current spending in Iraq.

Through the data issued by the Ministry of Planning, the Central Bureau of Statistics, and the Directorate of National Accounts , which were classified in Figure (1), we note the increase in investment and current spending during the period 2004-2021, the current expenditure reached (89526686) million dinars in 2021, compared to (27597167.9) million dinars in 2004. While investment spending amounted to (17542554.01) million dinars in 2021, compared to (3924260) million dinars in 2004, and we also find that the percentage of current expenditure of public expenditure ranged Between (61.2% - 95.78%), while the percentage of investment spending of public spending ranged between (4.22% - 38.8%) during the study period, meaning the highest rates of government spending are directed towards current spending to finance the needs of the present generation without considering the requirements of future generations (of a consumer nature). Which reflected its shadow on the development of the demand side without targeting the supply side, which led to the trend of large leaks from the income cycle towards imports, in return for the lack of a diversified production base as well as the weakness of the private sector in participating in economic activity.

On the other hand, the sensitivity of current spending and does not have sufficient flexibility because the components of this spending and its social repercussions and links to external factors without internal factors, with misguided investment spending and this would hinder the state of structural imbalance due to the lack of sufficient infrastructure in the economy, and an indicator of the control of the public sector over the private because the increase in investment spending stimulates the private sector to enter into economic activity.

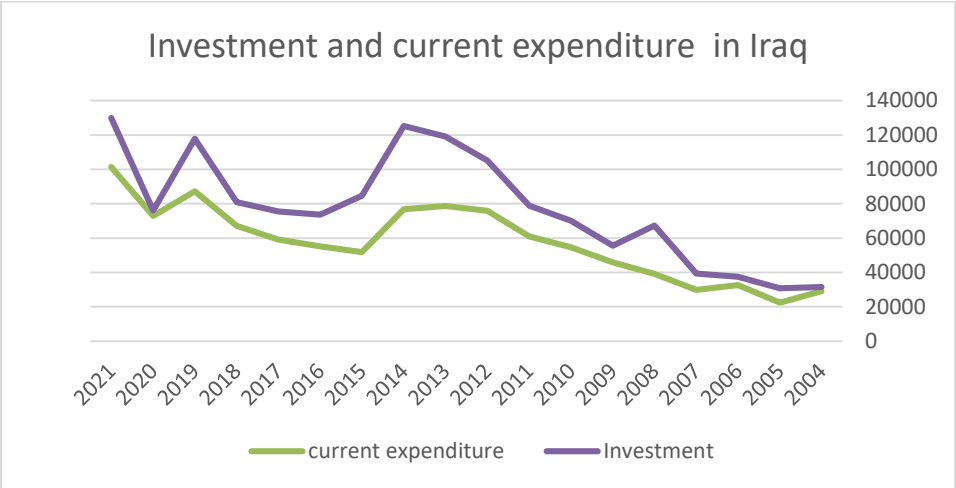

Figure (1) Investment and current spending in Iraq.
Source: (Ministry of Planning, Directorate of National Accounts).

Second: The ratio of current and investment expenditure to GDP.

The ratio of expenditure to output is one of the important indicators in economic studies because it reflects the productivity of spending, and when we observe Figure (2), which shows the ratio of current and investment spending to GDP, we find that the ratio of current spending to GDP ranged between (26.15% - 54.60%), while the ratio of investment spending to GDP ranged between (1.46% - 18.24%) during the period (2004-2021).

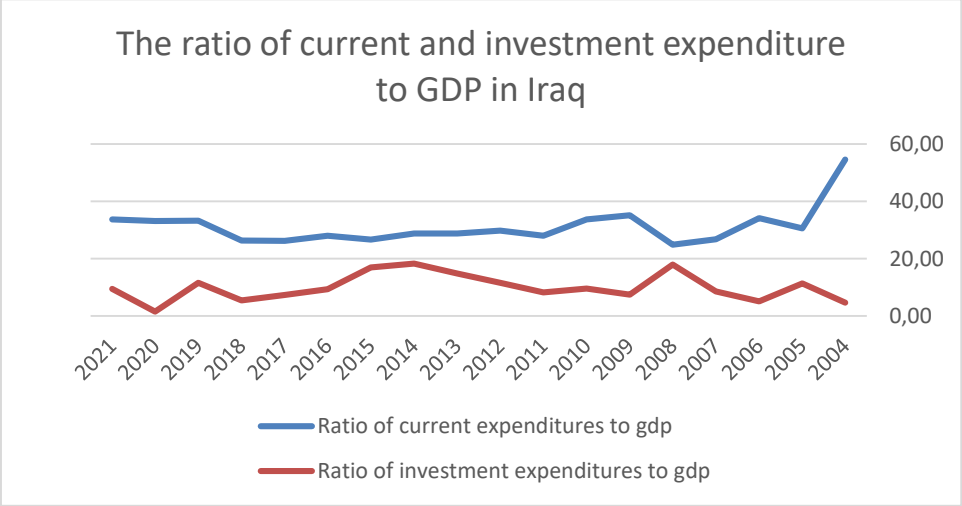

Figure (2) Ratio of current and investment expenditure to GDP in Iraq.
Source: (Ministry of Planning, Directorate of National Accounts).

Third: Internal and external debt in Iraq.

The yen to output index is one of the important indicators that reflect the development of debt and the ability to repay in the sense of the country's ability to meet debts and liquidity and the ability of the current value of its primary expenditures to flow its current and future revenues, meaning the state's ability to repay debts without incurring more debts through its GDP.

Through the data issued by the Ministry of Planning, the Central Bureau of Statistics, and the Directorate of National Accounts , which are classified in Figure (3), we note that the internal and external debt fluctuated between high and low during the period 2004-2021, the internal debt reached (38331548) million dinars in 2021, compared to (6061688) million dinars in 2004. While the external debt reached (36630915) million dinars in 2021, compared to (157991640) million dinars in 2004, and when observing the contribution ratio, we find that the ratio of internal debt to output It ranged between (1.56% - 24.05%),

while the ratio of external debt to output ranged between (9.70% - 242.95%) during the study period.

The reason for this fluctuation in the value of internal and external debt and its percentage of GDP is due to fluctuations in the prices and quantities of crude oil exported to the external year, which cast a shadow on public revenues and thus reflect on the state's ability to fulfill its obligations. But when resorted to external debt, it would lead to an increase in public spending in the coming years as a result of the increasing burden of debt service, on the one hand, and on the other hand, the tall generations bear the financial burden.

It can also be noted that increasing public debt, both internal and external, to finance public spending, means increasing the money supply in circulation, which requires the Central Bank of Iraq to conduct a sterilization process for the increasing spending that goes to the outside world, meaning increasing internal debt to finance excessive current spending leads to crowding out the private sector and therefore does not indicate any increase in aggregate demand because this will indicate a deficit in the trade balance as a result of the increase in imports, Either increasing debt to finance investment spending adds to aggregate demand. Debt may become unsustainable if public investment projects do not generate financial returns to cover interest payments.

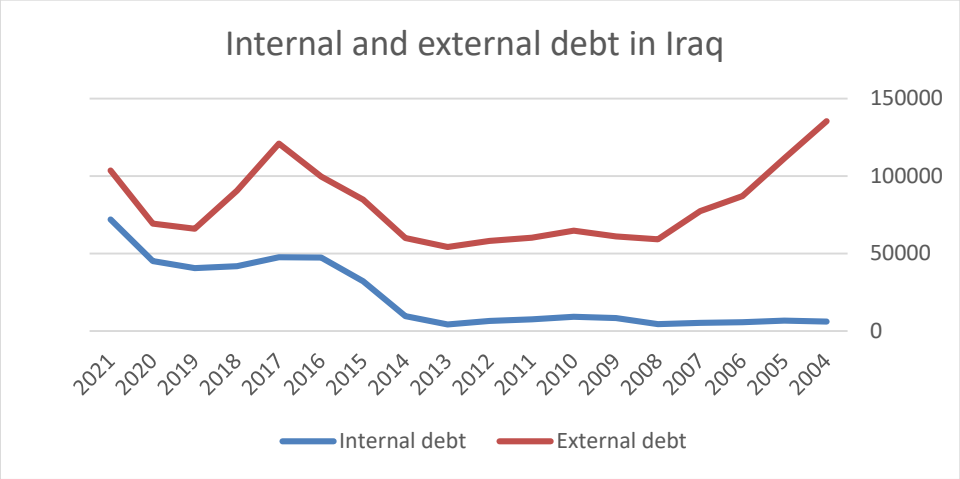

Figure (3) Internal and external debt in Iraq.
Source: (Ministry of Planning, Directorate of National Accounts).

Fourth: The percentage of tax revenues from public revenues.

The indicator of the percentage of tax revenues from public revenues is an important indicator in studies and research as it reflects the percentage of the current generation's bearing of current expenditures, meaning that one of the indicators of sustainability must be to finance current spending through tax revenues because these expenses benefited the current generation.

Through the data issued by the Ministry of Planning, the Central Bureau of Statistics, and the Directorate of National Accounts , which are classified in Figure (4), we note the modest contribution of tax revenues from public revenues, which ranged between (0.48% - 8.14%) during the period 2004-2021, while the percentage of tax revenues contribution to financing current expenditures ranged between (0.55% - 10.67%). As it is known, public revenues in Iraq consist of oil revenues, tax revenues and other revenues, with a low percentage of contribution Tax revenues and other revenues in return for the acquisition of oil revenues on the largest percentage Sometimes the contribution rate of oil revenues is permissible 90%, and this is what made public revenues vulnerable to risks as a result of fluctuations in prices and quantities exported to the outside world, on the one hand, on the other hand, the low percentage of tax revenue contribution This means the spread of the phenomenon of free riding (current generations enjoy public services without contributing to bearing their costs) as a result of the gap between current spending as a wave towards public services for the generation This means the exacerbation of the

financial burden that future generations can bear as a result of bearing the burden of decisions they did not participate in making, and thus the absence of a methodology for exchanging roles between society and the government in the sustainability of financial resources.

On this basis, tax revenues lose their effectiveness in affecting domestic aggregate demand as long as the percentage of their contribution to financing the local productive sectors decreases and thus the financing burden of rentier resources of the public budget is high, and thus the failures and burdens are transferred from the present generation to the next generations.

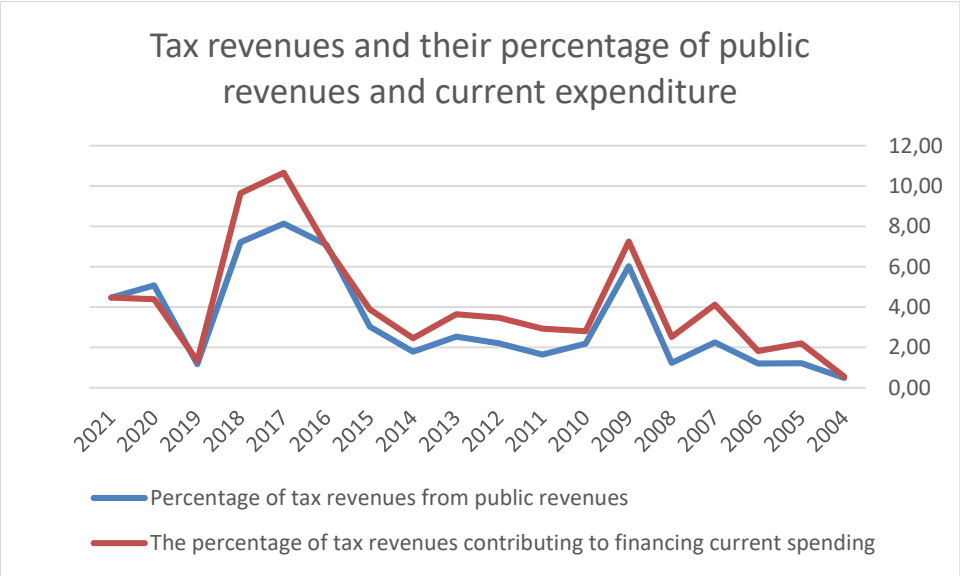

Figure (4) Tax revenues and their percentage of public revenues and current expenditure in Iraq.

Source: (Ministry of Planning, Directorate of National Accounts).

Sixth: The deficit and surplus of the public budget.

The ability of sound fiscal policy is to curb government spending and make it in light of the available financial possibilities, with a variety of sources of financing, and that deficits do not exceed a high percentage of GDP. Iraq relies in the preparation of the general budget on the method of control items with an upward approach, which is one of the methods of Tflidi, which is based on estimating the needs inaccurately from the official authorities without those needs being based on the feasibility study or achievement rates or strategic plans, and this leads to the growth of budget figures. When following up the data released by the Ministry of Planning, which has been classified in Figure (5), we note. The general budget achieves a surplus during the years that rise or improve oil prices, which are reflected in the shadows on oil revenues and then public revenues, in return for the decline or fall in crude oil prices lead to the emergence of a deficit in the public budget on the one hand on the other hand. The general budget begins with a hypothetical deficit and then ends with a real surplus that is transferred as an opening balance in the general budget for the following year, as long as there are no final accounts for years.

On the other hand, government spending has increased, especially current spending at the expense of investment spending, with a decrease in the percentage of tax revenue contribution from public revenues, and this indicates a decrease in the percentage of private sector contribution to economic activity, and on the basis of that, we find that the elements of revenues and public expenditures are a reflection of the economic reality more than they are tools to address the economic imbalance

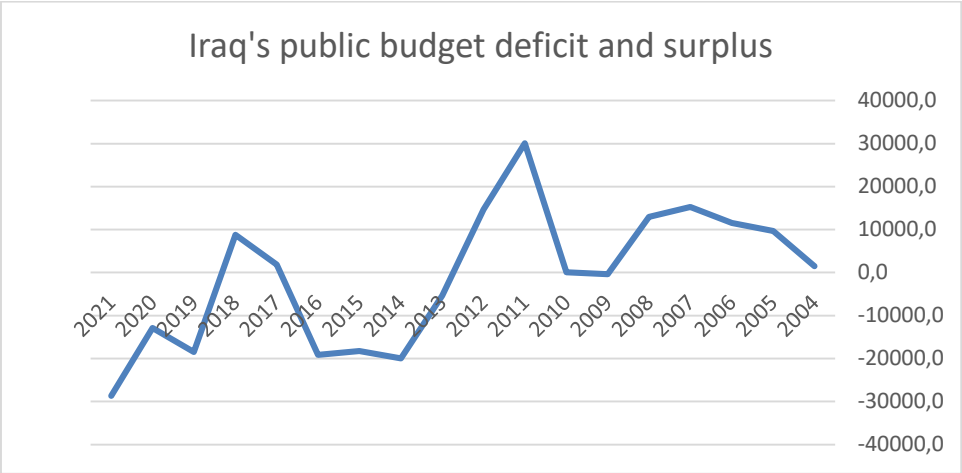

Figure (5) Deficit and surplus of the public budget in Iraq
Source: (Ministry of Planning, Directorate of National Accounts).

The third axis: the possibility of applying financial programming to address the imbalance of fiscal policy.

Question that could be raised? Is there a possibility in applying financial programming in light of the imbalance of financial policy? The answer to this question depends on several considerations, including ....

- ✓ The Iraqi economy is a rentier economy that depends on crude oil, and since the price of crude oil is in constant fluctuations as a result of external factors, it is difficult to predict prices and include them in financial programming to achieve the set goals.
- ✓ There are no accurate information systems to estimate inflation rates, unemployment rates, economic growth rates , the state of the general budget and the state of the balance of payments , and therefore when these variables are introduced into the financial programming, they do not reflect the real reality of the Iraqi economy.
- ✓ Irrational fiscal policy depends on the excessive expansion of government spending in its current part at the expense of government spending in its investment part, with the predominance and control of the public sector over the macroeconomy, compared to the weak and weak role of the private sector.
- ✓ The Iraqi Stock Exchange is characterized by its small size and narrow scope in the lack of investment instruments. Consequently, its contribution to achieving economic policy objectives is low, and it is difficult to include them in financial programming.
- ✓ Exchange rate fluctuations in the formal and informal markets as a result of the policies pursued by successive governments and thus constitute weaknesses for the application of financial programming.

The banking sector in Iraq is not keeping pace with modern technological developments and is not open to the world and depends on the custody of the Central Bank and does not enjoy the spirit of initiative, and therefore cannot be among the basics of the financial programming model.

4. Conclusions and Recommendations.

Conclusions.

1. Financial programming is an essential tool for managing macro-corrective economic policies to achieve economic stability.
2. Iraq needs fiscal adjustment to stabilize and rebuild fiscal reserves.

3. The absence of a diversified production base, as well as the weakness of the private sector in participating in economic activity .
4. The inflexibility of current spending due to the components of this expenditure and its social repercussions and links to external factors without internal factors.
5. The decline in investment spending impedes the structural imbalance due to the lack of adequate infrastructure in the economy, and an indicator of the control of the public sector over the private.
6. Increasing domestic debt to finance excessive current spending crowds out the private sector and therefore does not indicate any increase in aggregate demand because this will indicate a deficit in the trade balance as a result of increased imports.
7. It is difficult to implement financial programming in light of the imbalance of fiscal policy.

Recommendations.

1. It is essential for countries to consider the non-oil fiscal balance, ideally as a proportion of non-oil GDP**.**
2. A program should be adopted to measure and analyze the current situation and forecast macroeconomic policies to address economic imbalances.
3. It is appropriate to set a "sustainable" level of external debt that corresponds to the country's current and future debt servicing capacity.
4. It is necessary to have accurate information systems to estimate the rate of inflation, unemployment, economic growth, the exchange rate, the balance of payments and the general budget.
5. Resources from the public sector are supposed to be reallocated to more directly productive non-public sectors.
6. Decisions on expenditure and revenue components are assumed to be geared towards achieving the required degree of aggregate demand control.

   It is necessary to maintain the deficit in the short term, without increasing the monetary base or depleting international reserves.

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