

Analysis of the Reality of Financial Shocks on Inflation Rates in the Iraqi Economy for the Period (2004-2019)

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Abstract: The research focuses on analyzing the impact of financial shocks on inflation rates in the Iraqi economy for the period (2004-2019). Surprise in each of inflation, unemployment, or the rate of economic growth...etc., without these countries having a direct and influential role in determining or controlling these events. The reduction and reduction of shocks indicate the quality of economic policy in a country and the clarity of visions, The future, and knowledge of the state of the economy. Decision-makers can intervene by controlling several financial and monetary variables to achieve balance. However, failure to achieve balance causes financial or monetary shocks, which affect many variables. The authorities may sometimes deliberately cause these Shocks when you aim to achieve a specific goal, such as addressing inflation or unemployment.

One of the most important results of the research is that adverse financial shocks hurt economic activity, which intensifies with the weakness of responsive policies to these shocks, in addition to the absence of economic philosophy, the severity of structural imbalances, and the unbalanced integration with the outside world that has made the Iraqi economy responsive to shocks and incubating their economic and social effects, especially External ones, and perhaps the shock of oil prices is a clear example of these factors, despite the enormous financial resource that was achieved as a result of it, the Iraqi economy did not benefit from it in building safe buffers from external shocks that it could be exposed to at any time. This made the stability of crude oil prices or any disturbance in oil marketing (external shock) reflected directly on the economy through government revenue and spending (as an internal financial shock). The latter witnessed a significant decline in 2015 due to the drop in oil prices, and it is reflected in inflation rates in the Iraqi economy.

Keywords: financial shocks, government spending shock, government revenue shock, inflation rates.

Introduction:

The Iraqi economist faced many economic shocks that resulted from the accumulations of previous events before 2003 and after 2003, which posed a significant challenge for him in the economic and security aspects, such as occupation turmoil, chaos, and renters, in addition to administrative and financial corruption, in addition to the decline in the productivity of the non-oil sectors in the formation of Gross

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domestic product, which is mainly reflected in the structure of the government budget, significantly since government revenue and spending are greatly affected by oil revenues, which in turn are linked to price fluctuations in those revenues, which are determined externally. Those returns, and then these fluctuations, have significant effects on the macro-variables in the economy due to the oil-financial domination. Hence, the fiscal policy responds in a way that goes in line with the direction of the economic cycle, which is the case in developing countries, especially the oil ones, so that the response is then reflected in the macro-variables of the economy. In the form of unexpected changes expressed in financial shocks. With the absence of a genuine national will to take strict governmental policies to diversify the national economy aimed at decoupling the vital link between the oil sector and economic activity and making the economy achieve high growth rates away from oil imports, in addition to the poor management of these imports due to the lack of direction towards establishing sovereign investment funds capable of absorbing Financial shocks to the oil markets, especially the positive ones, to support internal stability and to identify or bridge the financing gap, as is the case in the Arab Gulf countries. Fiscal policy remains in line with the cyclical trends of the global economy.

Research importance :

The study derives its importance from the fact that it sheds light on the issue of financial shocks and their impact on inflation rates due to the positive and negative financial shocks experienced by different countries of the world, the results of which had a clear and significant impact on the economic sectors and local markets such as investment and production, as a result of the intertwined relationship between economic variables in most countries. Countries, therefore, policymakers must consider the interrelationship between macroeconomic variables when selecting and defining policies and measures that stimulate treatment in dealing with financial shocks, or mitigate their adverse effects, especially since the problem for oil exporters, including Iraq, is the inability to predict the possibility of continued High oil prices with sudden declines due to the shocking tremors of the global financial market.

Research problem:

The dependence of the Iraqi economy mainly on the oil resource made it vulnerable to external shocks due to fluctuations in crude oil prices, which will leave direct effects as a shock on government revenue and then a shock in government spending. The effect will transfer to the overall variables. Inflation is one of those variables that are affected by financial shocks, in particular With fiscal policy keeping pace with the economic cycle, in addition to shocks resulting from internal events such as increased government spending to finance military and security operations, which a lack of increase in other non-oil revenues such as taxes and fees may accompany.

Research goal:

The study aims to study the conceptual foundations of financial shocks and inflation rates and to study and analyze inflation rates for the period (2004-2019) to show the impact of financial shocks as intermediate variables that convey the financial impact.

Research hypothesis:

Financial shocks are transmitted to the Iraqi economy due to imbalances in the global oil markets, such as a shock in government revenue. Then they are transmitted as a shock in government spending. The study starts from the hypothesis that inflation rates are affected by financial shocks (the shock of government revenue and spending).

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Research methodology:

The studied economic phenomenon required the use of several scientific approaches to clarify the main shocks and sub-questions, the first of which is the descriptive approach in order to gain knowledge of the theoretical aspects of the subject, and then the analytical approach through analyzing the impact of fiscal policy shocks on inflation rates, based on recent statistical data and data issued by government agencies.

Research limits:

The Iraqi economy represents the limits of the spatial study, and this choice was justified by the keenness to analyze and measure the fiscal policy shocks and their effects on inflation rates. As for the temporal limits, the research covered the period (from 2004-2019).

Research Structure:

In order to validate the hypothesis and reach the objectives of the research, the research was divided into two main sections: the first section was devoted to knowing the conceptual framework of financial shocks, while the second topic dealt with the types of financial shocks, while the third topic clarified the relationship between financial shock and inflation, and the fourth topic dealt with Analysis of the impact of financial shocks on inflation rates.

Chapter 1: The concept of financial shocks

They represent the changes that occur in fiscal policy tools, such as the shock of government spending and the shock of government revenue. Fiscal shocks are sometimes called financial shocks.¹

A financial shock represents all changes that occur in financial indicators, including changes in government spending and is called the expenditure shock or changes in government revenues and is called the revenue shock, which are either planned changes or occur randomly², and Mountford & Uhlig defined this shock as It represents a sudden change in the procedures of the fiscThe first topical policy, without this implying that it is for the whole of this policy, as it may be one of its tools, given that financial policies represent a different set of tools and policies, and that changes can occur in tax rules as one of the various types of income, or changes may be in Government spending channels³, or include sudden measures for both of them, such as a specific increase in taxes followed by a specific increase in government spending⁴, there are two types of shocks to fiscal policy, the first of which is expansionary shocks, which are shocks resulting from the expansion of government spending, tax reduction or increase Government spending and tax cuts together, or an increase in government spending and an increase in taxes by the same amount, and the second is the deflationary shocks of fiscal policy and the Defined as the shocks generated by reducing government spending, increasing taxes, reducing government spending and

¹ Andrew Mountford & Harald Uhlig, "What are the Effects of Fiscal Policy Shocks?" Working Paper, University of London, Royal Holloway college, 2002, p4-12. <https://www.researchgate.net/publication/4866284>

² Muhammad Salih al-Kubaisi, Israa Saeed al-Obaidi, Measuring and analyzing the effect of spending shocks on some macroeconomic variables in Iraq for the period (1990-2014), research drawn from a doctoral dissertation, Al-Kout Journal of Economic and Administrative Sciences, University of Wasit, 2017, Issue 26, p. 4.

³ Andrew Mountford & Harald Uhlig, "What are the Effects of Fiscal Policy Shocks?", Journal of Applied Econometrics, No.24, 2009.p963.

⁴ Andrew Mountford & Harald Uhlig, "What are the Effects of Fiscal Policy Shocks?" Working Paper, University of London, Royal Holloway college, 2005, p4-5.

raising taxes together, or reducing government spending and reducing taxes together by the same amount⁵.

Moreover, it represents the problem of possible delay between announcement and implementation, which results in difficulty and weakness in stimulating the economy. This is due to the failure to monitor business cycles, after which it is essential to analyze fiscal policy results⁶.

Chapter 2: - types of financial shocks

Through the preceding, it is possible to distinguish between the types of financial shocks as follows:

Firstly: Government Spending Shocks

It is a sudden change in the value of government spending. This change may be with all items of government spending or some of them, and its impact may be harmful or positive on economic variables⁷. It is also defined as changes in the current value due to external or internal factors or temporary changes to government spending to face emergencies. Sometimes predetermined government spending reflects positive or negative external shocks when oil revenues increase or decrease in a given year. In a rentier country, this will be significantly reflected in the increase or decrease in spending for the next year, generating the shock, and then it can be said that it is a planned shock in government spending. It may come during emergency circumstances coinciding with periods of wars, political crises, economic crises, or periods of social unrest—a pattern similar to jumps, as it is exposed to surges of increase or decrease⁸.

As for positive shocks, these governments may fail to benefit from them or deepen them and make them extend over a longer period. Ineffective and productive, the poorest and least developed countries always tend to fall into the problem of excessive deficits⁹. Thus a significant gap appears between government spending and tax revenues that expand when shocks occur, as is the case with shocks with an external impact such as the oil shock, which becomes the most crucial goal. As for the fiscal policy in this situation, it is to eliminate the fiscal deficit by pressing down on reducing government spending and achieving a significant increase in taxes¹⁰.

Secondly: public revenue shocks

These shocks are defined as sudden fluctuations in government revenue that may be the result of external influences that the state does not control, such as the sudden increase or decrease in export revenues, such as fluctuations in oil prices in the producing country, or they are fluctuations that occur in government revenue sources as a result of sudden shocks directed by the economy. Such as the decrease in tax revenue during the period of economic recession and its increase during the period of recovery, or it may represent changes that occurred in government revenue to meet the fiscal deficit due to previous changes that

⁵ Abd al-Hussein Jalil al-Ghalbi, Financial Shocks, "Effects and Measurement", College of Administration and Economics, University of Kufa, unpublished research, p. 2.

⁶ Andraw Mountford & Harald Uhlig, "Wha are the effect of fiscal policy shock?", Working Paper, SFB649, Humboldt- university ZuBerlin, July 2005, P3.

⁷ Muhammad Saqr et al., Macroeconomic Response to a Shock in Government Spending, Tishreen University Journal for Research and Scientific Studies, Volume 39, Issue 4, 2017, p. 294.

⁸ Valerie A. Ramey, "Identifying Government Spending Shocks: It's All in the Timing", Working Paper, University of California, San Diego, National Bureau of Economic Research, 2008, p3.

⁹ Andrea Papadia , European University Institute Max Weber Programme Fiscal Policy under Constraints: Fiscal Capacity and the (In-)Stability of Government Financing during the Great Depression , EUI Working Paper ,MWP 2018/06,p4.

¹⁰ Marcela Eslava , "The Political Economy of Fiscal Policy" , American Development Bank. Research Dept. II. Title. III. Series: HJ192.5- E86- 336.3-E86-dc22,Working Paper583,2006,p6-7.

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occurred in government spending, which would create a shock facing the government and strongly affect its spending programs ¹¹, which takes the fiscal policy response. When a shock occurs in government revenue in a different form, according to the degree of economic development and progress, when the shock is negative, the ability of developing countries to absorb shocks through external financing is somewhat restricted, so internal adjustments are more appropriate, by reducing government spending and increasing tax revenue. In line with the absorptive capacity of society, however, most of the adjustments are always on the side of government spending, because the tax increase is. The demand for tax systems with a high degree of flexibility and development, and this is what most developing countries lack, while it is easy for developed countries to borrow from abroad in order to maintain levels of government spending and reduce taxes to protect private consumption ¹².

The occurrence of a positive shock in government revenue due to the rise in oil prices in oil-producing countries, or the increase in tax revenue due to the expansion of economic activity, will have a positive impact on economic activity, and this is because the fiscal policy will respond dynamically to the positive revenue shock, which leads some countries to increase the financial ceilings in their budgets and the recording of significant increases in expenditures in various fields, health, education, productivity and spending on infrastructure. An increase in aggregate demand more than it was previously without increasing the amount of debt provided that the economy's productive capacity and its full use level are taken into account ¹³. As for the negative revenue, shock will have a deflationary effect, as the country will reduce its government spending compared to what it was previously. It may postpone reducing government spending when it can borrow. However, the country's spending must be reduced to the extent commensurate with its new low income, which will be reflected. Operating expenditures such as wages and salaries are sometimes excluded in all production and investment areas. As a result, the performance of priority projects and activities in achieving the goals of development and economic stability will be affected ¹⁴.

Chapter 3: - The relationship between financial shock and inflation

Expansionary financial shocks lead to an increase in the rate of inflation, especially if the production system is not flexible enough or is inflexible, and this may result in a rise in nominal interest rates, and in the case of limited movement of capital (difficulty in the inflow of money into the interior), it will lead to a decline in investment. As for the deflationary financial shocks, they will reduce the rate of inflation, which is reflected in the nominal interest rates downward, which pushes investment to move upward ¹⁵, increasing government spending by an amount (ΔG) leads to an increase in aggregate demand, and a shift occurs in the aggregate demand curve to the right, and this. It not only leads to an increase in output, but also to a rise in the general level of prices, which is called the price effect, which in turn leads to a decrease in the actual value of cash balances ¹⁶, many studies have confirmed the inflationary effects of

¹¹Mountford, Andrew and Harald. Uhlig, What are the Effects of Fiscal Policy Shocks? NBER Working Paper .No. w14551, (December 2008),p11, Available at SSRN: <https://ssrn.com/abstract=1327224> .

¹² Karlygash Kuralbayeva ", Optimal Fiscal Policy and Different degrees of access to international capital markets", journal of development economics 103, 2013,p337.

¹³ Asger Lan Anderson, Lasse Holboll Westh Nielsen, Fiscal Transparency and Procyclical Fiscal Policy, Working Paper Series , Economic Policy Research Unit (EPRU) , University of Copenhagen,2010,p27-28.

¹⁴ William G. Gal &Andrew A. Samwick" "Effects of Income Tax Changes on Economic Growth "The Brookings Institution and Tax Policy",Center - Dartmouth College and National Bureau of Economic Research "Working Paper "September 2014,P4.

¹⁵ Kamel Allawi Al-Fatlawi and others, "Fiscal Policies," University Book House, first edition, 2020, p. 312.

¹⁶ Walid Abdel-Hamid Ayeb, "The Macroeconomic Effects of Government Spending Policy," Hassan Al-Asria Library for Publishing and Distribution, Beirut, Lebanon, 2010, p. 182.

expansionary financial shocks on economic activity, including a study titled Effects Macroeconomic shocks of fiscal policy in Algeria using the SVAR structural autoregressive vector model approach and using annual data extended from the period (1) 1965-2007, in that the occurrence of a single positive structural shock in government spending estimated at (1%) or (in Algerian dinars) will have a weak positive effect on real GDP in the short term, but it generates an effect in the medium and long term on the other hand. Negative, and the government spending shock will result in inflationary pressure in the short and long term during the eighth period of the shock¹⁷.

Accordingly, the expansionary spending policies exerted a kind of Lakenesian effect, which indicates that the positive impact of the expansionary financial shock in the short term is weak on the gross domestic product and will lead to a slight increase in the volume of aggregate demand in the medium and long term, which will lead to a kind of inflationary pressures. In light of the exacerbation of the budget deficit resulting from the increase in spending and the decrease in government revenue, as well as the need to reduce the money supply to limit inflationary pressures, interest rates must rise as an inevitable result of applying these measures, which leads to a decrease in private sector demand, to show a crowding out effects on investment private.

Chapter 4: analysis of the impact of financial shocks on inflation rates

The Iraqi economy has faced escalating inflation rates during the previous periods and until now, as it has gradually become moving upwards, and this reflects the consumer price index (inflation), the amount of increase in living expenses resulting from changing prices necessary to obtain the exact quantities of goods and services in the base year.

Increasing inflation as an economic condition is represented by the continuous rise in prices, as it results from the mismatch between the growth of cash liquidity owned by the economic sectors and the growth and abundance of goods and services available in the market. The justification is in the money supply (money issuance or expansion in credit creation) or through the demand for money (money spending)¹⁸.

After 2003, it was proven that inflation in the Iraqi economy resulted from the interaction of several natural and monetary factors associated with structural imbalances in all economic sectors, especially after most investors turned towards service activities with quick returns. This imbalance represented a real obstacle to the growing ability of the real productive sector to cope. The rapid growth of aggregate demand, as the gap widened between the productive sectors, one of the tributaries of the total commodity supply, and the service activities that constitute the sources of domestic demand. And economic and political sanctions and the weak structure of the economy¹⁹.

Despite the disappearance of some of the causes of this phenomenon during this stage, which was represented by the end of international economic sanctions, the cessation of the cheap monetary policy, and the removal of restrictions on trade, the price trends continued to escalate under the pressure and push

¹⁷ Abd al-Rahim Shaibi and others, "The Macroeconomic Effects of the Shocks of the Fiscal Policy in Algeria for the Period (1965-2007)", Abi Bakr Belkaid University, Algeria, p. 13. 133118-Article Text-367711-1-10-20160610.pdf

¹⁸ Kamal Abd Hamid Al-Ziyara, Hikmat Abd Al-Razzaq Al-Dabbagh, The Phenomenon of Monetary Inflation in Iraq and Its Economic Repercussions, Ahl al-Bayt Magazine, peace be upon them, Ahl al-Bayt University (peace be upon them), Issue 12, 2012, p. 34: published on the electronic link: <https://abu.edu.iq/research/journals/ahl-al-bayt/issues/12>

¹⁹ Muhammad Salih Salman al-Kubaisi, Measuring and analyzing monetary shocks in the Iraqi economy for the period 1980-2005 (an econometric study), Journal of Administrative and Economic Sciences, University of Baghdad, Issue 16, Volume 58, 2010, p. 46.

of new factors that were embodied in the failure in the attempt to rebuild production and service institutions and infrastructure despite Increasing government spending, in both its operational and investment parts, to rebuild the country supported by the rise in oil revenues, as well as reducing government subsidies on some commodities by the conditions of the International Monetary Fund, especially oil derivatives, in addition to the high indicators of financial and administrative corruption and the continuous deterioration in the security file²⁰.

Table (1) shows the gradual upward movement of prices. The growth of the general price index as an indicator of inflation recorded high levels during the period (2004-2006), as inflation rates began to rise in 2004 at a rate of (26.8%) and then continued to rise in 2005 to (37.1% until the inflation rate in 2006 reached its highest level during the study period at a rate of (53.1%) and a positive annual growth rate of (43.1%) for the year 2005, and the reason is due to the increase in oil revenues, whose contribution to government revenues was close to (95.6%, in addition to the state's tendencies towards increasing government spending, its annual growth rate reached (47.1%) in 2006 compared to 2005, which led to the formation of inflationary pressures as a result of the increase in aggregate demand due to the inflexibility of the productive apparatus. In the years (2005 and 2006) the rise in fuel prices and the scarcity of other energy sources (supply shock) and its repercussions on transportation costs and other production and marketing costs²¹, and inflation rates fell by half from their highest level in 2006 to (30.9%) in the base year 2007, as the annual growth rate of inflation declined to (-41.8%). The reason is due to the Central Bank's endeavor to target and reduce the inflation rate, as well as to control the levels of excess liquidity by following a monetary policy in line with raising the value of the Iraqi dinar by raising interest rates²².

Thus, inflation rates witnessed a remarkable decline starting from 2008, to reach (12.7%), with an annual growth rate of (-58.9%), despite the growth achieved in government revenue at a rate of (46.98%) as a result of the rise in oil prices, as well as the increase in spending with the highest growth rate (52.2%). % during the period, which indicates the ability of the central bank to control inflation rates, then it halved in the following year, as it recorded in 2009 (6.9%), due to the decline in the spending growth rate to (-11.51%) from the previous year due to the crisis. The global financial system, which led to a decline in oil prices and a decline in oil revenue, and then government revenue at a growth rate of (-31.2%) on the one hand and a decline in the prices of imported commodities on the other hand, which led to a decrease in inflation rates²³, as the monetary policy worked on following A deflationary policy, the results of which were significantly reduced in inflation rates, and this was without coordination between the two policies, as the financial authority followed an expansionary policy after 2010 compared to the volume of government revenue, as government spending increased at a growth rate of (33.4%), primarily operational, leaving monetary policy alone Struggling with inflation, which reached (2. 5% at an annual rate of change (69.9 - %) at the consumer price index (125.1). (2007-2010) resulting from monetary measures to control inflation.

²⁰ Falah Khalaf Omar Al-Rubaie, Analysis of Changes in the Directions of Economic Policies in Iraq, Al-Mustansiriya Center for Arab and International Studies, Al-Mustansiriya University, Baghdad, 2010, pp. 2-3.

²¹ Mahdi Sahar Al-Jubouri, Khudair Abbas Hussein, "Analysis of Economic Shocks for Developing Economies," first edition, Dar Al-Ayyam for Publishing and Distribution, Amman-Jordan, 2020, pp. 142-143.

²² Fares Karim Breihi, The Iraqi economy, opportunities and challenges, an analytical study of economic indicators and human development, Baghdad University College Journal of Economic Sciences, Baghdad University College, Issue 27, 2011, p. 32.

²³ Mahdi Sahar al-Jubouri and Khudair Abbas Hussein, "a previous source," p. 143.

Table (1) The impact of financial shock indicators on inflation rates and the price index in Iraq for the period (2004-2019)

Price Index (100=2007)	Annual growth rate of inflation rates %	Inflation rates (100=2007) %	annual growth rate %	Government expenditures at current prices	annual growth rate %	Government revenues at current prices	the year
36,4	-	26.8	-	32117491	-	32982739	2004
49,9	38.4	37.1	-17.9	26375175	22.8	40502890	2005
76,4	43.1	53.1	47.1	38806679	21.1	49055545	2006
100.0	- 41.8	30.9	0.58	39031232	11.3	54599451	2007
112.7	-58.9	12.7	52.2	59403375	46.98	80252182	2008
122.1	- 34.6	8.3	-11.51	52567025	-31.2	55209353	2009
125.1	- 69.9	2.5	33.4	70134201	27.1	70178223	2010
132.1	124	5.6	12.3	78757667	55.0	108807392	2011
140.1	8.9	6.1	33.50	105139575	9.8	119,466,403	2012
142.7	- 68.9	1.9	13.30	119127556	-4.8	113,767,395	2013
145.9	15.8	2.2	-5.8	112192126	-7.4	105,386,623	2014
148.0	- 36.4	1.4	-37.3	70397515	-36.9	66,470,252	2015
104.1	- 64.3	0.5	- 4.7	67067437	-18.14	54,409,270	2016
104.3	- 60	0.2	12.56	75490115	42.14	77,335,955	2017
104.7	100	0.4	7.1	80873189	37.8	106,569,834	2018
104.5	- 150	-0.2	38.1	111723523	0.94	107,566,995	2019

Source: Table and ratios prepared by the researcher based on data:

Ministry of Planning, Central Statistical Organization, General Directorate of Standards.- Central Bank of Iraq, General Directorate of Statistics and Research, Annual Bulletins 2004-2019.

In 2011 and 2012, inflation rates doubled, reaching (5.6% and 6.1%), respectively, compared to 2010, as a result of the increase in government spending in 2012 at a growth rate of (33.50%) over 2011, due to the rise in oil prices, and then the government revenue by reaching higher levels—a growth level of (55.0%), in addition to the security stability within the country. The rise in the consumer price index to (132.1,140.1) points, respectively, compared to previous years, is the result of the decrease in the arrival and supply of some imported commodities to fill the local need, which increased demand pressures. These imported commodities are characterized by high prices, which transmit the infection of external inflation to the inside (imported inflation) ²⁴.

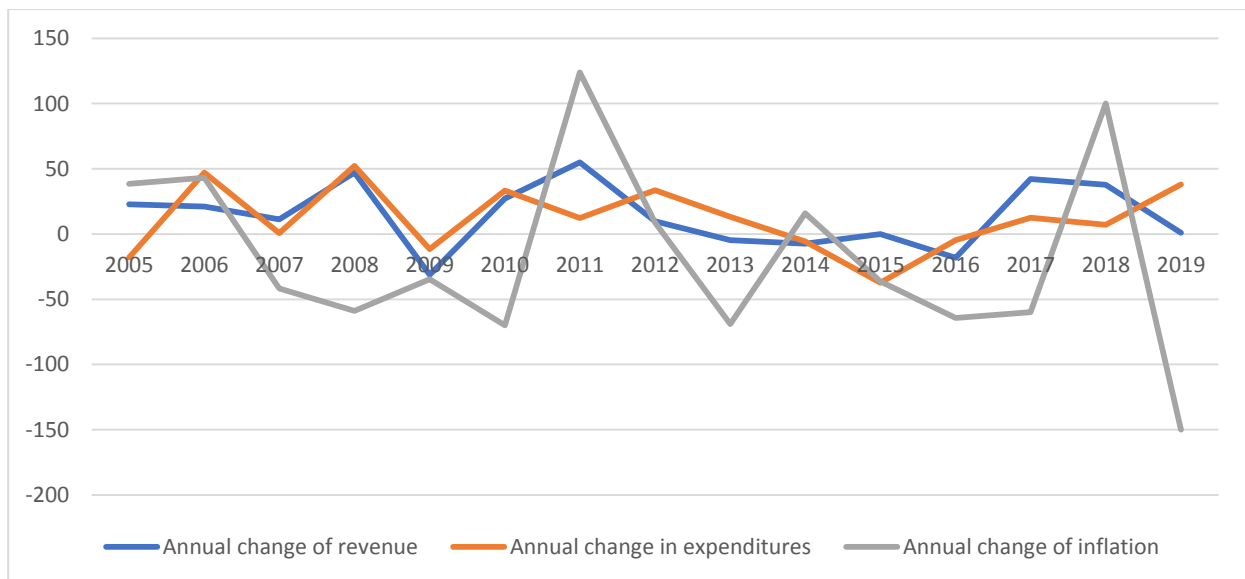
The monetary measures by the Central Bank were to raise foreign currency sales, as sales amounted to (39.7) (48.6) billion dollars, respectively, with a growth rate of (10.1% and (22.2%)), explaining the importance of currency auctions in controlling inflation rates by absorbing local liquidity ²⁵. The inflation rate decreased in 2013, reaching (1.9%), while the inflation rate increased to (2.2%) in In 2014, despite the decline in both the growth rate of revenue and spending, government to (-7.4%, -5.8%), respectively, as investment spending declined at a growth rate of (-12.2%) as a result of the significant increase in military spending, due to the negative financial shock that intensified in the fourth quarter of the same year, which

²⁴ Central Bank of Iraq, Annual Economic Report, 2010, p. 45.

²⁵ Central Bank of Iraq, Annual Economic Report, 2011, p. 44.

is indicated by the increase The consumer price index rose to (145.9) points compared to the previous year. The increase is mainly due to the increase in the prices of the food group as a result of the decrease in the imported ones, as most food products are imported in a large proportion from neighboring countries. Therefore the violence prevented them from being imported from those countries. Countries, including vegetables, the high prices of local products are due to the high wages of the labor force in the agricultural sector and the increase in demand for them compared to the supply of them, followed by the prices of other food products, which is the result of the presence of human, climatic, financial and technical factors. The feed is connected to the outside ²⁶.

Figure (1) Annual rates of change of government revenue and expenditure and inflation in Iraq for the period (2004-2019)



Source: The researcher's work, based on the data of Table (1).

While the inflation rate declined to (1.4%) in 2015, a group of global variables contributed to achieving an acceptable inflation rate, including the global decline in primary commodity prices, especially food ones, due to abundant supply, low global demand, and the rise in the price of the dollar, while the figure The index rose to (148.0) points, and this is due to the dominance of the importer of the commodity components, in addition to the unstable conditions, which led to an increase in transportation costs due to the closure of main roads ²⁷, while inflation seemed stable in 2016 and 2017, reaching about (0.5%). And 0.2%, respectively. During that period, the spending growth rate declined (-37.3%, -4.7%) and public revenue (-36.9%, -18.14%), respectively. However, in 2018, the inflation rate rose slightly to (0.4%). Likewise, the price index recorded a slight increase to (104.7) compared to the previous year (104.3). After that, inflation decreased during the study period to its lowest level of (-0.2%) in 2019.

Conclusions

1- The study hypothesis was realized and proved that adverse financial shocks hurt economic activity, which intensifies with the weakness of responsive policies to these shocks, the absence of economic philosophy, and the severity of structural imbalances.

²⁶ Central Bank of Iraq, Annual Economic Report, 2014, p. 82.

²⁷ Central Bank of Iraq, Annual Economic Report, 2015, pp. 81-84.

2- Unbalanced integration with the outside world has made the Iraqi economy responsive to shocks and incubating their economic and social effects, especially external ones—protection from external shocks that could be exposed at any time.

3- The analytical side showed in some years of the study that there is a direct relationship between financial shocks and inflation rates in the Iraqi economy, so the occurrence of a positive shock in government spending will lead to creating a positive shock in inflation rates, and this is what the Iraqi economy witnessed during the study period, through the comprehensive employment policy Which was pursued by the spending policy, which was accompanied by an increase in salaries, wages, and salaries, which doubled consumerism, which was fueled by open and uncontrolled imports, so that the multiplier effect of government spending was transferred abroad, which led to varying shifts in inflation rates, which appeared as a variable of fiscal policy.

4- While other years showed that the relationship began to shift from positive to inverse despite the presence of positive financial shocks, as in 2008 and 2010, to deflationary monetary measures with changes in the interest rate and more reliance on the currency auction to maintain the value of the currency and the stability of the general level of prices (but At the expense of depleting vast amounts of foreign exchange), to control inflation, and this was evident in the low inflation rates.

Recommendations

1- Diversifying the economic base to form a variety of financing sources for the government budget by working to raise the percentage of non-oil sectors' contribution to the gross domestic product (such as agriculture, industry, tourism, etc.), especially after the repeated shocks that hit global oil prices.

2- Diversifying the structure of government revenues. On the one hand, diversification achieves stability in levels of government spending and promotes an exit from the rentier pattern. On the other hand, it tightens the stranglehold on sectors that transmit the repercussions of external economic shocks and crises by increasing reliance on tax revenues as an indispensable financing tool in light of Economic policies aimed at diversifying sources of income.

3- Changing the course of government spending by restructuring it in favor of investment spending directed at expanding productive capacities and infrastructure that aims to increase national capital and increase economic activity and production capacity, and as a result, increasing economic growth.

4- Work to establish and rehabilitate an advanced and developed production system in line with the material and human resources in the Iraqi economy to limit the flow of surplus internal demand abroad through the increasing imports of goods and services, due to the inability of the local market to provide them due to the weakness of the flexibility of the natural non-oil production system, as well On the possibility of financing strategic, productive projects capable of advancing the productive sectors of the country, and developing the foundational structures for those projects, and this requires that there be a real national will to advance the Iraqi economy and that there be internal security and political stability.

5- Creating an appropriate environment for the work of the private sector by directing the increase in government expenditures towards service and infrastructure projects because the latter is responsible for carrying out the economic development process as it is more efficient in reallocating resources, which ultimately leads to an increase in economic growth rates.

6- Coordination between the fiscal and monetary policies in a way that contributes to reducing the inflationary effects of the spending policy on the one hand and enhancing the efficiency of achieving macroeconomic goals on the other hand by defining precise mechanisms for coordination between them, as well as preserving the independence of the Central Bank of Iraq.

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