

The role of the banking system in addressing financial austerity in the Iraqi economy (2005-2022)

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Received: 30/9/2024

Accepted: 27/10/2024

Available online: 25 /12 /2024

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Abstract : Austerity policy is one type of financial policy that revolves around reducing the volume of government spending or increasing taxes with the aim of reducing the government's general budget deficit and reducing the escalation of government debt as a percentage of gross domestic product (GDP). The governments resort to austerity policies during periods of recession or a sharp decline in levels of economic activity in order to set a certain limit to the fiscal deficit and the government's ability to finance it with the aim of increasing output rates and increasing job opportunities by increasing private sector confidence and increasing investments, the banking system can play an important role in addressing austerity policies. Banks can help finance investments and projects that aim to stimulate economic growth and provide job opportunities. Banks can also help reduce borrowing costs for governments, companies, and individuals. It can contribute to improving the ability of governments to finance public expenditure programs, improving the financial situation of companies and individuals, and stimulating consumption and investment. In addition, it can help enhance transparency and accountability in the financial system. This could reduce the financial abuses and corruption that exacerbate the problems of austerity.

Keywords: austerity, budget deficit, public debt.

Introduction: Oil is a major resource in economic, social, and even political life. It has begun to threaten the countries that consume and produce it. On the economic level, the increase or decrease in oil prices due to global political and other conditions constitutes a real threat to economic growth, as oil price disturbances affect the exports of oil-producing countries, especially those that depend on this resource, such as Iraq.

Iraq is considered one of the rentier countries, with a one-sided economy, which depends on the oil sector to finance its expenses. It is characterized by great fluctuation in the prices of its products due to its connection to global market prices (Edan, 2022). This fluctuation is matched by great neglect of the rest of the economic activities and a lack of regulation of the revenues it receives from this sector, as Iraq relies on budget items to regulate its expenditures, which is one of the oldest budgets used by governments. The history of this budget dates back to the accounts. It was represented by ease and simplicity in its preparation, presentation, implementation, and control. This budget allocates public expenditures to various government institutions based on the amounts spent by these institutions in the previous year or years (Abdulhussein and Abdullatif, 2024).

It prompts these units to dispose of all the money they owe before the end of the fiscal year, in any way, for fear of a decrease in their budget for the coming year, without taking into account that this money must be spent for the purpose of achieving a specific goal and not for the purpose of spending only (Ali, 2024). This spending is focused only on the consumption side, not the investment side, which caused a deficit in the state's general budget. The decrease in oil prices created a major challenge in maintaining its economic stability. This was clearly evident in the worsening deficit in the general budget. The continued decline in prices as a result of oil shocks posed another challenge to the continuity of government spending as usual (Ghaidan and Hamid, 2023).

It made the government reconsider its financial policy and take various measures to diversify sources of income and confront the negative repercussions on the state's general budget situation, which called for adopting a policy of financial austerity that left negative economic effects in the country (Mohammed and Al-Shamry, 2022). Since the banking system, represented by the central bank and commercial banks is the backbone of any country's economy through its special functions. Here comes its main role through the loans that are granted to the government and individuals and supporting economic projects in the country, thus alleviating the severity of the financial austerity policy (Nouri and Witwit, 2022).

Research Importance

The importance of the research lies in explaining and presenting data for the years in which the austerity policy was implemented in Iraq, and demonstrating the ability of the Iraqi banking system to mitigate the severity of this policy.

Research problem

The main problem of the research is the problem of the general budget deficit, which is one of the most important and pivotal economic problems because of its direct effects on the performance of economic activity. It is also effects lead to adopting a policy of financial austerity. The question is does the banking system have a role in alleviating the effects of the austerity policy?

Research hypothesis

The research is based on the hypothesis that the banking system has a major role in mitigating the effects of the financial austerity policy on the economic activity of countries.

The study aims

The study aims to focus on the role of the banking system in addressing and mitigating the effects of the financial austerity policy through the role that commercial banks play in granting credit and financing economic projects to move the wheel of the economy.

Research Methodology

The research relied on the method of economic analysis based on induction, through data and information extracted from sources, data, and annual reports to reach a set of conclusions based on which a set of recommendations related to the research topic can be built. The spatial and temporal limits of the research on the Iraqi economy for the period (2005-2022).

The first topic

The first requirement - the concept of austerity

The framework of research variables

First: The concept of austerity

Austerity means being content with what is necessary for living and avoiding extravagance and extravagance, or it means the difficulty and harshness of living due to the multiplicity of human needs and the insufficient resources to meet them (Al Obaidi and Almashhadani, 2022). As for austerity in terms: it means the government program that aims to limit the increase in the volume of public spending on consumer goods and services and direct it towards encouraging savings and working to increase production in order to treat and overcome the effects of financial crises and their repercussions on the budget. Austerity is also defined as: a financial contraction that causes a significant increase in the amount of unemployment in relation to the global economy (Sarangi et al., 2019).

Financial austerity is also known as a government program of an economic nature that aims to reduce wasteful spending on consumer goods, encourage savings, and work to double production as a solution to the economic crisis that the country is going through. Governments often resort to this through their general budget, which is described as austerity. They resort to reducing spending in order to control the budget deficit. Austerity is also used in operations to control the growth of public debt (Al-Mousawi and Al-Ghalibi, 2023). This usually happens on more than one level, including reducing the expenses of ministries, especially those described as luxuries that can be dispensed with, closing employment in the public sector or reducing it to its minimum levels in order to reduce the financial burdens incurred by the public treasury. In such cases, the concerned government avoids correcting wages in the public sector in order not to increase their expenditures on this item, reducing unnecessary and not urgent infrastructure projects in the country.

These measures are often accompanied by work to increase revenues by imposing new taxes, increasing tax rates, or increasing fees for government services to strengthen the public treasury, in addition to what governments describe as expanding the circle of investments that help increase productivity and improve incomes (Lateef, 2023).

Second: Reasons for achieving austerity

Many countries resort to implementing an austerity policy as a result of several reasons, including

1-The occurrence of global financial crises

In the past decades, the global economy has been exposed to several financial crises. These crises have greatly affected the course of economic activity in all developed and developing countries. When the banks of these countries face an increase in the withdrawal of deposits by individuals and are unable to confront those withdrawals due to the occurrence of what is known as a financial liquidity crisis, this is one of the most important reasons that prompted governments to follow an austerity policy (Tzannatos and Saif, 2023).

2- The development of the interventionist role of the state

Government intervention increases with the increase in the pace of economic activity. It is imposed an expansion in the number of government institutions and public facilities, and then an increase in the volume of spending on employment compared to the volume of public revenues. This led to the emergence of a deficit in public budgets (Habeeb and Ismael, 2022).

3- The absence of a strategic vision in dealing with the general budget

Weak management and strategic planning in categorizing public expenditures and revenues lead to directing the financial resources that the country needs to operational expenditures on the one hand, and on the other hand, a weak oversight role in managing the implementation of investment expenditures on the other hand. This led to an effect on the economy and a decrease in overall output. It was reflected in a decrease in individual incomes and then a decrease in the tax base, which led to a decrease in public revenues and the occurrence of a financial deficit in the general budget. This situation makes it necessary for the state to follow an austerity policy to address the financial deficit (Daher, 2024).

4- Expansion in demand for loans

The expansion in demand for loans, whether internal or external, adds new purchasing power within the borrowing country and the effects that result from this depends on the methods of spending through which the proceeds of these loans are used. These loans are directed toward consumer or investment spending. If it is spent to buy consumer goods (food), the supply of those goods will increase and their prices will decrease, meaning that this loan results in positive effects, but they are temporary. Its negative effects will appear later when the government repays the value of the loan and the interest resulting from it. So, the government must look for other sources of financing to repay the loan amount, because this loan did not contribute to increasing the country's production capacity (Jassim and Fahad, 2022). If the government is unable to repay this loan, it will resort to relying on new external loans to pay off previous loans. It will make the government into the problem of external debt, and this requires adopting strict measures such as adopting an austerity policy to reduce the growing deficit in the government budget (Edan, 2021).

The second requirement: Financial and monetary measures taken in order to achieve the austerity policy:

Financial and monetary policies play a major role in achieving economic stability, especially in times of recession and economic recession. This is due to their impact on both the level of prices and income and despite the multiple causes and sources of economic imbalances that afflict most of the economies of the countries of the world and the resulting high fiscal deficit gap and debt. Therefore, the packages of measures followed within the framework of the austerity policy are also multiple, but they will be limited to two groups of measures, which are financial and monetary measures, as follows:

First: Financial measures

The most important financial measures are reducing public spending and increasing taxes, which are among the main measures on which the austerity policy is based and can be explained as follows:

1- Reducing public spending

Policies related to public spending are at the forefront of controversy and political debate in many developing and developed countries, especially in light of the escalating economic problems facing these countries. Public spending is usually seen as a tool for achieving overall economic stability in the short term and achieving goals of economic growth in the long term. However, the challenges imposed by the problems of increasing budget deficits and public debt, high inflation and unemployment in many developing countries, and public spending represent one of the financial policy tools that governments use to achieve their goals in the economic and financial fields.

The diversity of areas of government intervention in economic activities has led to the development of the content of government spending, through which governments influence the level of economic activities. Thus, it is able to make an impact on the volume of total demand to address the country's economic problems. It also clarifies the government's programs at various levels and in the form of appropriations, each of which is allocated to meet the needs of individuals and achieve the maximum possible societal benefit.

Public spending also plays a large and important role in correcting the distributional consequences of market failure and achieving distributional by improving the level of well-being, alleviating poverty, and reducing the problem of unemployment (Kentikelenis et al., 2023). Public spending takes two basic forms: Consumer spending: which includes items that the government spends on a periodic and regular basis to achieve the maximum benefit for society, increase the level of well-being, and achieve the optimal use of resources including employee salaries, expenses for consumer goods and services, payment of various types of public debt interest, and payment of all transfer payments in cash. The second form is investment spending: it is all the amounts that the state spends to obtain capital goods and means of production necessary to increase productivity, and contributes to the formation of fixed capital that supports the economic structure, increases rates of economic growth, and increases the level of income (Dakhel, 2022).

2- Increasing the tax

Taxes are the main channel for generating resources, which is achieved by changing tax rates, or by enhancing the efficiency of tax collection methods and public compliance. Many governments increase taxes to achieve more social investment. Taxes are also considered one of the most important sovereign revenues that the state relies on to accomplish its tasks and functions and achieve its economic and social goals. Concepts of taxes have multiplied as a result of the historical development of the role of the state and the economic decisions it has passed, as well as the

culture of society and the affiliation of its people to it. Therefore, the tax can be defined as a compulsory financial obligation through which the individual contributes to the expenses of the society in which he lives without receiving direct compensation.

Tax can also be defined as a cash amount deducted from a natural or legal person when it is paid. The state's public treasury has a compulsory contribution from society to public expenditures and burdens. The government uses the tax to influence macroeconomic variables (consumption and investment) through its impact on the factors of production, through its use to finance investment activities on the one hand, and by using it as a tool to direct the economy towards desired investments. This is done through exemptions, privileges, and incentives. On the other hand, it works towards increasing national production through tax exemptions (Rahi and Faraj, 2022).

Second: Monetary measures

These are the measures taken by the government to effect on economic activity through its monetary tools and under the supervision of the Central Bank to influence the money supply. This is done by withdrawing surplus money or pumping the necessary amount of money to provide liquidity in the economy, through a set of monetary policy tools used by the central bank to influence the volume of bank credit as well as the volume of the money supply (Ali, 2024). These procedures are as follows:

1- Discount policy: The central bank intends to change the discount rate to control the volume of monetary credit. It increases the discount rate when it adopts a strict policy, thus reducing the number of borrowers and thus the size of the money supply. On the contrary, it reduces the discount rate, which leads to a reduction in interest rates, thus increasing the number of borrowers and thus increasing the money supply.

2- Open market policy: the central bank enters the bond market as a buyer or seller of government bonds. If the bank wants to reduce the money supply, it enters the market by selling securities to individuals, institutions, and banks at high interest rates in order to withdraw the money supply from individuals. If the central bank wishes to increase the money supply, it enters into a buyer of securities from individuals, institutions, and banks, and pays their value in cash, checks, and accounts that the individuals place in their accounts with the banks. So, the ability of the banks to grant credit increases, which increases the money supply.

3- Legal monetary reserve policy: This policy is influenced according to the requirements of the current economic situation. The Central Bank seeks to raise the legal reserve during periods of economic prosperity, and in contrast to that, the Central Bank resorts to reducing this percentage during periods of recession and depression.

The third requirement: The economic impact of the austerity policy

First - Positive results: Economic austerity may lead to positive results at the macroeconomic level, most notably reducing the general budget deficit, reducing public debt, and encouraging the private sector- which depends on other factors besides not competing with the government.

Second - negative results: the most important as following:

1- High price inflation: Increasing government support for basic goods and services naturally leads to an increase in their prices and an increase in the prices of other goods that depend on subsidized goods for their cost. For example, an increase in fuel leads to an increase in the prices of transportation services, and an increase in electricity prices leads to an increase in the cost of factories and thus an increase in the prices of their products.

2 - Low level of real wages: The real wage is the result of dividing the monetary wage by the inflation level and reducing salaries and allowances while inflation remains will reduce the level of real wages. Thus, the purchasing power of individuals declines, meaning the amount of goods and services that individuals can afford decreases.

3 - High unemployment: Austerity measures lead to the cessation of hiring and the dismissal of many workers within the public sector, while the high cost of production resulting from high prices leads to reduced opportunities within the private sector.

4 – Increase unfair: Economic austerity measures directly impact the middle class, which is the broadest and most tolerant class as it constitutes the largest percentage of taxpayers, and poverty also gets poorer. In this case, the government is trying to work on developing financial programs to support the poor and expand social safety nets.

5 - Aggregate demand: according to what was stipulated in the Keynesian theory, aggregate demand is of great importance in driving economic growth. Naturally, the decrease in the purchasing power of people in conjunction with the decrease in public government spending leads to a decline in aggregate demand, which in turn may lead to income In a state of economic recession.

The second topic

Achieving the austerity policy in Iraq (Impacts and results)

The first requirement - reasons for achieving the austerity policy:

First - the general budget deficit

One of the biggest challenges that the world's economies suffer from is the budget deficit, as it causes many economic problems for all activities and sectors. In light of the expansion of the government's role and the increase in its functions and responsibilities, its revenues do not cover its expenses, causing a budget deficit that accompanies

it all the time. The budget deficit is defined as “that situation in which public spending is greater than public revenues, as public revenues are unable to cover public expenditures.” It is also defined as “a negative budget balance in which the state’s expenditures are greater than its revenues, or it is the surplus of final expenditures over revenues.

The budget is a tool that the government manage its financial policy to achieve its goals and direct it according to the situation that the economy is going through. If public expenditures increase compared to public revenues. The government must take the necessary measures to reduce the deficit and then achieve a state of balance in the economy. The deficit in the general budget in Iraq has tended to increase due to the expansionary spending policy pursued by the government after 2003. The financing of this spending is based on revenues generated from crude oil revenues in a very large proportion, which poses a threat to the overall Iraqi economy.

Due to the instability of oil revenues as a result of the fluctuation of oil prices on the one hand and the weak contribution of tax revenues and other revenues to financing public spending on the other hand. Also, due to the absence of planning, the general budget faced a deficit in most of the years of research. The study period from (2005-2020) is a period characterized by many political and economic events that contributed to the budget deficit. It is noted from Table (1) that the expansionary spending policy continued to proceed after 2003, which reflects the priorities, as follows: Giving priority to the security aspect by improving capabilities for both security and national defense. Improve the capabilities of oil sector projects, electric energy, various services, and the infrastructure, and work to absorb unemployment through developing sectors and activities, building capabilities, and continuing employment in the public sector.

Table (1) Development of public spending and revenues in Iraq for the period (2005-2020) (million Iraqi dinars)

years	Public revenues	growth rate %	Public spending	growth rate %	Surplus or deficit
2005	40502890	---	26375175	---	14127715
2006	49055545	21.11	38806679	47.13	10248866
2007	54599451	11.30	39031232	0.57	15568219
2008	80252182	46.89	59403375	52.19	20848807
2009	55209353	-31.20	52567025	-11.50	2642328
2010	70178223	27.11	70134201	33.41	44022
2011	108807392	55.04	78757666	12.29	30049726
2012	119817224	10.11	105139576	33.49	14677648
2013	113840076	-4.98	119127556	13.30	-5287480
2014	105364301	-7.44	115937762	-2.67	-10573461
2015	66470253	-36.91	70397515	-39.27	-3927262
2016	54839219	-17.49	75055865	6.61	-20216646
2017	77422173	41.18	75490115	0.57	1932058
2018	106569834	37.64	80873189	7.13	25696645
2019	107566995	0.93	111723523	38.14	-4156528
2020	63199689	-40.24	76082443	-31.90	-12882754
2021	109081464	172.5	102849659	13.5	6,231,805
2022	161697437	148.2	116959582	113.7	44,737,855

Source: Central Bank of Iraq, Department of Statistics and Research, Annual Statistical Bulletin for various years; Central Bank of Iraq, General Directorate of Statistics and Research, annual economic reports of the Central Bank of Iraq for various years.

The results showed that public revenues suffer from a structural imbalance due to their dependence on oil revenues, which are affected by oil prices more than affected by exported quantities, which reflects the external situation on the Iraqi economy. It makes them greatly affect public revenues due to the decrease in the contribution of species other revenues, especially taxes (Table 1). Due to the inefficiency of the systems charged with assessing and collecting taxes, the spread of tax evasion, and financial and administrative corruption, and the development of public revenues during the research period after 2003.

This is due to the increase in oil revenues as a result of the increase in oil prices. They continued to rise during the period from 2005-2008, as the growth rate in 2008 was (46.89%), while the growth rate was noted to decrease in 2009 to reach (31.20%). This decrease is because to the global crisis that affected all the economies of the world, and then revenue growth rates increased in the years that followed as a result of the rise in oil prices. It is noted that revenue growth was recorded during the period from 2013-2016 were (-4.98 %, -7.44%, - 36.91 %, -17.49%) respectively. The decrease in oil prices as a result of the unstable political and economic situation, then positive growth rates were recorded for the period from 2017-2019.

In 2020, revenue growth rates recorded a clear decline to reach (-40.24%) due to the Corona pandemic and the decline in global oil prices. Then, positive and high growth rates were recorded due to the increase in oil prices as a result of the (Russian-Ukrainian) war, reaching during the years 2021 and 2022 (172.5% and 148.2%) respectively.

As for public expenditures, which are considered one of the most important items in the general budget as they cover the most important requirements of society, which including employee salaries, service and commodity supplies, subsidies, grants, and social welfare service, as well as capital expenditures.

Table (1) shows that the period from 2008 to 2014 was characterized by an increase in public expenditures as a result of increased revenues and increased financial allocations to the explosive budget, which helped the government, meet the needs and desires of society. However, the deterioration of oil prices and the escalation of military operations against ISIS during the austerity period extending from 2014-2016 led to a reduction in public expenditures, which came based on the conditions of the International Monetary Fund in order for Iraq to grant financial loans, which it later provided under the Development Readiness Agreement after Iraq took a number of austerity decisions. The most important of which was stopping grades, deleting the creation, deducting a percentage (3.8%) of employees' salaries, and granting employees who wish to leave for a period of five years with a nominal salary based on the employee's request.

As for the surplus and deficit, it is noted in Table (1) that the general budget achieved a surplus during the period (2005-2012) due to the increase in oil prices. As for the period (2013-2016), the budget suffered from a deficit as a result of the growth in military expenditures and the decline in global oil prices. Then, oil prices increased again as a result of the austerity policy followed by the government during the years (2017-2018), reaching (1,932,058, 25,696,645) million dinars over the period (2013-2016) respectively. In (2019-2020), the general budget suffered from a deficit during the aforementioned two years, amounting to (-4,156,528, -12,882,754) million dinars due to the decline in oil prices. In the years (2021-2022), the general budget recorded a clear surplus as a result of the increase in oil prices due to the Russian-Ukrainian war.

2- The high volume of public debt

Iraq is one of the countries that suffer from a high volume of public debt, which goes back to a previous period, starting with the Iran-Iraq war, and passing through the invasion of Kuwait and the accompanying imposition of economic sanctions on the country, till 2003. Despite many attempts to schedule these debts and not aggravate them, they still remain add financial burdens to the general budget. Especially the expansion in the size of the debt during the period (2015-2018), which was divided into two types of debt: the first type in order to cover the financial deficit in the general budget as a result of the increase in military spending for the war against ISIS. The accompanying drop in oil prices prompted the state to borrow to cover the deficit in the operating budget and war costs, as well as pay employee salaries. The second type of debt was allocated to developing investment projects (Eidan, 2022).

Table (2) Total public debt for the period (2005-2022)

years	Total public debt	Annual rate of change %	years	Total public debt	Annual rate of change %
2005	135070652	---	2014	56988845	-6.644
2006	111518120	-17.437	2015	61969675	8.740
2007	91980090	-17.520	2016	87675456	41.481
2008	80265989	-12.735	2017	103707051	18.285
2009	60559880	-24.551	2018	137984326	33.052
2010	61641779	1.786	2019	91225076	-33.887
2011	65538340	6.321	2020	96219998	5.475
2012	61457023	-6.227	2021	125744352	30.684
2013	61044886	-0.671	2022	128854213	2.473

Source: - Central Bank of Iraq, Department of Statistics and Research, Annual Statistical Bulletin for various years;

* 2019-2022 includes treasury transfers with commercial banks and the Central Bank.

The second requirement - the economic effects of the austerity policy on some indicators of the Iraqi economy

First: Gross Domestic Product and per capita:

1-Gross Domestic Product: Gross Domestic Product is one of the important variables that reflects the economic performance of the country, and is defined as: the sum of gross added values achieved in the economic sectors within the geographical borders of the country with the contribution of national and non-national production factors. It is noted in Table (3) that the growth rates of gross domestic product increased during the period (2005-2008) was (73,533,598.6) million dinars in 2005 and continued to rise to reach (157,026,061.6) million dinars, with a growth rate of (40.88%).

In 2009, the GDP recorded a negative growth rate was (-16.80%). The reason for this sharp decline was due to the effects of the global crisis that affected the economies of the entire world. Then, the GDP growth rates rose again in the years that followed during the period (2010-2013). In 2014 and 2015, the gross domestic product recorded negative growth rates was (-2.61% and -26.29%), respectively, due to the decline in global oil prices as well as the deteriorating security situation in the country as a result of the war with ISIS. It is prompted the government to search for a way out of this crisis, so it took austerity measures to reduce its expenses. For the period (2017-2018), the growth rates of the gross domestic product increased again as a result of the country's political stability and the rise in oil prices.

In 2019, the gross domestic product declined to reach (262,917,150.0) million dinars, with a negative growth rate of (-2.23%) due to popular and political unrest that disrupted some aspects of economic life. In 2020, the GDP decreased to (198,774,325.4) million dinars, with a growth rate (24.39%) as a result of the COVID-19 crisis that affected the economies of the year. In (2021-2022), the Iraqi gross domestic product witnessed a clear increase were (301,152,818.8 and 383,064,152. 3) million dinars in a row as a result of the rise in oil prices.

2- Average per capita GDP: Average per capita GDP is one of the important indicators that help drive growth, and is one of the most prominent indicators that reflect the level of well-being that society has reached. It is noted from the data in Table (3) that the per capita GDP reached (2629.6) thousand dinars in 2005, and then began to rise until it was (4923.2) thousand dinars in 2008 with a growth rate of (31.11%). Then, it decreased to (4125.8) thousand dinars in 2009 to record a negative growth rate of (16.17%), and then continued to increase until it was (7795.4) thousand dinars in 2013 with a positive growth rate of (4.89%). However, a negative growth rate of (-5.07%) and (-25.28%) was recorded during the years 2014 and 2015, respectively, due to the austerity policy followed by the government to confront the budget deficit as well as the decline in oil prices in global markets.

It was increased gradually to record negative growth rates during the years 2019 and 2020, reaching (6719.4) and (5371.4) thousand dinars, respectively. It began to rise after that, as reached (7311.2) thousand dinars in 2021, with a positive growth rate of (1.36%). In 2022, it was (9066.8) thousand dinars, with a growth rate of (1.24%) due to the increase in oil prices in global markets. It can be said that the reason for the increase in the per capita output is due to the rise in oil prices, which led to an improvement in the gross domestic product and thus an improvement in the per person.

Table (3) GDP and per person in Iraq for the period (2005-2022)

Years	GDP (Million dinars)	growth rate%	Average per person (thousand dinars)	growth rate%
2005	73533598.6	---	2629.6	---
2006	95587954.8	29.99	3317.8	26.17
2007	111455813	16.60	3754.9	13.17
2008	157026061.6	40.88	4923.2	31.11
2009	130642187.0	-16.80	4125.8	-16.19
2010	162064565.5	24.05	4988.13	20.89
2011	217327107.4	34.09	6518.9	30.68
2012	254225490.7	16.97	7431.7	14.00
2013	273587529.2	7.61	7795.4	4.89
2014	266420384.5	-2.61	7399.5	-5.07
2015	194680971.8	-26.92	5528.6	-25.28
2016	196924141.7	1.152	5444.5	-1.52
2017	221665709.5	12.56	5968.3	9.62
2018	268918874.0	21.31	7053.7	18.18
2019	262917150.0	-2.23	6719.4	-4.74
2020	198774325.4	-24.39	5371.4	-26.51
2021	301152818.8	51.5	7311.2	1.36
2022	383064152.3	1.27	9066.8	1.24

Source: Ministry of Planning, Central Bureau of Statistics and Information Technology, annual statistical compilation, index numbers, for various years. Central Bank of Iraq, Directorate of Statistics and Research, Annual Bulletin, various years.

The stability of the general level of prices is the essence of economic stability, especially in a one-sided economy that relies on one resource to finance its economic activity. The data in Table (4) indicate that the year 2005 recorded a high growth rate of (37.1%), then it increased to (53.1%) in 2006. The reason for this increase is the rise in the prices of petroleum derivatives, which caused a deficit in fuel and energy supply, which negatively affected production costs. The increase in aggregate demand and total was on spending on goods and services in the economy.

In addition, to the deterioration of the security situation and the structural imbalance between the economic sectors, but after inflation rates began to decline to reach (2.5%) in 2010. This decrease is due to the prices of oil derivatives and the absence of customs duties on imported goods, as well as the improvement of the exchange rate of the local currency. During (2014-2019), inflation rates began to decline, recording growth rates of (2.2%) and (-0.2), respectively. This is due to austerity financial measures and restrictive monetary measures to address the fiscal deficit and control inflation rates. Inflation increased significantly during (2021 and 2022) to reach (6.0%) and (5.0%), respectively, as a result of the repercussions of the Russian-Ukrainian war, which contributed to the rise of industries and energy to the highest levels. The increase in the inflation rate came as a result of the increase in the prices of some services, the value of cash trading, and the mass of money circulating in the markets.

Table (4) Inflation rates in Iraq for the period (2005-2022)

year	Inflation	year	Inflation
2005	37.1	2014	2.2
2006	53.1	2015	1.4
2007	30.9	2016	0.5
2008	12.7	2017	0.2
2009	8.3	2018	0.4
2010	2.5	2019	-0.2
2011	5.6	2020	0.6
2012	6.1	2021	6.0
2013	1.9	2022	5.0

Source: Ministry of Planning, Central Bureau of Statistics and Information Technology, annual statistical compilation, index numbers, for various years; Central Bank of Iraq, Directorate of Statistics and Research, Annual Bulletin for various years.

Third - Unemployment and austerity policy

The government of destruction and sabotage that afflicted the economic process in Iraq, especially from the beginning of the last two decades of the last century until the present time due to wars, economic sanctions, and occupation, was the main reason for the cessation of the majority of economic projects, and some of them were subjected to partial cessation due to the lack of raw materials and requirements necessary to continue the production process. Especially those whose activities require the employment of large numbers of workforce. All of this led to the dismissal of large numbers of the worker force that was actually working, and on the other hand, the influx of the new labor force into the markets, especially during the period that followed the year 2003, when large crowds of the dismissed, displaced, and political prisoners arrived, which in turn created new pressure.

It has increased the continued economic downturn and stagnation, and thus the number of people falling within the classification of the unemployed increased, to include many types and specializations that had not previously complained of this phenomenon, such as the category of graduates from technical, scientific, and administrative specializations. It is noted from the data in Table (5) that the unemployment rate reached (17.97%) in 2005, which is a good percentage due to the government sector absorbing large numbers of the workforce, especially in the security services (the army and the police).

Unemployment rates continued to decline until 2008, as it was noted that they began to increase to (14.7%) due to the repercussions of the global crisis that exacerbated the financial deficit, which prompted the government to adopt an austerity policy to address the financial situation, which was represented by canceling unnecessary spending and stopping employment. Then, unemployment rates began to decrease gradually during the period (2009-2013). The unemployment rate reached (12.10) in 2013 compared to the unemployment rate in 2009. The unemployment rate was (14.00). This is due to the relative improvement in the security and economic situation of the country. In 2017, the unemployment rate increased to (17.02). This is due to the security conditions that the country went through (ISIS war) and the fall of three governorates into the hands of terrorist groups, which led to many citizens losing their jobs and private trades.

In 2020, the unemployment rate was (13.74%) as a result of the (Covid-19) health crisis, which affected significantly on the unemployment rate in the country. Unemployment rates then increased significantly during the period (2021-2022) due to the increase in the number of graduates and job seekers, and in return, the inability of government institutions and departments to absorb them.

Table (5) Unemployment rate in Iraq for the period (2005-2022)

year	Unemployment rate	year	Unemployment rate
2005	29.6	2014	16.4
2006	17.50	2015	10.72
2007	11.70	2016	10.4
2008	14.7	2017	13.02
2009	14.00	2018	12.87
2010	12.00	2019	12.76
2011	11.10	2020	13.74
2012	11.92	2021	16.5
2013	12.10	2022	15.5

Source: Ministry of Planning, Central Bureau of Statistics and Information Technology, annual statistical compilation, index numbers, for various years; Central Bank of Iraq, annual economic report, for various years.

The third topic - the role of banks during periods of financial austerity

First: Financing through the following

The duration of the study was within the issuance of the Central Bank Law No. (56), 2004. It was stipulated the independence of the central bank in managing monetary policy. One of the most prominent decisions was the central

bank's decision to stop printing money in order to finance the deficit in the general budget and to resort to alternative methods.

A- Reducing the cash reserve: The legal cash reserve is one of the indirect monetary tools of the central bank, which is imposed as a percentage of the total bank deposits held in commercial banks. Table (6) states that the legal cash reserve data is fluctuates and unstable depending on the economic situation in the country. It is subject to increase and decrease according to what is required by the monetary policy of the Central Bank, and it is noted that the value of the legal cash reserve decreased during the years 2015, 2016, and 2017, as it reached (9,390,493, 8,707,551, 6,505,171) respectively, that is, during the period of austerity in order to motivate banks to move towards the market by granting loans.

B- Reducing the average interest rates: It is noted from the data that the average interest rates on loans decreased during the years of financial austerity to reach (12.4) in 2014 compared to 2015, when it was (13.1%) and then continued to decline until 2022, when it reached (11.6%), in order to encourage individuals to invest and increase the borrowing rate (Table 6).

T- High rates of treasury transfers: Treasury transfers are defined as short-term securities issued by governments for a period not exceeding one year, with the aim of financing the deficit in their budget. The value of their purchase is often less than its nominal value. It can be defined as a tool that governments resort to finance their needs with seasonality of funds (2). Table (6) indicates that the value of treasury transfers increased during the period after 2008 due to the effects of the global crisis and the decline in global oil prices. It is also noted that during the period 2014, 2015 and 2016 were (9,520,019, 19,311,704, and 32,763,554) respectively, due to the increase in the real deficit in the general budget. Then, the growth rate of treasury transfers continued due to the continued budget deficit, and we conclude from this that treasury transfers were financed budget deficit during periods of fiscal austerity.

Year	Legal reserve	Average interest rates on loans%	transfers*
2005	886,532	13.7	3,894,100
2006	1,573,983	14.5	3,001,690
2007	4,078,106	19.5	3,219,320
2008	19,993,802	19.5	1,892,160
2009	9,416,761	15.6	2,529,060
2010	7,155,093	13.3	3,654,560
2011	7,814,853	13.6	3,891,340
2012	8,624,023	13.0	3,392,000
2013	9,626,882	13.1	4,255,549
2014	10,576,103	12.4	9,520,019
2015	9,390,493	12.3	19,311,704
2016	8,707,551	12.3	32,763,554
2017	6,505,171	12.4	32,294,624
2018	10,409,660	12.2	28,413,167
2019	9,580,388	11.9	26,003,304
2020	9,193,395	11.7	46,106,011
2021	11,014,941	11.8	50,296,123
2022	12,803,677	11.6	50,130,126

Source: Central Bank of Iraq, General Directorate of Statistics and Research, Annual Statistical Bulletin, for different years; *Treasury transfers to the Central Bank and commercial banks.

Second- Granting cash credit: Banks play an important and major role in periods of austerity. They increase the granting of credit to various economic projects for investment. The development of cash credit can be followed during the study period so that it is possible to know whether the level of cash credit has been raised during periods of austerity or not, through data. The following table:

Table (7) Total cash credit to the Iraqi banking sector for the period (2005-2022)

Years	Total cash credit	growth rate%	Years	Total cash credit	growth rate%
2005	1717450	---	2014	34123100	8
2006	2664898	55	2015	36752600	1
2007	3459020	30	2016	37164000	2
2008	4587454	33	2017	37952892	1
2009	5690062	24	2018	38486947	9
2010	11721535	106	2019	42052511	9
2011	20344076	74	2020	49817737	18
2012	2843688	40	2021	49438839	-1
2013	3000200	6	2022	52575021	6

Source: Central Bank of Iraq, General Directorate of Statistics and Research, Annual Bulletin, various years.

The role of the banking system in economic activity comes through the provision of credit in its cash form and the acquisition of treasury transfers, in addition to its activity in the stock market. Bank credit is an important element in the economies of different countries. The expansion of its grants increases the value of production capacity by

providing credit facilities and loans to investors in order to finance various projects, whether belonging to the public or private sector alike, which provides bank liquidity to support the development process.

It is noted from the data in the table above that monetary credit recorded positive values during the research period, with the exception of the year 2021. It is also noted that monetary credit was disturbed due to the economic instability of the country and the banks often fear in granting credit due to the turbulent economic environment. However, we note that monetary credit recorded positive growth rates during periods of austerity, as it remained in a general and increasing trend. This is because the government often resorted to commercial banks to finance its expenses, and this reveals the government's competition with the private sector.

Conclusions

The study concludes that the Iraqi banking system did not have a clear and significant role during the period (2014-2016), as no significant increase in the volume of monetary credit was observed during that period. The general budget recorded a large deficit during the period (2014-2016) due to the severe decline in oil prices and the security conditions that Iraq went through, which led to a decline in oil revenues, forcing the government to follow a policy of financial austerity, represented in items of current and investment spending, and this had a negative effect on domestic demand and domestic supply and national income.

The policy of financial austerity by the government led to the emergence of negative effects on economic performance indicators, as reducing public spending and increasing taxes led to a reduction in the incomes of individuals, which led to a decrease in their spending on both parts (consumption and investment), and then aggregate demand decreased. Its impact decreased output, leading to a recession in the Iraqi economy. The Iraqi banking system has an active role in alleviating the severity of the financial austerity policy through the policies adopted by the Central Bank through monetary policy tools and directing the work of commercial banks toward financing investment projects.

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