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The impact of fiscal policy on the financial account in Iraq for the period (2004-2022)

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Abstract
This study seeks to examine the influence of financial policy on the financial account within the Iraqi economy from 2004 to 2022, Through quantitative analysis of financial policy indicators and their effects on the financial account within the Iraqi economy, the findings from the standard aspect indicated that financial policy influences the financial account in Iraq both in the short and long term. The standard results confirmed a long-term equilibrium relationship between financial policy and the financial account, with a value of -0.2527 and a significance level of less than 1% during the research period. Revenues proved to be the most influential variable of fiscal policy, encompassing public spending, public revenues, and public debt, with a probability value of 0.00 and a significance level below 1%, as demonstrated by the standard results throughout the study period.

Keywords: Fiscal Policy, financial account, Iraqi economy, financial policy indicators

Introduction
The financial policy is one of the important and main tools used by the government in drawing the contours of the economic policy executed by the state in order to achieve its economic, political and social goals, and considering the importance of financial and monetary policies for Iraq, which is witnessing major transformations in the economic system after 2003 with its transformation from a directed economic system to a free economic system, the weakness of infrastructure as well as security variables that drained a lot of resources and disrupted many projects, in this study will focus on the course of Financial Policy and their role in facing the challenges faced by the Iraqi economy.

The importance of research
The research being conducted is significant for elucidating the effects of financial policy on the financial account inside the Iraqi economy throughout the specified period, thereby offering scientific insights that assist decision-makers.

The search problem
The financial account is a vital factor for achieving economic growth and financial stability in any country, but in Iraq it has faced major economic and political challenges, including political and security instability, fluctuations in oil prices, corruption, and poor infrastructure, which posed a real problem for the Iraqi economy, this raises a" fundamental" question about the effectiveness of the fiscal policy variables followed in Iraq during the period (2004-2022) in increasing the financial account during this period so that .

Research hypothesis:
The research hypothesis is based on the main hypothesis that there is an impact of financial policy on the financial account in Iraq in Iraq during the period (2004-2022) and based on this relationship, three hypotheses are crystallized, as follows:

1. The direct relationship between public spending, public revenues, public debt and financial account flows in Iraq during the study period.
2. The existence of a relationship distorted by some kind of ambiguity between the financial policy variables towards the Iraqi economy's financial account during the research period.

Research objectives

The study seeks to accomplish the following objectives:

This study seeks to demonstrate the influence of fiscal policy variables on Iraq's financial account from 2004 to 2022.

Research methodology: The study employs an inductive, quantitative, and analytical methodology utilizing data from sources including the Central Bank of Iraq, the Ministry of Finance, and foreign organizations, alongside statistical approaches utilizing the ARDL model.

First: local studies

1-study (Ershad Abdullatif Turki, 2019)	
Title of the study	PhD thesis "analysis and measurement of the interactive impact of fiscal and monetary policies on growth and general balance in the Iraqi economy in the light of the assumptions of the theory of rational expectations for the period 1980-2015" Wasit university, 2016
The purpose of the study	The nature of economic policy in Iraq is defined by its two pillars: fiscal and monetary policy, by measuring the interactive impact of each of them and indicating its impact on growth and general balance according to the assumptions of rational expectations in order to give a clear and accurate picture.
The most important conclusions	The study found that the absence of efficient institutional arrangements makes it difficult for fiscal and monetary policies to interact effectively, which negatively affects stability and economic growth
The most important recommendations	Improve coordination between fiscal and monetary policies and develop institutions to ensure better economic stability.

Arabic studies

2-a study (Khalid bin Saeed Al Otaibi, 2020)	
Title of the study	PhD thesis: "financial and monetary stability and its impact on capital flows: a comparative study among the GCC countries, King Saud University, Kingdom of Arabia, Saudi Arabia. 2020
The purpose of the study	Analysis of the role of financial and monetary stability in attracting capital flows in the GCC countries.
The most important conclusions	Financial and monetary stability has had a significant impact in attracting foreign investments to the GCC countries.
The most important recommendations	Continue to pursue stable fiscal and monetary policies to promote and attract investments and improve the investment environment through economic and policy reforms.

Second": Foreign Studies

)Amanda Robertson, 2020 Study	
Title of the study	PhD Dissertation "The Role of Fiscal policy in influencing flows in Developing Countries",2020, Oxford university.
The purpose of the study	Study of how fiscal policy affects capital flows in developing countries
The most important conclusions	Strong fiscal policy improves investor confidence
The most important recommendations	Strengthening financial governance to attract and sustain capital flows

1. Theoretical framework of Financial Policy and financial calculation

1.1 The concept of fiscal policy

The term fiscal policy originates from the French word "fisc," meaning treasury (Andorance, 2005: 118) [1]. Fiscal policy is described as the examination of the financial activities of the public economy, encompassing its various economic and administrative units, and the repercussions of these activities on different sectors of the national economy (Zakaria and Valley, 2000: 182) [4]. This includes, among other aspects, a quantitative adjustment of public spending and revenues, as well as the alignment of spending characteristics and revenue sources to achieve specific objectives, primarily aimed at enhancing the national economy, expediting development, stabilizing economic sectors, fostering social justice, and providing equitable opportunities for citizens by bridging societal divides and mitigating income and wealth inequality (Al-Jamal, 2006: 6) [4].

1.2 Financial account: The financial account records monetary transactions associated with investments in businesses, state stocks, and bonds, including foreign currency reserves, gold, and Special Drawing Rights held by the state with the International Monetary Fund (Al-Ward, 2009: 9) [3]. It encompasses private assets located abroad, foreign direct investments, and assets owned by foreigners, whether private or official. The principal components of the financial account include net direct investment, portfolio investment, other investment funds, and reserve assets. These elements collectively define the financial account (Osorio, 2007: 338) [5] as a financial calculation. The financial account is a segment of the balance of payments that reflects variations in financial assets and liabilities between a nation and the global economy during a defined timeframe. The financial account includes capital flows related to direct investment, investment in financial portfolios (such as stocks and bonds), international loans, and changes in foreign exchange reserves (Hanna, 2003: 34) [6]. the financial account is defined as the second account of accumulation, in which the net acquisition of financial assets and net realized financial liabilities are recorded, for all institutional sectors from the beginning of the accounting period to the end, resulting from transactions classified by type of financial asset. A balance item is not transferred from this account to another account (Karl,2012:211) [7].

2. Results and measurement of the impact of the effectiveness of fiscal and monetary policy on the financial account for the period (2004_2022)

2-1: Characterization of the study variables: To assess the research hypotheses and achieve its aims, stable variables were identified: monetary fiscal policy variables (public expenditures, public revenues, public debt) and the dependent variable, financial account.

Table 1: Study variables

The symbol	Semantics	Characterization
l0g_sp	Public spending	Independent
l0g_R	General revenue	Independent
l0g_PD	Public debt	Independent
l0g_FA	Financial account	Continue

Source: compiled by the analyst

The subsequent relationship should be examined based on the study's theoretical framework:

$$Y1=a+\beta1X1+\beta2X2+\beta3X3+ \quad (1).$$

In this context, (Y) denotes the dependent variable, while (X) signifies the independent variable.

2-2: The outcomes of the sleep assessment concerning the research variables: The data was converted to quarterly and the logarithm formula was used, which helps in improving and analyzing the data and interpreting the results in economic models. it makes the relationships more linear, reduces variability, and facilitates the interpretation of the results as percentages. These advantages enhance the precision and dependability of economic models in delivering results and analysis. Based on this, tests were performed on time series to ascertain their dormancy. The results were segmented into quarterly intervals.

Table 2: Extended Dickie Fuller test (ADF) at the original level

At level					
		LOG_SP	LOG_R	LOG_PD	LOG_FA
With Constant	t-Statistic	-1.4696	-5.0936	-2.2361	-3.7602
	proh.	0.5435	0.0001	0.1956	0.0050
		n0	***	n0	***
With Constant & Trend	t-Statistic	-2.1298	-5.0369	-2.9071	-3.7383
	Prob.	0.5209	0.0005	0.1663	0.0257
		no	***	n0	**
Without Constant & Trend	t-Statistic	0.8045	1.0322	-0.3392	0.3103
	Proh.	0.8840	0.9195	0.5597	0.7728
		n0	n0	n0	n0

Source: from the profile of the researcher created using the Eviews 13 software

Table 3: Dickie Fuller extended test (ADF) at first difference

At first difference					
		d(LOG_SP)	d(LOG_R)	d(LOG_PD)	d(LOG_FA)
With Constant	t-Statistic	-5.4584	-4.7832	-5.4498	-4.9815
	Prob.	0.0000	0.0002	0.0000	0.0001
		***	***	***	***
With Constant & Trend	t-Statistic	-5.4198	-4.6014	-5.4561	-4.9042
	Prob.	0.0001	0.0021	0.0001	0.0008
		***	***	***	***
Without Constant & Trend	t-Statistic	-5.1886	-4.7472	-5.4848	-5.0212
	proh.	0.0000	0.0000	0.0000	0.0000
		***	***	***	***
(*) Significant at the 10%; (**) Significant at the 5%; (***) Significant at the 1% and (no) Not Significant					

Source: from the researcher's profile based on the program EViews 13 program

The ARDL model will be applied because, according to table (2-3), the dependent variables are not static at the initial level and the independent variables are unstable at the initial level. However, the study variables became static at the first difference.

2-3: analysis of the results of estimating the relationship between fiscal policy variables and the financial account in Iraq for the period (2004-2022)

1-the first estimate of the ARDL model

The findings of the first estimate of the ARDL model of the link between the fiscal policy and financial account variables are displayed as follows in Table (4):

Table 4: Shows the findings of the ARDL model's preliminary estimation between the financial policy and financial calculation variables.

Dependent Variable: LOG_FA				
Method: ARDL				
Selected Model: ARDL (3, 1, 0, 3)				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.***
LOG_FA(-1)	0.982185	0.091489	10.73558	0.0000
LOG_FA(-2)	-0.073945	0.138623	-0.533422	0.5959
LOG_FA(-3)	-0.164167	0.086812	-1.891066	0.0638
LOG_SP	-4.213302	0.647709	-6.504930	0.0000
LOG_SP(-1)	4.521944	0.671120	6.737903	0.0000
LOG_R	0.316296	0.068360	4.626905	0.0000
LOG_PD	-5.111119	0.700672	-7.294599	0.0000
LOG_PD(-1)	5.282284	0.712258	7.416248	0.0000
C	-43.66643	7.340116	-5.949011	0.0000
R-squared	0.952264	Mean dependent var		9.463266
Adjusted R-squared	0.938625	S.D. dependent var		0.962767
S.E. of regression	0.238515	Akaike info criterion		0.171876
Sum squared resid	3.185805	Schwarz criterion		0.705271
Log likelihood	10.72652	Hannan-Quinn criter.		0.384443
Durbin-Watson stat	1.9833			

Source: from the researcher's profile based on the program Eviews 13 program

Table (4)'s findings demonstrate that the proper ARDL model to assess the connection between fiscal policy factors and their effects on Iraq's financial account is (3, 1, 0, 3). the following analysis shows the results of the self-regression model for distributed time gaps (ARDL) for the relationship between the financial account (CA) and other variables included in the model.

2-boundary Test (Bound Test) for the existence of an integrative relationship (Cointegration)

The findings of testing between the factors of fiscal policy and financial calculation are displayed in Table (5):

Table 5: Results of testing the boundaries between the variables of financial policies and financial calculation

Null hypothesis: No cointegration relationship.						
Number of cointegrating variables: 3						
Trend type: Restricted constant (Case 2).						
	Test Statistic			Value		
	F-statistic			11.55174		
	10%		5%		1%	
Sample Size	I(0)	I(1)	I(0)	I(1)	I(0)	I(1)
70	2.1	3.121	2.451	3.559	3.18	4.596
75	2.103	3.111	2.449	3.55	3.219	4.526
Asymptotic	1.99	2.94	2.27	3.28	2.88	3.99
* I(0) and I(1) are respectively the stationary and non-stationary bounds.						

Source: from the work of the researcher based on the Thirteenth EViews 10 program

Analysis: rejection of the null hypothesis: since the value of F-statistical 11.5517 exceeds the upper limits of I (1) at confidence levels of 10%, 5%, and 1%, the null hypothesis can be rejected by the absence of an integrative relationship. There is strong evidence of an integrative relationship between the study variables in the model, this indicates a long-term equilibrium relationship between the variables, which means that any short-term shocks will be adjusted over time to achieve a long-term equilibrium.

3-the outcomes of estimating the long-term and short-term response:

According to the ARDL model of the relationship between fiscal policy variables and the financial account, Table (6) displays the findings of estimating the long-term and short-term response:

Table 6: Shown Equation of the short- and long-term response to the fiscal policy variables and financial account relationship

ECM Regression Cointegrating Erro Correction				
`	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
D(LOG_FA(-1)	0.238112	0.075056	3.172451	0.0025
D(LOG_FA(-2)	0.164167	0.070087	2.342338	0.0227
D(LOG_SP)	-4.213302	0.496013	-8.494341	0.0000
D(LOG_PD)	-5.111119	0.545620	-9.367537	0.0000
CointEq(-1)*	-0.255927	0.025100	-10.19636	0.0000
Cointegrating coefficients				
Variable	coefficient	Std. Error	t-Statistic	Prob.
LOG_SP	1.205977	0.790222	1.526125	0.1326
LOG_R	1.235883	0.313747	3.939107	0.0002
LOG_PD	0.668805	0.359064	1.862635	0.0678
C	-170.6208	38.58822	-4.421576	0.0000

Source: from the work of the researcher based on the Thirteenth EViews 10 program

The presence of a long-term equilibrium relationship indicates the speed of correction towards long-term equilibrium after a short-term shock, a negative value means that any deviation from the equilibrium is gradually adjusted, the absolute value (0.255927) means that about 25.59% of the deviation will be corrected in the next time period.

Variables and parameters

- **The issue of public spending (LOG_SP)**

The impact factor is 1.205977 (positive), indicating that an increase in public spending by 1% will contribute to an increase in the financial account by 1.205977%. .
The statistical significance is 0.1326 (not D, statistically"), which means that the effect is not statistically reliable enough, this means that increased spending leads to an increase in the financial account, but weakly and due to several reasons, including administrative corruption that dissipates public funds, inflation, political instability, and poor infrastructure .

- **Revenue stream (LOG_R): The coefficient of impact:**
- 1.235883 (positive), indicates that a 1% increase in revenue will contribute to an increase in the financial account by 1.235883%.
- Statistical significance: 0.0002 (statistically D), which means that the effect is statistically reliable and is considered important, i.e. the statistical significance is less than 0.01, which indicates a positive moral effect, that is, the increase in revenues leads to an increase in the financial account in Iraq.

- **About public debt (LOG_PD)**

The coefficient of influence: 0.668805 (positive), indicates that an increase in public debt by 1% contributes to an increase in the financial account by 0.668805%.

- Statistical significance: 0.0678 (d statistically), which means that the effect is statistically reliable and is considered important, i.e.
- the statistical significance is less than 0.10, which indicates a positive moral effect, that is, the increase in public debt leads to an increase in the financial account in Iraq and is due to several reasons, including, increasing tax revenues if the use of public debt contributes to stimulating economic growth, this may lead to an increase in tax revenues, which strengthens the financial account.

4- checking the validity of the model-the results of the autocorrelation test and the heterogeneity of the variance test Table:

(7) shows the results of the self-correlation test and the instability of the heterogeneity of the variance of the relationship between the variables of fiscal policy and the financial account

Table 7: Results of the test of autocorrelation and instability of heterogeneity of variance of the relationship between the variables of fiscal and monetary policy and the financial account.

Breusch-Godfrey Serial Correlation LM test			
F-statistic	0.193182	Prob. F (2,54)	0.8249
Obs*R-squared	0.518596	Prob. Chi-Square (2)	0.7716
Heteroskedasticity Test: ARCH			
F-statistic	0.402294	Prob. F (1,70)	0.5280
Obs*R-squared	0.411424	Prob. Chi-Square (1)	0.5212

Source: from the work of the researcher based on the Thirteenth EViews 10 program

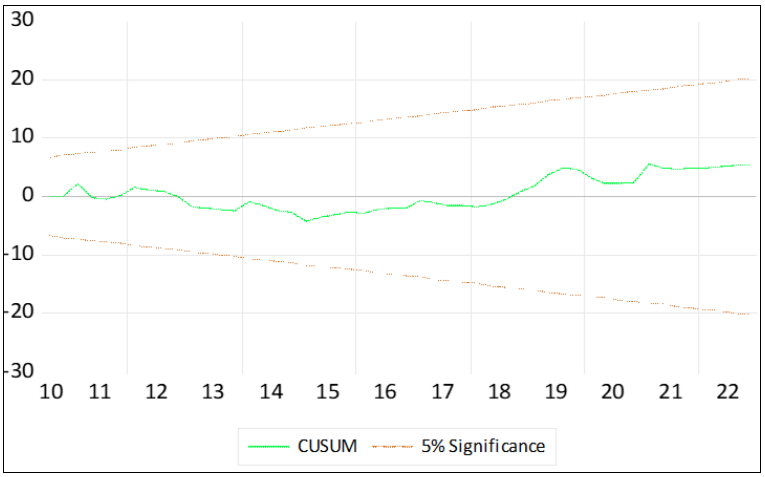
Breach-Godfrey Serial Correlation LM test

Explanation: These results indicate that there is no strong evidence of autocorrelation in the protozoa of the model. In other words, there is no obvious problem of self-correlation in the examined constraint model, based on these tests the high score of probabilistic values indicates that the nihilistic hypothesis (lack of self-correlation) cannot be rejected.

Hetero skedasticity Test: ARCH Explanation:

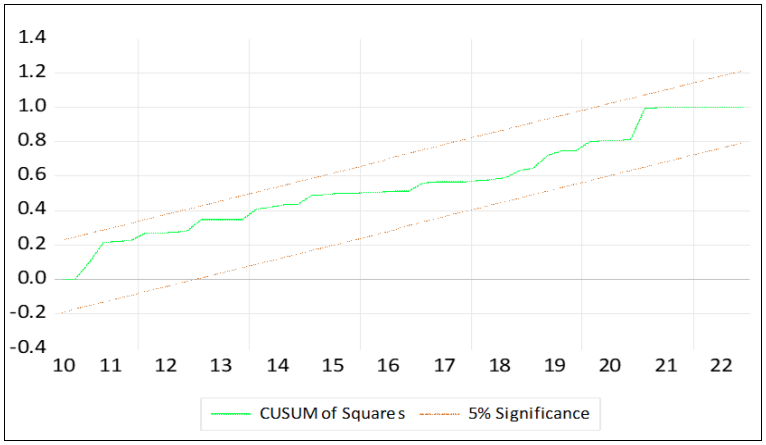
These results indicate that there is no strong evidence of heterozygous heterozygosis in the vesicles. In other words, there is no obvious problem of heterogeneous variance in the model being examined, based on these tests. High probabilistic values indicate that the nihilistic hypothesis (the absence of heterogeneous variance) cannot be rejected.

5. Checking the validity of the model-test test results: CUSUM



Source: outputs of the program Eviews13 thirteenth edition

Fig 1: Cumulative total residue test



Source: outputs of the program EViews 13 XIII

Fig 2: Testing the cumulative sum of the squares of the remainder

The two figures (2-3) show the cumulative sum of the remainder of the estimated common integration model(CUSUM) and the cumulative sum of the squares of the residuals of the same model (CUSUM SQ), respectively, and the occurrence of the graph curve of the estimated residuals in both forms between the minimum and maximum indicates that there is consistency between the short-term and long-term parameters, which is called the structural stability of the study variables between the short and long term, which is confirmed by the error correction parameter, which came negative and significant(0.105 -).

6. Checking the validity of the model - test results: Ramsey RESET

Table 8: Ramsey RESET test results

Ramsey Reset Test			
Equation: Untitled			
	Value	**Df**	**Probability**
t-statistic	0.240611	55	0.8108
F-statistic	0.057893	(1, 55)	0.8108
Likelihood ratio	0.240611	55	0.8108

Source: output of the program EViews 13 XIII.

Based on the results of the Ramsey RESET test, there is no strong evidence that there are problems with determining the regression model of omitted or incorrectly linear variables.

Conclusions

The research is summarized into a set of conclusions that can be summarized as follows:

1. The results were consistent with the research hypothesis, which stated that there is a direct relationship between (public spending, public revenues and public debt) and the financial account in Iraq led to an increase in the financial account.
2. The financial policy tools in the Iraqi economy had a positive impact on the financial account by increasing public spending, increasing public revenues, with a rise in public debt, creating an increase in the financial account during the period of research unstable affected the financial account in Iraq.
3. The relationship between the two financial policies and the capital account in Iraq during the research period witnessed that the revenues were more effective and the impact on the financial account with a strong morale and less than (1%).

Recommendations

Summarizing the research into a set of recommendations can be summarized as follows:

1. Iraq should adopt a set of comprehensive policies and reforms that enhance political and security stability, improve the investment environment, and support economic diversity, which will attract money to Iraq, especially in the long term.
2. Investing in the development of infrastructure such as roads, electricity, and water to ensure a supportive environment for economic growth and attracting investments as well as supporting small projects in Iraq.
3. Simplifying bureaucratic procedures and updating laws to make the business environment more attractive and easier for local and foreign investors and get away from the routine in conducting transactions.

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