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Directing Fiscal Discipline Policy Toward Achieving Public Fiscal Sustainability in Iraq -Measurement and Analysis

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Abstract

General Background Fiscal discipline serves as a core macroeconomic instrument for stabilizing state budgets and supporting long-term national development across diverse economic systems. **Specific Background** Within Iraq, public finances remain heavily shaped by oil-dependent revenues, traditional line-item budgeting, recurrent spending pressures, and fluctuating debt-to-GDP ratios. **Knowledge Gap** Existing discussions often examine isolated budget indicators without integrating econometric cointegration. **Aims** This study evaluates fiscal discipline policy in Iraq from 2004 to 2021, measures its econometric relationship with public finance sustainability and outlines corrective policy pathways. **Results** Johansen cointegration and vector error-correction results confirm a long-run equilibrium linkage among fiscal variables, with an error-correction speed of roughly 47% and positive associations between spending, budget deficits, and public debt, between public revenues and public debt. **Novelty** The paper combines historical indicator tracking and macroeconomic budget rules with quarterly econometric estimation and diagnostic testing for Iraq over an eighteen-year window. **Implications** Policymakers can strengthen public finance stability by curbing unproductive outlays, directing surpluses toward private investment.

Key Findings Highlights

C1o.integration and error-correction estimates confirm a long-term equilibrium connection among fiscal indicators with short-run deviations correcting at roughly 47%.
R2is.ing public expenditures and wider budget deficits align with higher public debt accumulation, whereas stronger public revenues correspond to lower debt burdens.
H3e.avy reliance on traditional line-item budgeting, recurrent spending, and oil receipts leaves budget balances exposed to price swings and instability.

Keywords Fiscal Discipline, Public Finance Sustainability, Public Debt, Budget Deficit, Cointegration

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Introduction

This study aims to assess and orient fiscal discipline policy toward ensuring the sustainability of public finances within the Iraqi economy, It seeks to measure and analyze the impact of this policy on the economy's fiscal and general sustainability, identify the obstacles hindering this goal, and propose appropriate solutions, Public finance sustainability is a cornerstone of economic development, given the pivotal role fiscal discipline plays in bolstering economic and social activities. Consequently, nations place great importance on safeguarding public funds against waste and loss, while exercising diligence in directing public spending , across various sectors and investment areas , within the state budget. In this context, countries strive to establish economic systems that incorporate oversight mechanisms for these funds, guided by global fiscal rules, standards that Iraq should also adopt , which are crucial for directing fiscal discipline toward achieving sustainability and preserving the state's financial position. Furthermore, the study aims to ensure fiscal sustainability for both current and future generations, mitigating the financial burden placed upon them by controlling the growth rate of public spending; this ensures that spending is directed in a calculated manner aligned with the growth of state revenues, thereby allowing for the effective management of fiscal surplus and deficit ratios relative to the country's Gross Domestic Product GDP , Based on the foregoing, the study's core problem centers on how to achieve public finance sustainability through fiscal discipline. Given that the Iraqi economy suffers from the absence of a general policy for fiscal discipline stemming from a fiscal approach that lacks prudent strategies regarding public expenditure and revenue this study posits that a policy of fiscal discipline can facilitate the optimal use of available economic and financial resources. Such a policy would enhance they are effectivenes and to efficiency's of economic ,and financials managements in achievs desired objectives specifically by ensuring the strategic direction of financial capacities there by preventing the exacerbation of the fiscal deficit in the state's general budget.

1. Financial Discipline

Fiscal discipline refers to the set of fiscal and monetary systems implemented by the government to align public expenditures wits public's revenues , while managing they fiscal deficits public debts and taxes burdening to ensures the sustainability of public finances and achieve economic stability's, A key condition is that the fiscal deficit must not exceed 3% of the Gross Domestic Product GDP this implies that total spending as defined in the general budget must remain within limits determined by available fiscal and monetary resources (Ibrahim & Hamed , 2022 , p. 407), Fiscal discipline also denotes a state's capacity to maintain they integrity and continuity of it fiscal and monetary operations- over the longs terms (Farraje & Al- Anie, 2018 , p. 46), Another concept of fiscal discipline policy involves re-engineering public expenditures and the mechanisms governing fiscal and monetary resources specifically operational and investment outlays to enhance the efficiency of the return on spending relative too they costs of collect the corresponding public revenues (. Krojen , 2015, p. 155).

2- Fiscal Discipline Policy and economic importance

They importance's to the fiscal discipline policy lies in a set of key advantages, most notably:

a - Fiscal discipline policy helps mitigate the economic and financial problems affecting most countries' public budgets particularly fiscal and monetary deficits and their adverse impacts on the financial economy.

b- It safeguards public financial and economic resources against waste and extravagance. This is achieved through clear, precise government measures to curb the growth of public spending specifically by minimizing unproductive expenditures—in line with established economic and financial perspectives (.Unis , 2004 , p. 47).

c- Fiscal discipline policy is crucial for fostering or stimulating long-term economic growth. Curbing the fiscal deficit and achieving a budget surplus constitute a form of financial saving; as financial savings rise, the state's financial and monetary assets grow, ultimately boosting the country's future economic income and Gross Domestic Product GDP.

d- Fiscal discipline policy enables the containment of the public budget deficit, avoiding the need to raise tax levels to generate additional funds this, in turn, preserves a more stable economic, financial, and monetary environment.

e- Fiscal discipline policy establishes the necessary economic and financial foundations, creating a more stable economic environment with predictable, sustainable future trajectories,

3. Indicators related to fiscal discipline policy

a-General revenue

The general revenue indicator is considered a public finance indicator of the fiscal discipline policy aimed at achieving economic and financial balance, this balance reflects the relationship between public revenue and public expenditure within the state's general budget over a specific periodtypically one year. When public expenditure rates rise relative to public revenues, it indicates a fiscal deficit in the state budget for that year, which may hinder the achievement of the desired fiscal discipline policy , Conversely, a rise in public revenue growth rates alongside a decline in public expenditure indicates a fiscal surplus in the state budget , It is worth noting that the economic philosophy guiding fiscal policymakers in balancing public expenditure against public revenue relies on a set of factors; consequently, tax revenue rates should not fall below the level required for the state to fulfill its economic and financial functions, while due consideration must be given to they tax's

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burdens to the broader economy's, and the impact on Gross Domestic Product GDP (.Aibe, 2010, p 11) , An examination of Table (1) reveals that the ratio of total revenue to GDPan indicator of fiscal discipline policyhas exceeded the policy's established threshold of 35%. This ratio is considered high, with the exception of the countries noted later, where the corresponding figures were 34.1% , 27.6%, and 34.8%, respectively.

b- General Expenditure

Total public expenditure serves as the mechanism used to incentivize or finance it ,is a fundamental determinant of economic and financial stability. Any increase in public operating expenditures, occurring in the absence of highly flexible production systems capable of absorbing shifts in aggregate demand or supply, may exacerbate inflationary pressures (.Hassan, 2016, p19). Consequently, the effectiveness of fiscal discipline policy can be assessed by comparing actual public spending with projected spending: if actual spending is equal to or less than the projected amount, the policy has achieved its intended goal; conversely, if actual spending exceeds the projected figure, the policy has failed to meet its objective (.Badawie, 2011, p.5) Indicators comparing public expenditure growth to Gross Domestic Product, growth reflect they extent government interventions to economics , financial, and ,socials spheres , This indicator gauges how effectively the government addresses societal needs and the success of expenditure policies in mobilizing financial resources, redistributing income, and generating output , Academic literature and studies vary regarding the optimal size of government expenditure required to effectively drive desired economic growth rates; exceeding this optimal threshold negatively impacts the macroeconomy , Economic and financial studies suggest that , for developed nations, the optimal level of public expenditure relative to GDP ranges between 25% and 35% , In the Iraqi context, however, public expenditure plays a pivotal role in the financial and economic landscape; consequently, a range of 30% to 35% is considered reasonably appropriate for optimizing these financial and economic resources. This assessment holds true despite the decline in the general quality of services, rising unemployment and poverty, and the marginalization of the private sector which possesses the capacity to operate across various economic and social activities and could otherwise alleviate the economic and financial burden on the state budget. While a policy of fiscal discipline fosters public finance sustainability and economic stability, conversely, a continuous rise in public expenditure can trigger adverse effects, such as a general increase in prices and rising inflationary pressures. In other words, this increase and rise occurring alongside a financial and productive system characterized by low flexibility and an inability to meet growing aggregate demand, as well as public expenditures that exceed public revenues exerts a negative impact on the Gross Domestic Product GDP and the country's financial revenues (.Saqer , 2005 , p .118), An examination of Table (1) reveals an upward trend in public expenditure over to the study's period s, to the exceptions of certain years marked to exceptionalness economics circumstance, Specifically ,to the ratios of public expenditure to Gross Domestic Product reached s 60% in 2004, whereas it recorded its lowest level 30% in 2018, This latter figure is considered favorable, as it indicates that the fiscal discipline policy is moving toward the permissible range of 30%–35%. Meanwhile, other years during which fiscal discipline policies aligned with optimal economies of scale showed varying ratios..

c- Publics Debts

They size to publics debt also methods of obtaining it, whether internally or from external sources, are key determinants of both economic and social stability, as they influence the state's direction towards supporting operational and investment expenditures (. Ismael & Jumeai, 2018,p 81),Table (1) reveals that during the 2004–2007 period, the relationship between the growth rates of total public debt and Gross Domestic Product GDP exceeded standard benchmarks key indicators of fiscal discipline policy. This suggests rising debt ratios, even as the state worked to settle current and past obligations to external institutions, the International Monetary Fund (IMF), and the World Bank. These institutions are pivotal, as decisions by the Iraqi Security Council mandate engagement with them as the primary gateway to the Paris Club for resolving the country's external debt issues (.Ali & Ahmad, 2018:p 118). Furthermore, this rise in total public debt may stem from the government’s adoption of an expansionary fiscal policy, contrasting with the severity of limited public revenues caused by the monetary and financial crises and shocks affecting the economy , An examination of Table (1) reveals that the public debt-to- GDP ratio peaked in 2004 at 254 .89%, while the lowest recorded ratio was 3.36% a figure that can be considered relatively reasonable , This favorable ratio was supported by financial surpluses resulting from increased public revenues particularly oil revenues driven by higher export volumes and rising global oil prices alongside declining inflation, During this period, the Iraqi economy benefited from manageable inflation rates compared to the rest of the world and the region, as indicated by international economic outlook reports and the government's adoption of a contractionary, austerity-oriented fiscal policy , Fiscal policy in Iraq leaned toward domestic borrowing from the Central Bank and other financial institutions to fund the state budget through instruments such as treasury bills. Adherence to these specific indicators and avoiding breaches to the debts ratios are essential these fiscal discipline policy's the succeed, ensuring public finance sustainability and the rationalization of monetary and fiscal management, while preventing additional future burdens on the budget. Conversely, if these ratios exceed stable levels because the state directs funds toward financing the fiscal deficit through borrowing, the indicator becomes highly risky for the Iraqi economy, necessitating a review of government fiscal policy to curb borrowing. ,excessive financial borrowing particularly external loans in addition to hindering the achievement of public finance sustainability.

d- Fiscal deficit and fiscal surplus

Based on the Maastricht Treaty criteria for the European Union, which established a fiscal deficit ceiling for the general budget not exceeding 3% of Gross Domestic Product GDP , this standard must also be applied to the Iraqi economy's general budget; specifically, the ratio of the fiscal deficit to GDP must not exceed that threshold. As shown in Table (1) which presents data on Iraq's state general budget during the study period 2004–2021 a fiscal surplus-to -GDP ratio of 2% was recorded , This outcome is attributed to the security situation at the time, which led to the suspension of numerous projects,

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financial investments, and public expenditures linked to the general budget. The fiscal surplus continued to rise during the 2006–2008 period; notably, 2008 stood out as a distinct year characterized by financial abundance for the Iraqi economy, with the fiscal surplus-to- GDP ratio reaching 13%, This rise in international oil prices reaching $.91.72 per barrel followed the U.S , m mortgage crisis, the economic repercussions of which impacted economies worldwide. In 2009, the fiscal surplus-t o-GDP ratio stood at 3%, with the surplus reaching its peak during the study period in 2011 at 14%; this was driven by these recovery's , to global oils processes to $.107 peers barrel , This price recovery persisted through 2012–2014, during which the general budget recorded fiscal surpluses relative to GDP at varying rates: 1%, 3%, and 8.20% by 2012 - the fiscal surplus to the GDP ratios was approximately 3 %, exceeding the established thresholds for this indicator; however, the desired fiscal discipline was not achieved in to the general budget that year or in other years due to internal security instability in Iraq. Regarding 2015-–2016, the general budget recorded fiscal deficits estimated at 2% & 6% of GDP, respectively, this was caused by a decline in international oil prices to around $47 per barrel, compounded by a surge in military expenditures at the time. Conversely, global oil prices improved during 2017–2018, reaching $51 per barrel. & (68.) US dollars, respectively , Thus, it can be stated that the state's general budget recorded financial surpluses of 1.84 and 25.69 respectively. These surpluses fell within a range below the 3% benchmark for deficit and surplus indicators; the figure stood at 0.83% in 2017 and approximately 10 % in 2018 , by 2019 however ,to they budgets recorded a deficit estimated at 2% , These fluctuations were driven by an increase in public expenditure alongside other consumption-related factors—which drove up the country's fiscal deficit and 2020,to the deficits reaches 6% combination of falling global oil prices and the global health crisis caused by the COVID--19 pandemic, which led to increased public spending , Finally, and 2021,to the budgets achieves a surpluses of 0.21 %, attributed the easing of the pandemic's impact and a rises international oils processes slowness by Table (1) below:

Table number (1) Fiscal Discipline Policy

Years	General Government Expenditure / GDP -GDP- 30%	Public Revenues / GDP- 35%	Public Debt / GDP- 60%	Fiscal Deficit and Surplus -GDP%
2004	**61**	**61**	**256**	**1.5**
2005	**36**	**55**	**152**	**19.2**
2006	**42**	**51**	**91**	**11.0**
2007	**36**	**51**	**69**	**14.0**
2008	**37**	**51**	**38**	**13.3**
2009	**41**	**42**	**47**	**2.0**
2010	**41**	**43**	**40**	**3.2**
2011	**31**	**46**	**28**	**14.0**
2012	**35**	**47**	**23**	**11.5**
2013	**37**	**42**	**20**	**2.5**
2014	**32**	**40**	**24**	**8.2**
2015	**37**	**34**	**45**	**-2.0**
2016	**33**	**28**	**51**	**-6.4**
2017	**33**	**35**	**54**	**0.8**
2018	**32**	**40**	**36**	**9.6**
2019	**41**	**38**	**29**	**-1.5**
2020	**36**	**30**	**31**	**-5.9**
2021	**32**	**36**	**3**	**0.2**

Table 1. Sources: Iraqi, Annual Economic Reports, Central- Bank, for the period (2004–2021).

4. Definition of Financial Sustainability

Public finance sustainability typically encompasses elements of social equity's and justice, The is two fundamental type to equity's in this context: the first concerns future human generations—those yet to be born—whose interests or needs are often overlooked in economic feasibility studies because they do not fall under market forces or dynamics. The second type relates to the present population, specifically those who lack equal or comparable access to financial and economic resources. Consequently, public finance sustainability must account for both current and future equity to achieve intergenerational economic and financial justice (Taraf &. Hassanein, 2012, p. 3). Broadly, public finance sustainability can be defined as the optimal utilization of economic and financial resources, diverse human activities, and various forms of wealth's by a manner the don't compromise existing capacities on naturals resource , thereby safeguarding the interests to futures generation, (Al- Rifti. - , 2015, p. 257)—bearing in mind that the "future" represents everything anticipated to occur beyond the present moment (Abd al--Latif, 2012, p. 11). The fundamental characteristic of public finance sustainability lies in the preservation and management of assets and their long-term continuity. From this foundation, concepts of sustainability diverge: some link financial sustainability to the timeframe of the general budget, while others focus on public fiscal rules to define the meaning of financial sustainability.

Thus, it can be said that the general budgets surplusing is sufficients to service to the publics debts to the futures , consequently, to the concepts on public finance sustainability's entails achieving both financial liquidity and financial solvency's , Financials liquidity's refers to the availability's - of the necessary financials and monetary resources to the meet obligations and financial liabilities of the fall due, whereas financial solvency, refers to the capacity of the state—or of fiscal policy—to fulfill it is financials obligation (Aishe &. Solaimen , 2021 , p. 7) to The Internationals Monetary Fund (IMF.) general methodology for defining fiscal sustainability—or the sustainability of public finances—are base's , on stabilizing, to the publics debts to the GDP ratio as a specific level or setting a target percentage, while allowing for flexibility. This serves as a baseline scenario for forecasting future outcomes under economic and fiscal policies maintained over a specific period,

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typically fives year. on the context, to the IMF consider fiscal policy to be more sustainables to the successfully stabilize the publics debts to the - GDP ratio. Meanwhile, they Europeans Union Public Offices defines public finance sustainability's by a state's ability's to service its public debt by any means and at any time (Abdulaziz & Ali, 2016, p. 183). The general concept also refers to the capacity to generate sufficient net fiscal revenue to cover public debt and accumulated financial obligations, or the government's ability to avoid excessive public borrowing (European Union, 2019, p. 32). It further denotes the government's ability to generate net fiscal revenue sufficient to the covers public debts & accumulated financial obligations (.United's Nations' , 2006, p. 26), and the capacity to the avoid the accumulation of excessive public debt resulting from government actions or the prevailing fiscal policy (.Blanchard, 1990, p. 8).

5- The Sustainability of Public Finances and Its Importance

The sustainability of public finances is a critical issue in addressing vital economic and financial matters. It is of great importance to fiscal policymakers, given the clear link between a state's financial and economic conditions—including its fiscal and economic soundness and its capacity to withstand financial crises and shocks—and its ability to service its debt obligations, whether domestic or foreign. Indeed, public finance sustainability is an integral component of a state's fiscal policy (Al--Jumaile & Mujbile , 2022, p. 131). This important introduction highlights the broad significance of public finance sustainability and its role in activating financial and economic institutions :Enhancing Access to Capital By adopting aspects of financial sustainability in periodic reports and the performance of the institution or financial organization, which results in better institutional strategic performance, which in turn will be reflected on its performance in the direction of improving investment returns and the ability to attract capital, especially in long-term financing methods and providing better financing conditions.-

a-Correcting financial plans and mitigating potential risks:

Financial planning and economic insights provide a clear, comprehensive method for identifying potential risks and ensuring the sustainability of public funds. This enables the development of strategies tailored to the occurrence of such risks and facilitates their expansion. Consequently, this strengthens the capacity of economic and financial institutions to formulate long-term strategic plans that assist both domestic and foreign investors in achieving their investment objectives (.Ibrahime & Al-Anie , 2020, p. 20).

b- Profitability and Growth

This objective can be achieved by generating economic and financial value for public institutions and government entities engaged in productive activities. Such an approach contributes to enhancing revenue-generation capabilities, lowering operational costs, reducing potential risks, and supporting the adoption of effective corrective measures. Moreover, it strengthens cooperation and integration among different stakeholders, enabling them to address a wide range of societal and economic needs. These interactions create favorable conditions for investment expansion, reinforce competitive advantages, and encourage innovation as a driving force for sustainable development (European University, 2008, p. 12).

c- Public Finance Sustainability Index

Public finance sustainability has become a central concern in economic and fiscal literature, attracting increasing attention from policymakers, researchers, and international financial institutions. The growing importance of this issue stems from the challenges posed by persistent fiscal imbalances and the continuous expansion of public debt, both of which can threaten the long-term effectiveness of fiscal policy. As a result, governments and financial institutions have placed greater emphasis on adopting fiscal frameworks and performance indicators that support sustainable public finance management. These frameworks aim to ensure that current fiscal obligations can be met without compromising the government's ability to finance future expenditures or maintain economic stability.These standards often incorporate composite indicators that account for economic and financial trends affecting sustainability, specifically focusing on domestic public debt, the general budget deficit, and expenditure deductions (.Mohamad & Hassein, 2016: 149).

Furthermore, assessments of public finance sustainability within financial and economic sectors place considerable emphasis on economic and financial indicators. These indicators help clarify the capacity of such sectors or institutions to meet economic and financial needs—covering diverse expenditures and the delivery of various public services. By reflecting economic and financial efficiency in achieving long-term objectives, these indicators reveal both strengths and weaknesses, thereby enabling policymakers to make informed decisions aimed at ensuring sustainable public finances (.Tomes & Daved, 1995, p. 1).

6. **Public Debt and GDP**

This relationship points to an increase in total public financial debt—a factor affecting Iraq's economy and the sustainability of public finances within the state's fiscal policy. It also highlights the Iraqi state's capacity—through its fiscal policy—to avoid public debt and invest its financial resources. This dynamic is illustrated by the financial relationship between the public debt growth rate and the output growth rate, as shown in Table (2.)

Table (2.) shows that the public debt-to-GDP ratio reached an estimated 255% in 2014—the highest level recorded during the study period. This surge was primarily driven by the settlement of accumulated debts from previous years. However, the subsequent implementation of fiscal measures and a policy of fiscal consolidation led to a decline in debt ratios to lower

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levels, particularly in 2013, when negative growth rates were recorded in the public debt-to-GDP relationship. This trend can be attributed to a rise in state revenues during that period, driven by increased oil sales and improved access to global markets; consequently, GDP exceeded the level of public debt, signaling the achievement of public fiscal sustainability (AL--Soltan , 2021, p. 41).The year 2014 witnessed a noticeable increase in the public debt-to-GDP ratio, which rose by nearly 24%. This development was largely attributed to a combination of economic and social pressures, most notably the sharp decline in oil prices. Given the heavy dependence of Iraq's public finances on oil revenues, the reduction in oil income created significant fiscal pressures and forced the government to rely on both domestic and external borrowing to finance expenditure requirements and maintain economic stability. As a result, the movement of the debt-to-GDP ratio did not follow a consistent pattern, recording a growth rate of approximately 44%.

Data presented in Table (2) indicate that the Iraqi economy experienced a relatively stable period in 2016, despite the public debt-to-GDP ratio remaining at around 44%, which represented a relatively elevated level compared with several other years included in the study. However, this ratio increased further to approximately 54% in 2017, reflecting growing fiscal pressures and a reduced capacity of the government to meet its financial obligations efficiently.

The deterioration in this indicator can be largely linked to the continuing weakness in global oil prices during that period. Since government revenues depend heavily on crude oil exports, declining oil receipts contributed to widening the fiscal deficit and increasing financing needs. Consequently, public debt expanded beyond the targeted levels, making it more difficult to achieve the desired fiscal objectives and maintain debt sustainability، Conversely the ratio declined to approximately 36% in 2018, reflecting a drop in public debt relative to GDP, clear economic stability, and improved oil sales. This downward trend continued into 2019, with the ratio reaching 29%, supported by reduced and properly rationalized government spending, alongside economic and security stability. However, the ratio rose to 34% in 2021, reflecting the adverse impact of economic, social, and financial instability in Iraq, compounded by the spread of the coronavirus, which brought economic activity to a near-standstill (AlRashid & AlJumaa, 2021, p. 379) , International economic organizations have proposed minimum benchmarks for public finance sustainability indicators; some suggest a public debt-to-GDP ratio of between 25% and 30%, while others advocate for a range of 20% to 25%. The objective of these targets is to limit or alleviate the burden of financial debt. In certain years, the results regarding public finance sustainability and the achievement of these desired ratio levels were clear and acceptable. However, in other years, the debt-to-GDP ratio fluctuated—potentially due to factors such as oil revenues and prices, or other issues related to the state's fiscal and non-fiscal policies. Such fluctuations hinder adherence to the standards established by international economic organizations aimed at curbing the rising debt burden on nations (Al-- Saleh and Al- Suleiman, 2021, p. 210)

Table number (2) Public's Debt's - GDP (million- dinar).

Year	public debt - GDP (25 - 30%)
2004	255
2005	152
2006	91
2007	69
2008	38
2009	47
2010	40
2011	28
2012	23
2013	20
2014	24
2015	44
2016	51
2017	54
2018	35
2019	29
2020	31
2021	34

Table 2.
Source- : Ministry's of Finance's Public's Debt's Department data for they year (2004 –, 2021)

7- Tax Gaps

Tax gaps generally refer to fiscal obligations arising from changes in the volume of public government expenditure. This stems from the fact that governments are compelled to implement public spending programs and financial transfers that exceed current revenue levels (Muhamad and Hussean, 2022 , p. 155). Tax gaps disrupt the link between actual tax revenues and the tax burden required to ensure the sustainability of public finances—specifically, the capacity of taxes to fully cover government expenditures—thereby positively influencing the relationship between public debt and Gross Domestic Product (GDP) (.Baghdadi, 2021 , p. 427).

When the tax collection target exceeds actual tax revenue, the tax gap is positive, indicating fiscal sustainability; consequently, it is preferable to reduce government expenditures while simultaneously increasing tax revenue, Tax revenue collection often fails to fully cover government public expenditures; consequently, fiscal policy must resort to alternative revenue-generating measures to fund these expenses and ensure long-term fiscal sustainability. However, this approach may

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not be applicable in most oil-producing nations due to the sheer magnitude of oil revenues and their significant impact on total economic output, which complicates the balance of this relationship (ejard., 2004, p. 536). Furthermore, since government fiscal policy operates within a dynamic and fundamentally shifting economic environment, future fiscal and monetary transformations—as well as public expenditure patterns—are inevitably influenced by periodic financial fluctuations (Rober- t, 2002, p. 265).

8- Revenue Gaps

General revenue gaps are considered significant financial indicators for assessing the sustainability of a state's public finances. This assessment relies on a set of economic and fiscal factors—such as the prevailing fiscal policy stance, tax collection performance, GDP growth, and changes in the public debt-to-GDP ratio—evaluated against the Blanchard fiscal indicator regarding targeted tax revenue. Furthermore, one can measure the gap between actual and planned fiscal levels; a negative revenue gap indicates a healthy economic situation with sound fiscal sustainability, whereas a positive gap suggests that public finance sustainability cannot be achieved. Consequently, these gaps highlight the distinction between current tax burdens and sustainable tax burdens. This analysis hinges on the relationship between public debt and GDP, public spending trends, GDP growth rates, and the composition of public debt. A negative tax gap value implies that the tax burden within the economy is declining and is insufficient to ensure fiscal stability regarding the public debt-to-GDP ratio, and vice versa (International Economic. Organization , 202, p. 17(

9- Fiscal discipline policy and public finance sustainability

There is a strong link between the policy of fiscal discipline and the general principles of public finance sustainability on the one hand, and the activation and improvement of financial performance—thereby strengthening the state's domestic fiscal policy—on the other. This relationship is examined through a specific methodology designed to assess and measure the economic and financial capacities of national budgets by applying integrated economic and financial indicators. Key among these are financial capacity, monetary and fiscal independence, and financial adequacy. Such an approach helps identify and explain issues related to the state's domestic budget and their underlying causes, while also determining the most effective financial and economic pathways for success and demonstrating the efficiency of financial relationships within the context of the general budget (Katarin. & Nateliya, 2021, p. 34). To effectively manage the relationship between fiscal discipline and public finance sustainability, it is essential to employ advanced, modern analytical financial methods—including assessments of government financial balances, other financial assets, and liabilities—as part of the process of analyzing or directing the state's general budget. Public finance sustainability is a crucial fiscal foundation for achieving economic and financial stability, as it is directly linked to the fiscal deficit—and its associated financing methods—relative to Gross Domestic Product (GDP.). When examining the relationship between the fiscal deficit and public finance sustainability, the deficit in the state's general budget is viewed as an existing economic reality; conversely, public finance sustainability implies the government's ability to manage its debt and curb the deficit without resorting to drastic changes in fiscal policy or economic activity (Groaf & Omarawwi. , 2020, p. 113). A key factor in achieving public finance sustainability is the state's financial and economic capacity to implement efficient fiscal policies for financing diverse public expenditures without incurring deficits or defaulting on payments and financial obligations (.Alnewaeran, 2021, p. 186). Persisting with existing public revenue or expenditure policies over extended periods can lead to excessive public debt; therefore, it is essential to adhere to fiscal discipline rules and avoid shifting this financial burden onto future generations (.Mohammad & Husseen, , p . 105).

10- Fiscal discipline policy and the general state budget

Fiscal discipline policy focuses on the general state budget and monitors its implementation—specifically regarding the execution of financial items approved by legislative bodies to direct public spending within the established legal framework. The aim is to prevent the mismanagement or waste of public funds and instead ensure that budget resources are utilized to achieve their intended financial objectives. Fundamentally, fiscal discipline addresses the financing of deficits in current operations; it implies that the state's fiscal policy is capable of covering public expenditures—including current outlays—through current public revenues (Yilen., 2003, p. 5). Fiscal discipline policy reflects the state of economic and financial equilibrium linking public revenues to public expenditures. In general, a persistent increase in government expenditure combined with a decline in public revenues is often regarded as an indication of weak fiscal discipline. Under such circumstances, governments may resort to borrowing from the central bank or other financial institutions to finance budget deficits. Excessive reliance on borrowing can place downward pressure on the value of the national currency and contribute to inflationary trends through increases in the general price level. The absence of fiscal discipline may become evident through several channels. One of the most important manifestations is the continuous expansion of the fiscal deficit within the government budget, which reflects an imbalance between available revenues and expenditure commitments and increases the need for debt-financed spending budget coincides with an inflexible production system, it results in a decline in the economy's savings rate. This leads to a future drop in national income—and consequently, Gross Domestic Product (GDP.)—thereby undermining the country's economic stability. Second, an unchecked rise in public debt within the state budget can increase long-term interest payment burdens; this, in turn, negatively impacts investment, economic growth, and the country's economic stability (.Depenala, 2021, p. 30).Accordingly, the interaction between fiscal discipline and the state budget can be explained through three main stages:

a. Budget Planning and Estimation Stage

This stage focuses on forecasting government revenues and expenditures in a manner consistent with fiscal discipline objectives. It includes the preparation of financial projections, assessment of expected economic outcomes, and formulation of policy decisions related to resource allocation and public debt management. The primary objective is to establish a

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realistic fiscal framework capable of maintaining budgetary balance and supporting sustainable public finance management.

b. Budget Formulation and Approval Stage

At this stage, the government's annual budget is prepared, reviewed, and formally approved for implementation within the designated fiscal period. Particular emphasis is placed on achieving consistency between available financial resources and planned expenditures, while maintaining an appropriate balance between revenue generation and spending commitments to support fiscal stability.

c. Budget Execution and Fiscal Management Stage

The final stage involves implementing the approved budget and applying fiscal measures in response to prevailing economic conditions. During periods of economic expansion or contraction, fiscal authorities may adopt countercyclical policies to mitigate fluctuations in economic activity. Through such interventions, fiscal policy contributes to preserving macroeconomic stability and promoting a sustainable balance between economic growth objectives and fiscal discipline requirements

11: The practical aspect

Time Series Stability Testing

To determine the degree of stationarity of the time-series data incorporated in the econometric model, the Augmented Dickey-Fuller (ADF) unit root test was employed. This procedure was applied to the selected economic variables in order to identify whether their statistical properties remained stable over time or exhibited non-stationary behavior. Conducting the stationarity test was necessary to ensure the validity of subsequent econometric estimations and to avoid the risk of obtaining misleading regression results.

Table number 3: Time Series Stationarity Test

UNITS- ROOTS TEST RESULT- TABLE (ADF)					
Null Hypothesis: the variable has a unit root					
At- Level					
		X1	X2	X3	Y1
With e Constants	tStatistics	- 3.1239	-2.321 6	- 1.5763	-2 .9165
	Prob	***0.0287***	***0.17 14***	***0.4832***	***0.0499***
		* -*	n0	n -0	* -*
Withe Constant & Trend	t Statistics	- 4.1669	-3.344 8	- 3.5807	- 3.3319
	Prob	***0. 00 84***	***0.0 680***	***0.04 12***	***0. 0 741***
		*-**	*-	*-*	-*
Witho Constants and Trends	t Statistics	- 0.72 20	- 0.88 14	- 1.97 97	- 2. 23 00
	Prob	***0.40 54***	***0.3 359***	***0.04 85***	***0.0 275***
		n -0	n-0	*-*	*-*
At- First - Differences					
		d-(X1)	d-(X2)	d-(X3)	d-(Y1)
With e Constants	t-- Statistics	- 4.615 8	- 2.943 3	- 2.81 01	- 3.2490
	Prob	***0.001 4***	***0.05 80***	***0.07 16***	***0.01 20***
		*-**	*-*	-*	*-*
With e Constanst and Trends	t- - Statistics	- - 4.6407	- - 3.062 5	- - 2.7570	- -2.4180
	Prob	***0.0 033***	***0.1 250***	***0 .2325***	***0.3 733***
		*-**	n-0	n-0	n-0
Without s Constanst and Trends	t--- Statistics	- - 4.5700	-- 2.959 2	-- 2.5836	-- 3.3293
	Prob	***0.00 000***	***0.0 04 7***	***0.01 19***	***0.002 2***
		*-**	*-**	*-*	*-**
Notes:					
A (*-) Significants at the 10%, (*-*) Significant sat the 5%, (**-*) Significants at the 1% & (n-o) Nots Significant					
B: Lags – Length- baseds on, SIC					
C: Probabilitys based ,on MacKinnon, (1997) ones- -sided p,values					

Program outputs (EViews - 10)

b- Hysteresis-like slowdowns

Table 4 presents the optimal time lags—determined based on the Schwarz, Akaike, and Hannan-Quinn criteria—all of which indicate a single lag period.

Table number (4.) Optimal - Slowing -Duration

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VAR. Lags Orders Selection. Criteria						
Endogenous – variables : x1 x2 x3 y1						
Exogenous variables: C						
Dates: 23/12/25 Times : 2:55						
Samples -: 2004Q3- 2021Q2						
Included- observations-: 66						
Lags	LogLs	LR.	FPE.	AIC.	SC.	HQ.
0.	-.772.1626	N.A	71954..60	22.53.392	22.66446.	22.58543.
1.	-327.1822	805.9746*	0.320173.*	10.21424.*	10 .86474.*	10.46890.*

Program outputs (EViews - 10).

C- Cointegration tests

An examination of Table 5 reveals the existence of cointegration among the economic variables—measured according to the economic models—based on the Johansen methodology. This indicates the presence of eigenvalues, implying a unidirectional trace test for cointegration; this signifies the existence of long-term relationships between the model's economic variables.

Table number 5-: Johansen. Joint- Integration. Test

Date-: 23/12/25 Time -: 23 - :56				
Sample, - (adjusted.): 2004 .Q1 – 2021.Q1				
Included- observations- : 67. after a-djustments				
Trends - assumptions -: No- deterministics - trends -restricted constant				
Series-: x1 x2 x3 y1				
Lags- interval, (firsts- difference) , 1- to- 1				
Unrestricted Cointegration Rank Test (Trace)				
Hypothesizeed		Traces	0,0 5	
No.- of CE(s)	Eigenvalue.	Statistic.	Critic-al .Value	Prob.*-*
None -*	0.444322.	69.77439	54.07804.	0.0012.
At most- 1	0.271620.	30.52685.	35.19285.	0.1472.
At most -2	0.107318.	9.293521.	20.26194.	0.7096.
At most -3	0.024988.	1.694890.	9.164556.	0.83735
Traces- tests , indicate- 1 cointegrat, eqn(s) -at the 0.05- levels				
*- denotes-, rejections - of the hypothesis, at the 0.05- levels				
*-*MacKinnon---Haug---Michelis, (1999) p –values.				
Unrestricted Cointegration Rank Test (Maximum Eigenvalue)				
Hypothesized		Max-Eigen	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.*-*
None *	0.443322	39.24643	28.58808	0.0015
At most 1	0.271610	21.23353	22.29962	0.0699
At most 2	0.107218	7.598632	15.89210	0.5962
At most 3	0.024978	1.694790	9.164546	0.8373
Max-eigenvalue test indicates 1 cointegrating eqn(s) at the 0.05 level				
* Denotes rejection of the hypothesis at the 0.05 level				
* *MacKinnon-Haug-Michelis (1999) p-values				

Program outputs (EViews - 10)

d- Estimation of the error correction model

Table 6 shows that the coefficient of determination (R^2) for the estimated error-correction model is 88%. This indicates that approximately 88% of the variation in the dependent economic variable is attributable to changes in the independent variables. The remaining 12% of the variation is accounted for by other factors included in the model. The F-statistic value is 90.23, which is statistically significant at the 5% level, confirming the overall significance of the economic model. Furthermore, the speed of adjustment—or the short-run error-correction parameter—shows a negative value of -0.47, which is also significant at the 5% level. This implies that short-run deviations are corrected at a rate of approximately 47% toward long-run equilibrium values; this rate is considered favorable, indicating that it takes roughly half a year (or a similar timeframe) to return to a state of economic equilibrium.

Table number -6- *Estimation of the error correction model*

VECTOR- ERROR, CORRECTIONs - ESTIMATE

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DATE-: 23/12/25 TIMEs- : 23:57				
SAMPLE- (ADJUSTED) - : 2004Q1- 2021 Q1				
INCLUDED , OBSERVATION - : 67 AFTER- ADJUSTMENT				
STANDARDs- ERRORS- IN (1) T- -STATISTICS IN [1]				
COINTEGRATING EQ-:	CointEq-1			
X1-(-1)	1. 000000.			
X2- (-1)	-- 0.581107			
	0.07946			
	-7.32230,			
X3- (-1)	0 .508737			
	0.07 989			
	6.4356			
Y1- (-1)	0.01038			
	0.0125			
	0.8315			
C.	- -15.435			
ERRORE CORRECTIONS -	D-X1	D-X2	A- X3	D- Y1
COINTE- Q1	- 0.57 96 50	- 0.0119 08	0.55 8674	- 0.477190
	0.0853 9	0.0753 0	0.10909	0.21364
	- 6.80277	- 0.14486	5.11249	- 2.22924
D- x1 (-1)	1.53866	- 1.03645	- 1.68357	2.309127
	0 .90781	0 .802331	1 .162332	2 .276261
	1 .69482	- 1.29190	- 1.44854	1. 014431
D- x2 (-1)	-1.235718	1.721967	2.051327	-2.396504
	0.922117	0 .81503	1.18072 1	2.31229
	- 1.340011	2.112781	1.737351	-1.036424
D- x3 (-1)	0.931962	-0.974439	-1.004256	2.176373
	0.92246	0.815218	1.181091	2.313011
	1.010219	-1.195211	-0.850281	0.940921
D- y1 (-1)	- 0.061979	0.01212 2	0.074476	0.789556
	0.022901	0.020241	0.02934	0.057421
	- 2.707072	0.59858	2.540531	14.7509
c	- 0.39923	- 0.04944	0.33495	- 0.48566
	0.15498	0.136961	0.19843	0.38858
	- 2.57621	- 0.36091	1 .68810	-1.24984
R -- SQUAREDs	0.717962	0.578107	0.663152	0.880905
ADJ--R-SQUAREDs	0.694834	0.54353	0.63555	0.87113
SUM -SQ.- RESID	60.8391	44.3984	93.1797	357.364
S.-E.- EQUATIONs	0.965293	0.85314	1.23594	2.42042
F- -STATISTICs	31.0566	16.7173	24.01807	90.23930
LOG LIKELIHOOD	- 89.55921	- 81.28394	- 106.115	-1 51.1498
AKAIKE-- AIC	2.85252	2.605489	3.34682	4.691042
SCHWARZ-- SC	3.04995	2.80293	3.54426	4.88848
MEAN-- DEPENDENTs	- 0.29851	- 0.35852	-0.086941	- 3.369702
S-.D-. DEPENDENTs	1.74743	1.26273	2.04726	6.74274

Program outputs (EViews - 10)

e. Analysis of the Estimated Model Results

D-(y1)=-0.476*-(x1(-1)-0.581*.x2(-1) +0.507. *x3- (-1)+0.0103*.y1(-1)-15.445) +2.309*. D- (x1(-1))-2.396* . D-(x2(-1))+2.176*.D-(x3(-1)-)+0.799*.D-(y1(-1))-0.485.

An analysis of the estimated model demonstrates that the coefficients associated with the explanatory economic variables were statistically significant at the 5% significance level. This outcome suggests that government expenditure exerts a direct and positive influence on the accumulation of public debt. Such a result is consistent with both theoretical and practical considerations, since increases in public spending that are not matched by corresponding growth in government .revenues generally require additional financing through either domestic or external borrowing

The findings also indicate a negative relationship between public revenues and public debt. From an economic perspective, expanding and diversifying revenue sources enhances the government's financial capacity and reduces its reliance on debt financing. Consequently, stronger revenue performance contributes to .limiting debt growth and improving fiscal sustainability

Furthermore, the results reveal a positive association between the fiscal balance of the general budget and public debt. In periods when the budget deficit widens, the government tends to increase borrowing in order to finance the resulting funding gap. Therefore, higher fiscal deficits are typically accompanied by rising .levels of public indebtedness, a conclusion that is fully supported by conventional fiscal theory

With regard to the diagnostic evaluation of the model, the autocorrelation test results reported in Table 7 provide no evidence of serial correlation among the variables included in the analysis. The probability value obtained from the test was 0.916, which exceeds the conventional significance threshold of 5%. Accordingly, the null hypothesis cannot be rejected, indicating that the residuals are independently distributed and that the estimated econometric model does not .suffer from autocorrelation problems. This finding supports the statistical validity and reliability of the estimated results

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Table 7- Self-Correlation Test

VEC- Residual Serial Correlations -LM Test						
Date- 23/12/235 Time - : 23:56						
Samples -: 2004Q3- 2021Q1						
Included –observations-: 67						
Null- hypothesis-: No, serial correlation- at lag hs						
Lags	LRE* stats	Df.	Prob -	Raeo- F.-stats	Df.	Prob-
1.	8.94489	16	0.916	0.55053	16, 166.6	0.916

Program outputs (EViews - 10)

Conclusion

This study identified a number of issues related to the formulation and execution of fiscal policy in Iraq, particularly regarding fiscal discipline and the long-term sustainability of public finances. The results indicate that the government budget still depends largely on the traditional line-item budgeting system, a practice that has often contributed to imbalances between public spending and government revenues. Moreover, recurrent expenditures continue to dominate budget .allocations, whereas capital and development expenditures receive a relatively smaller share, limiting opportunities for sustainable economic growth

The analysis further revealed a substantial expansion in public debt throughout the study period. This increase was mainly associated with persistent fiscal deficits and the extensive use of borrowing, especially external loans. The findings showed a strong linkage between public debt and Gross Domestic Product (GDP), with the average debt-to-GDP ratio approaching 93%. At the same time, adherence to fiscal discipline principles was found to be inconsistent, which .weakened public finance sustainability and reduced the government's ability to achieve durable fiscal surpluses

The examination of fiscal indicators also highlighted significant variations over time. Public expenditure reached its highest proportion of GDP, approximately in 2004, while the debt-to-GDP ratio recorded a peak of nearly 225% during the study period. Likewise, the relationship between GDP and the state budget ,%61 displayed marked fluctuations, with the most favorable performance occurring in 2005 at around 19%. Such variability reflects the difficulties faced by fiscal .authorities in maintaining stability and ensuring sustainable fiscal outcomes

The study underscores the need to allocate fiscal surpluses toward productive sectors and investment projects capable of generating long-term economic returns. Equally important is the adoption of policies aimed at enhancing expenditure efficiency and controlling unnecessary spending, thereby reducing future fiscal .pressures and improving the sustainability of government finances

Econometric evidence obtained from the analysis confirmed the presence of a long-run relationship between fiscal discipline and public finance sustainability. Diagnostic testing of the estimated model further demonstrated its statistical reliability, as no major econometric problems were detected that could affect the .validity of the results

In light of these findings, the study recommends reducing reliance on public borrowing through the diversification of government revenue streams. Expanding the contribution of sectors such as tourism, agriculture, industry, trade, and private investment could provide more stable sources of income and lessen dependence on debt financing. Strengthening these sectors would support fiscal sustainability, improve the economy's resilience to shocks, and promote long-term economic .stability in Iraq

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