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THE IMPACT OF FISCAL POLICY IN ACHIEVING ECONOMIC REFORM

A Study of Kurdistan Region-Iraq between Years 2008-2015

MASTER THESIS PROPOSAL

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YÜZÜNCÜ YIL ÜNİVERSİTESİ
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EKONOMİK REFORMLARIN BAŞARISINDAKİ MALİYE POLİKALARININ ETKİSİ

IrakKürdistanBölgesi 2008-2015 YıllarıÜzerineBirÇalışma

Yüksek LisansTezi

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Abbreviations and Acronyms

AD	aggregate demand
AS	aggregate supply
GDP	Gross Domestic Product
GST	goods and services tax
IFIS	International Financial Institutions
IMF	International Monetary Fund
IOCS	International Oil Company
IR	interested rate
ISIS	Islamic State of Iraq and Syria
KRG	Kurdistan Region Government
KRI	KURDISTAN region of Iraq
KRSO,	Kurdistan region statistical official
LPG	Liberalization, Privatization and Globalization
OMO	open market operation
RES. REQ	Reserve Requirements
S_M	supply money
SSI	small-scale industrial
VAT	value added tax

GİRİŞ

Gelişmekte olan ülkeler, istenen sosyal ve ekonomi kalkınma hedeflerini gerçekleştirmek için tehditler oluşturan iç ve dış farklılıkların kapsamında bir yükselmeye meydan veren ağır bir ekonomik buhranla karşı karşıya kalmışlardır. Bu krizin nedenlerini: 1. Ve 2. Petrol şoklarını izleyen enerji krizlerinin ortaya çıkması, gelişmiş ülkelerde ekonomik büyüme oranlarının yavaşlaması, stagflasyon olgusu gibi unsurların yanında temel sermaye güçlerindeki büyüme yetersizlikleri çatışan fikirlerin şiddetinin artması küresel para piyasalarında çöküşlerin gözükmesi ve küresel kapitalist sistemin neden olduğu yapısal krizler olarak ifade edilebilir.

Dolayısıyla bu krizleri aşmak için gelişmekte olan ülkelerin ekonomik reform politikaları benimseyip uygulamaları önemliydi. Bu ülkeleri desteklemek için IMF, ekonomik dengeleme ve yapısal ayarlama planlarıyla hazırды. Mali politika, tüm ekonomi politikaları arasında önemli bir yere sahiptir. Ekonomistler bu yaşanan sorunlar söz konusu ülkelerin ekonomik istikrarını olumsuz etkilediğinde, yeni çözüm arayışlarına girmişlerdir.

Keynesyen okulun kurucusu “John Maynard Keynes”e göre ekonomik dengesizliklere karşı mali politikada para araçları daha fazla etkilidir. Kalkınmanın sağlanması ekonomik istikrarı engelleyen sorunlarla başa çıkmada hükümetin harcamaları ile uyguladığı vergi politikasının toplam talep ve diğer değişkenler üzerinde önemli bir etkileri vardır.

Irak Kürdistan Bölgesi gibi gelişmekte olan ülkelerin geri kalan, maliye bakanlığının harcama ve gelir politikalarını gerçekleştirmek için kabul ettikleri çeşitli mevzuatlarını uygulayarak büyümüşlerdir. Bu çalışma Irak Kürdistan’ında uygulayabilecek çalışmaları ve önemini göstermektedir. 2008-2015 dönemleri için yazılmış olan bu makale gelecekteki mali politika senaryolarını göstermektedir. Irak Kürdistan Bölgesinde ekonomik reformu gerçekleştirmek için mali politika nasıl etkili olur? Böylece aşağıda konuyla ilgili tartıştığımız sorunları ifade ettik.

First Chapter

1. Introduction

Developing countries faced a severe economic crisis that has led to an increase in the scope of internal and external differences that become threats to the ability of the achievement of desired economic and social development goals. The reasons for this crisis goes back to the seventies after the structural crisis that engulfed the global capitalist economy, and from its manifestation collapse of global money markets and increased severity of conflict relations and non- sufficient growth to the major capital forces in addition to the spread of many phenomena including: the phenomenon of stagflation, a slowdown in economic growth rates in developed countries and also the emergence of the energy crisis following the first and second oil shock and falling oil prices to \$ 35 and change modes political and security in the region and prosperity ISIS. And for confrontation of these imbalances and problems it was necessary for developing countries to adopt economic reform policies Which was advocated by the International Monetary Fund to promote the economies of these countries which includes economic stabilization and structural adjustment programs, the fiscal policy occupied an important prestige between the various economic policies, and the Economists tried to find solutions and get rid of the economic problems that have hindered economic stability of these countries .

Among these Prominent schools is the Keynesian school led by "John Maynard Keynes" who considered fiscal policy a more effective from monetary tool in facing economic imbalances and this is due to its various tools which considers as one of the most important economic management tools in achieving economic development and overcome the problems that impede economic stability, in addition to the distributive and specialized effects of fiscal policy tools there is stability effects is the role of government spending and taxes in effect on aggregate demand, and thus on aggregate economic variables.

Kurdistan Region of Iraq as the rest of the developing countries expanded in using fiscal policy tools in the framework allowed by the various legislation of ministry of finance's to its spending and revenue policies in the aim to achieve economic policy objectives in the country, and here show the importance of studying the applicable fiscal policy in Kurdistan Region of Iraq and the extent of its contribution to economic reform in the period of study between 2008-2015, and this to contribute in building successful fiscal policy scenarios in the future. With all these, political and economical and international situation; like ISIS war, cutting oil prices, and external and internal political conflict between KRG and Iraqi government made the situation more complex that which leads to push KRG's economy situation to collapse. As we discussed we can present the following problem: How effective fiscal policy in Kurdistan Region of Iraq in achieving economic reform?

1.1 Research Objectives:

This research aims to reach the following objectives:

- Realize mechanisms and standards of fiscal policy in solving economic and financial imbalances.
- Highlighting the prevailing economic and financial imbalances in Kurdistan Region of Iraq .
- Realizing the course of fiscal policy in Kurdistan Region and the most important economic reforms and the effects of development programs implementation on both levels of economic and social.

1.2 The Importance of Research:

The importance of choosing this subject is to identify the nature of fiscal policy and its efficiency in solving problems and economic imbalances, since Kurdistan Region of Iraq is among developing countries which is pursuing economic reform policies, and because fiscal policy derives its importance from its tools, that is why expenses create a broad prospect to stimulate economic activity, while revenue considered as an important mean to provide financial resources in addition to the balance sheet that has become one of the main indicators and important role in directing the course of economic activity.

1.3 Research Questions:

To answer this problem we are trying to put sub-questions answered through this research:

- What are the desired objectives of fiscal policy implementation?
- What are the starting points and stimulators of economic reform?
- What are the contributions of fiscal policy in Kurdistan Region in achieving economic reform?

1.4 Hypotheses:

To answer the research problem and achieve specific objectives, it is necessary to set the following assumptions:-

- One of the motivator of the success of economic reform is increase the size of expenses.
- Fiscal policy contributed to economic reform in Kurdistan Region.

1.5 Obstacles:

The most important obstacles and difficulties during preparing this research were lack of transparency in data, lack of appropriate and correct data and not having reliable statistics.

1.6 Research Methods:

Due to the nature of the related subject on financial policy and its role in achieving economic reform in developing countries in general, and Kurdistan Region in particular, it requires to use the following tools:

- The evolution of economic thought through the different economic schools.
- Macro-economy topics.
- Issues related to fiscal policy and economic reform.
- Reports, statistics, the official gazette.

The descriptive and analytical methods have been used in this research.

In respect to descriptive method it was through the presenting various Kurdistan Region economy, and by addressing to different economic schools in financial policy and economic reform.

The analytical method to be addressed through the analysis of the evolution of expenses and revenues tables, as well as the evolution of economic growth and unemployment rates, also this approach shows through the analysis of supported reforms programs by the international financial institutions.

1.7 The Research Plan:

To be able to answer the research problem and questions, dimension analysis and trying to validate the assumptions or refusing them, the study constitutes of three chapters.

The first chapter, includes all of research plan objectives like research objectives, the important of research, research question, hypotheses, obstacles, research methods and research plan.

The second chapter titled theoretical framework for fiscal policy we addressed the concept of fiscal policy and its objectives and the evolution of fiscal policy across the concept of fiscal policy in the first section, while the second section has included theory of fiscal policy, and the third section has included the type of fiscal policy and the last sections included the tool

and objectives of fiscal policy and additional to this we have the difference between fiscal and monetary policy.

The third chapter which is titled the theoretical framework of economic reform, in the first section the concepts about economic reform and its most important objectives as well as while the second section has addressed the thought of economic reform across different economic schools, while the third section has addressed the three type of the economic policy reform and in two next section offer the elements of economic reform in liberalization, privatization and globalization policy (LPG), and description about supported economic reform programs by the International Monetary Fund (IMF).

The fourth chapter which is the practical part titled as the effectiveness of fiscal policy in achieving economic reform which have been divided into four sections, as in, the first section included the short introduction to have a sample background in KRG, In the second chapter has addressing the public finance in Kurdistan between (2008-2015), while in the third section the impact of fiscal policy on total real variables which includes economic growth as well as unemployment and operating and level of prices and inflation, in next section we have a KRG's economic reform in situation and how to act to achievement economic reform and what is the development limitation in KRG government.

Second Chapter

2. FISCAL POLICY

2.1 Definition of Fiscal Policy

There are many definitions of fiscal policy but each of the definitions follow-up to influence the direction of the economy and meet economic goals.

So we can say the fiscal policy is the tools used by the government to influence the economic activity to achieve certain goals, and these tools consist of public spending tools and general revenue tools. In general, fiscal policy are based on concept of the British economist John Maynard Keynes (1883–1946), who believed governments could change economic performance by modify tax rates and government spending.

Fiscal policy usually used to describe the effect on the macroeconomic of the overall levels of spending and taxation, and more particularly, the gap between them. Government spending and taxation is influence in the economy level growth. When the government decides on the goods and services it purchases, the transfer payments it distributes, or the taxes it collects, it is engaging in fiscal policy (Henderson 2008).

Government's income by taxation and spending policy can be impact to gross economic cycles in achieve lower unemployment, low or no inflation, achieving price stability, improve the distribution of income among members of the community, raise the level of access for individuals . Governments to achieve each of these acts need to one type of fiscal policy like, expansionary fiscal policy and contractionary fiscal policy (Hansen 2013).

Fiscal policy is often used in combination with monetary policy, which in the United States is set by the Federal Reserve, to influence the direction of the economy and meet economic goals.

2.2 Theory of fiscal policy

Fiscal policy historically is derived from the French word meaning, Thus, the term “FISC” should have been synonymous with the phrase of public finance in english (atteya ab-alwahid 1993).

When we read the thoughts of economists classical and neoclassical schools such as David Ricardo and John Stuart Mill and Alfred Marshall and look at their views on fiscal policy, we find them to tendency savings and investment equalizer by changes of interest rate and at the level of full emploement and they opposed to state intervention in economic activity, because any intervention by the state in economic activity would deprive the private sector of the funds needed to increase production and the development of the national economy.

Moreover most europeans economists believe that theory of fiscal policy owes much to northern European economists such as Jan Tinbergen, Bent Hansen, Leif Johansen and others who five decades ago developed it. In spirit, if not in geography, Richard Musgrave could be placed among this group. There were obviously contributors from North America, such as Alvin Hansen, Lawrence Klein, Abba Lerner, Robert Solow, Paul Samuelson and others, but, in their writing, they focused mostly on the stabilization role of fiscal policy because this role was

considered the most important in the 1950s and 1960s. However, Keynesian stabilization policy is only a part, though an obviously important part, of the modern theory of fiscal policy. In the conception of this theory, especially well developed in Musgrave's (1959) and Johansen's (1965) treatises, the goals of fiscal policy extend beyond stabilization because fiscal tools can be used also for redistributing income and for reallocating resources in desired ways. (Vito Tanzi-2006)

But After World War-two in all of capitalist countries, fiscal policy (government spending policy and public revenues) has become to one of the mainstays upon which the management of the economy in these countries. And it became a government intervention in the economic activity of the strongest tools to tackle unemployment and recession and achieve economic growth and economic stability.

As mentioned above, fiscal policy are based on concept of the British economist John Maynard Keynes (1883–1946), who believed governments could change economic performance by modify tax rates and government spending.

A fiscal stimulus is a standard “Keynesian” response to a recession. The logic behind these policies is that recessions can be caused by insufficient total demand for goods and services. If saving (a “leakage” from demand) exceeds investment (an “injection” of demand), there will not be enough demand to buy all the goods and services that the economy is capable of producing at the “full employment” level. Some goods will go unsold, and firms will reduce output. They will cut jobs, cancel supply orders, and even close production facilities. The economy will spiral into a recession. In standard Keynesian models, either tax cuts or increased government spending can increase total demand, and therefore total output and employment. An initial increase in spending (by either the government or the recipients of the tax cuts) results in new income for other individuals, who then go on to spend part (not all) of this income, which results in new income for still other individuals, and so on. Ultimately, this series of additions to income results in a total increase in GDP greater than the original increase in government spending or reduction in taxes. The increase in real GDP divided by the initial spending increase is called the “multiplier.” The standard Keynesian view implies a multiplier greater than one (Alejandro, 2009).

On the economic effects of fiscal policy is in some sense consistent with a large variety of economic theories, including Keynesian, NeoKeynesian, real business cycle theories or models with increasing returns, as all of these theories predict that increases in government spending have an expansionary effect on economic activity with raising output and real interest rates (Antonio Fat'as and Ilian Mihov, 1998).

2.3 Types of fiscal policy

As mentioned above, government take some policies to closing inflationary gap and getting out of a recession and we saw the fiscal policy can be solution to economic issue by two types of fiscal policies like expansionary fiscal policy and contractionary fiscal policy.

2.3.1 Expansionary fiscal policy

"Fiscal policy" typically explains the spending and tax effects, or more precisely it's used for the gap between spending and tax on the whole of economy. And contribute to an increase in aggregate demand and increasing aggregate supply leading to increased production and economic output.

Expansionary fiscal policy usually performed during the recession and tries to increase the volume of aggregate demand in the country by increases government spending and reducing tax rate, increase government spending in order to increase economic activity when the economic activity in the private sector slows down, increasing direct payments to consumers by tax refunds. Expansionary fiscal policies are usually accompanied by expansionary monetary policies like purchase of bonds from persons or government to increase the monetary base and money supply, and reducing interest rates and increasing money supply in money markets thus making access to money easier (Rowe 1993).

2.3.2 Contractionary Fiscal Policy

As mentioned above, fiscal policy typically explains the spending and tax effects, or more precisely it's used for the gap between spending and tax on the whole of economy and we said that expansionary fiscal policy usually performed during the recession time but One main reason to use contractionary fiscal policy is to control inflation and to get slow down an economy to closing an inflationary gap. Contractionary fiscal policies try to reduce the aggregate demand and aggregate supply and in turn reducing production and reducing economic output by tolls such as increasing taxes and decreasing government spending (Aaron Forsythe, 2012).

2.4 Difference between Fiscal Policy and Monetary Policy

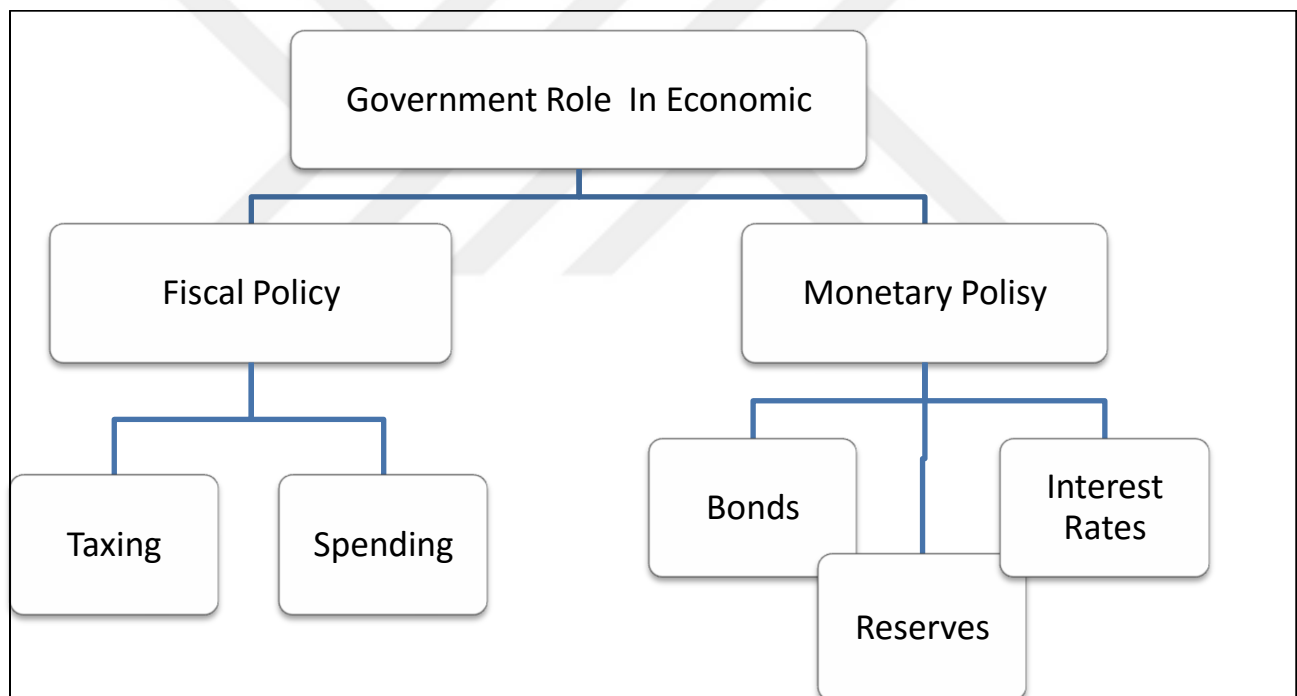
The interaction between fiscal and monetary policies was a much-debated issue between Keynesians and Monetarists. According to post Keynesian mainstream economics, in macroeconomic regulation the government should, except in times of crisis, avoid adopting fiscal and monetary policies that are tight or loose at the same time. A better choice is to pair tight fiscal policy with loose monetary policy or loose fiscal policy with tight monetary policy. Monetarists, in principle, are not opposed to the interaction between fiscal and monetary policies, but they maintain that fiscal policy has great limitations, for example, a loose fiscal policy may not achieve the expected goals because fiscal expansion tends to partially crowd out private consumption and private investment, but if fiscal policy tight. is it cuts into the economic growth rate, resulting in fiscal expenditure cutbacks that invariably bring down fiscal revenue, thereby diverting the fiscal policy from its prescribed goals. Consequently, they

believe that monetary policy is more effective than fiscal policy. Such is the basic policy preference or Monetarists. Policy Monetarists, Keynesians further argue the coordination between fiscal and monetary policies should be discussed in combination with economic policy goals (Li Yining 2010).

Economic policy talks about plans and actions that governments take in the economic field to achieve goals. It includes the systems for government budgets, taxation, money supply and interest rates, labor market, public ownership, and many other actions of government interventions into the economy processes. Most factors of economic policy can be divided into both fiscal policy and monetary policy (Svensson 2012).

Governments can have a role in the economic by use fiscal policy and monetary policy as show in graphic 1 .

Figure 1: Government Economic Policy



Reliance on part of 2.4

So what is the monetary policy? Governments how to use this policy?

The concept of monetary policy in the pre-world War is just a concept for monetary tool then used in order to ensure monetary stability, after that the concept of monetary policy has been developed and in particular after the emergence of Keynesian theory. Fiscal policy is a set of rules, tools, methods, procedures, and measures upon which monetary authority influences and controls money supply to set a line with economic activity to achieve certain economic

targets within a certain period of time. We can say the act of the central bank in which sets the size and rate of growth of money supply that can affect interest rates, through actions such as increasing the interest rate, or changing the amount of money banks need to keep in the vault (bank reserves). But the fiscal policies talk about the government revenue and government expenditure. To generate revenue and to incur expenditure, the governments make a policy called budgetary policy or fiscal policy (Alhdar 2008).

For more knowledge about difference between both economic policies we can look at a sample about monetary and fiscal policy to face recession and inflationary in (table 1).

By this table, government have three options to close recessionary and inflationary gap, when the government chose no policy option to close inflationary gap it should to increases wages to rise level of costs to decrease aggregate supply.

And when using a fiscal policy option government can decrease government expenditure (G) to cut aggregate demand (AD) or increase taxes (T) to cut disposable Income and this leads to increase consumer spending (C) for reduce aggregate demand. But in monetary policy government can impact in aggregate demand by increase rate of reserve requirement (Res.Req), increase discount rate and sell bonds in open market operations (OMO) or can decrease rate of money supply (S_M) to increase interest rate (IR) and decrease investment to cut aggregate demand. To get out of recession, government uses policies opposite former operations like these methods (Table 1).

For example, in monetary policy to deal with the recession and achieve full employment the Central Bank through the purchase of bonds from persons or government causes to Increase the monetary base and money supply. Increase the volume of money cause to reduce the interest rates and increase investment and aggregate demand.

Table 1: The Act of Economic Policy on Inflation and Recession Economy

	No policy	Fiscal policy	Monetary policy
Closing an inflationary gap	Wages $\uparrow \rightarrow$ costs $\uparrow$ $\rightarrow AS\downarrow$	G $\downarrow, \rightarrow AD\downarrow$ or T $\uparrow, \rightarrow$ Disposable Income $\downarrow$ $\rightarrow C\downarrow, \rightarrow AD\downarrow$	Res.req. $\uparrow$ Discount rate $\uparrow$ OMO- Sell Bonds $S_M\downarrow \rightarrow IR\uparrow \rightarrow I\downarrow \rightarrow AD\downarrow$
Getting out of a recession	Wages $\downarrow \rightarrow$ costs $\downarrow$ $\rightarrow AS\uparrow$	G $\uparrow, \rightarrow AD\uparrow,$ Or T $\downarrow, \rightarrow$ Disposable Income $\uparrow$ $\rightarrow$ C $\uparrow, \rightarrow AD\uparrow$	Res.req. $\downarrow$ Discount rate $\downarrow$ OMO- Buy Bonds $S_M\uparrow \rightarrow IR\downarrow \rightarrow I\uparrow \rightarrow AD\uparrow$

Resource: Foley 1973

2.5 Tools of Fiscal Policy

Assume the economy has entered a full-blown recession. Rate of Unemployment is high, budget deficit is on the level up, people are fearful of their financial future, so what is government's plan to oppose this recession? then governments use economic policy To deal with these situations such as recessionary or inflationary, and one of these policy is fiscal policy and four main instruments the government uses to address recessionary and inflationary economies like budget, government expenditures, taxation and public debts. Then how these tools are used to help the economy in different situations?

2.5.1 General Budget

General budget is annual statement of the estimated receipt and expenditure of the government over the fiscal year but is not just accounting performance to explain futuristic of revenues and expenses it is also closely related to economy and a means to achieve the desired goals.

An estimate of government costs, revenues, and resources over a determined period, reflecting a reading of future financial conditions and goals.

One of the most important administrative tools, a budget serves also as a plan of action for achieving quantified objectives, standard for measuring performance, and device for coping with foreseeable adverse situations.

The development of fiscal policy is an elaborate process. In the U.S, president proposes a budget plan to Congress. Lawmakers consider the president's proposals in several like level of spending and taxes. After that they partition the overall figure into separate categories -- for national defense, health and human services, and transportation, for instance. Finally, Congress considers individual appropriations bills spelling out exactly how the money in each category will be spent (United States economy 2016).

In Kurdistan region of Iraq (KRG), firstly according to the Iraqi constitution, Iraqi government is obliged to pay 17% of the total annual budget to KRG, although the 17% of the budget is variable and influenced by political conflicts and fiscal policy in Iraqi government. After sending the share of budget for KRG (that annually decreases) on behalf of the central government, the share of budget adds to revenue that has collected inside the region. Next, all of ministries determining next year's budget or expenses, and submit them to council of ministers. So after that prime minister adjustment the budget and proposal a budget plan to parliament, after the parliamentary debate on the budget and approval budget from the Parliament and to straighten final necessary to assent budget plan from president of region (United Nations Development Programme 2009).

An estimate of government costs, revenues, and resources over a determined period, reflecting a reading of future financial conditions and goals.

One of the most important administrative tools, a budget serves also as a plan of action for achieving quantified objectives, standard for measuring performance, and device for coping with foreseeable adverse situations.

2.5.1.1 Budgetary principles

The budget is an important tool in achieving economic interests and a strong economic base. Government to establish social equality and economic progress in all fields, including political, economic, commercial, international, etc, should the owner a planned budget with the standard principles like:

2.5.1.2 The principles of unity and budget accuracy

The principles of unity and budget accuracy mean that, for every financial year, all revenue and expenditure of the Communities, together with that of the Union — where expenditure is chargeable to the budget — must be entered in a single document.

The principle of universality means that the total revenue in the budget must cover the total expenditure. In other words, the revenue in the budget constitutes a common fund which is used to finance all expenditure without distinction (Maufort.2016).

- **The principle of annularity:** The principle of annularity, which is designed to make it easier for the budgetary authority (Parliament and Council) to monitor the executive body's activities, requires all budgetary operations to be attached to one financial year. This means that the Community's revenue and expenditure are estimated for each financial year, and the implementation of expenditure is authorized for one financial year, which coincides with the calendar year, starting on 1 January and ending on 31 December.
- **The principle of specification:** Under the principle of specification, each appropriation must have a particular intended use and be earmarked for a specific purpose in order to prevent any confusion between the various appropriations either when they are authorized or when they are implemented. The budgetary authority (Parliament and Council) may therefore be certain that the expenditure that it has authorized is implemented for the purpose for which it was intended. The same principle also applies to revenue and requires the various sources of revenue paid into the Community budget to be identified precisely.
- **The principle of equilibrium:** The principle of equilibrium means that the budget must include the same amount of revenue and expenditure. The total amount of Community expenditure is, therefore, capped by the limit of its own resources. This principle is peculiar to the Community budget, because, unlike the situation in the Member States, if the Community does not have sufficient resources, it may not borrow to cover its expenditure. It reflects the Member States' concern to keep the Community budget under control in order to avoid having to make up any shortfall later. The principle of equilibrium is an economic concept and includes the general economic equilibrium and not limited to the arithmetic equilibrium. And at the end sacrifice arithmetic equilibrium to achieving economic equilibrium (Maufort.2016).
- **The principle of unit of account:** According to this principle, the Communities' general budget is to be expressed in units of account

- **The principle of sound financial management and transparency:** The principle of sound financial management enshrined requires budget appropriations to be used in accordance with the principles of economy, efficiency and effectiveness. The principle of economy requires that the resources used by the institution for the pursuit of its activities should be made available in due time, in appropriate quantity and quality and at the best price. The principle of efficiency is concerned with the optimum relationship between resources employed and results achieved. The principle of effectiveness is concerned with attaining the specific objectives set and achieving the intended results. The application of the principle of sound financial management is based on the definition of specific objectives that are measurable, achievable, and relevant and timed for all sectors of activity.

2.5.1.3 Deficit budget

A budget deficit happens when total of revenues are insufficient to government spending in another means when a government spends more than it takes in from taxes or other forms of revenue, over a specific period of time. The reason being of budget deficit in the states is variable, in many industrialized countries; the deficit is caused by a reduction in tax rate or increase in government spending.

In KRG's economy, like many oil-producing and oil-exporting countries is heavily dependent on oil revenues. Limited and non-renewable oil resources on the other hand, fluctuations of oil price sharp and instability market cause to weakness region's economy. And since most region resources are achieved through oil sales then each changing in oil prices make a change in the rate of budget. Now the drop in oil prices, a major cause of political and economic crises in oil-exporting countries, Iraq this year has 23% of budget deficit, and to fill budget deficit have been to borrow in the central bank, the development fund for Iraq and the international development bank (IMF Country Report 2015).

2.5.2 Public Expenditures

Public expenditure refers to government expenditure i.e. government spending. It is incurred by central, State and local governments of a country. In the 18th century when public expenditure was considered as a waste of money, government should build a way to stay with their traditional functions of spending on defiance and maintaining law and order. In the 20th century, John Maynard Keynes argued the role of public expenditure in determining levels of income and distribution in the economy. Since then government expenditures has shown an increasing trend (Peacock and Wiseman, 1961).

Government expenditure is an expression used to describe money that a government spends. Government spending occurs from local city councils until federal organizations and includes the purchase and provision of goods and services, investments, and money transfers.

2.5.2.1 Phenomenon of Increasing Public Expenditure

Of the most important economic phenomena which has attracted the attention of the economist it is displayed increasing public expenditures while increasing the national income.

Phenomenon is the increasing expenses of the general phenomena in all countries, no matter what their economic system (capitalism or socialism) and no matter of differences in the degree of economic progress (developed countries, and developing countries).

The phenomenon of increasing public spending may return to the real and virtual reasons, the following are the indication in most important of those reasons.

- **Virtual Reasons:** There are many reasons that lead to increased public spending seemingly without an increase in public needs, any increase in the types of services provided by the State, any increase in the amount of money allocated for public spending without the increase in public needs, like declining real value of money it's makes the government pay more cash units greater the decrease the value of money to get the same amount of goods and services or increase of forced population population growth means an increase in public expenditures, for example, a high birth rate means an increase allocated of the amounts from the care to them or different ways to government accountability (Peacock and Wiseman, 1961).
- **Real Causes:** It is a set of social, political, administrative and military factors that led to the increase public expenditures resulting from the increase of public needs. Social reasons, it is associated with an increased role of the state in social activity and fairness of income distribution. Economic reasons resulting from the increased role of the state in economic activity in order to achieve the overall balance of the national economy and requires increased financial expenses means an increase in the size of public expenditures, Political reasons linked to the political role of the state and political changes in the multi-party system, in addition to political representation in abroad and participate in the activities of international organizations, all of this necessarily lead to an increase in public spending, Military growing wars necessarily lead to increased public spending and the large number of business practiced by the state require the presence of government employees to work in the state administration, as well as development, modernization and training, leading to increased public spending (Chand 2015).

2.5.2.2 Divisions of public expenditure

In natural, increase the diversity of public expenditure with increase of the manifestations of state intervention in public life. Can be divided public expenditure by norm influence in the national income of any purchasing power "real and Transformational expenditure", or by norm repetition and cyclical "ordinary and extraordinary expenses", or functional classification "according to the functions of the state" (Allen and Tommasi 2001).

- **Real expenses and Transformational expenses:** Real expenditure means the government uses the part of the purchasing power to obtain various goods and services to establish projects that satisfy the public's needs and leads to a direct increase in the gross national product. Transformation expenses, Is to conversation Cash payments in a category to another of community and these expenses not have a direct return and not lead to an increase in national production but also lead to a re-distribution and is divided into three sections: Economic: such as subsidies to reduce the prices of essential goods. Social:

unemployment compensations and social insurance. Finance: premiums benefits of public debt.

- **Ordinary and Extraordinary Expenses:** That the reason for the division of the ordinary and extraordinary expenses due to the need to determine recourse to extraordinary resources to cover public expenditure, which means that the idea of extraordinary expenditures have been used to justify the resort to extraordinary resources (loans and cash version). There are several criteria to distinguish between ordinary and extraordinary expenses are:

Regularity and cyclical: if the periodic and regular bases are considered ordinary, such as wages, though if not periodic and regular bases are extraordinary such as the financing of wars and disasters.

Length of the Spending Period: If the expenses be repeated regularly in the budget it's ordinary, but if expanded for more than one year shall be extraordinary.

Income Generation: If the expenses is considered income and give us benefit are extraordinary expense, such as borrowing to carry out public projects, but if the expenses do not generate income, are ordinary expenses.

Productivity: if unproductive, or so-called consumer spending and does not lead to any increase in national production is extraordinary expense, but if productive and lead to increased national production so it's ordinary expenses, such as allocated for the establishment of schools, hospitals expenses.

- **Functional division of public expenditure:** On this basis, the division of public expenditure in accordance with the functions performed by the state, There are also no one rule according to this division, it can partition according to the functions performed by the contemporary state of public expenditures. The basic functions of the state are:

Administrative function: represent expenses related to public utility and necessary for the government establishment, These include the costs of employees salaries, pensions and workers' wages, and we can say that this type of expenditure (administrative) include cost of public administration, defense, security, justice and diplomatic representation.

Social expenditures: the expenses related to the social side of the state, that is, expenses to achievement of social goals for individuals, and the most important provisions of these expenditures is education and health expenses, social, cultural and insurance.

Economic function: the expenses related to the economic purpose of the State, any expenses associated to establishment state by certain activities in order to achieve economic targets such as public investment, to aimed provide basic services such as transport and communications, irrigation, electricity ... etc (Allen and Tommasi 2001).

2.5.2.3 Economic and Social Effects of Public Expenditure

Public expenditure transfer economic resources to channels determined by the government in conformity with national goals and public policy. And the size and direction of public expenditure may affect the modality and levels of consumption of the community.

Before 1930, public expenditure has a limited role in economics, because, most of the economists of that time were believed in the free competition or the so called laissez-faire.

But the world witnessed great depression in 1930. From the Keynesian revolution onwards, public expenditure has critical role in the growth and development of any economy. In fact, since the increasing trend of public expenditure, it has wide effects in the economy. Here this hub is provided some of the major effects of public expenditure (Furceri 2010).

Impact on Production: Have implications for production in the short or long term, in the short term these effects can impacting of expenses on the national economy balance. And so the impact on aggregate demand, which has effectively in the economy and prevent the level of volatility. As for the long-term impact of public spending is varies on production and income according to the nature of this spending. So Public expenditure, affecting the size of production and operation through its impact on effectively size of total demand in terms, and public expenditure is an important part of this demand and increasing this importance with increasing possibilities of state intervention in individual's lives and relationship between public expenditure and size of aggregate demand depends on size and type of expenditure. As well as playing an important role in guiding the available productive resources to the branches of desired activities by affecting profit rates to ensure a minimum level of goals or plug in the budget of the project during a certain period or subsidies or expand or export. And the effect of public expenditure on production can be examined with reference to its effects on ability and willingness to work, save and invest and on diversion of resources. Expenditure on education, health, communication, increases people's productivity at work and therefore their incomes. With rise in income savings also increase and this in turn has a beneficial effect on investment and capital formation. Public expenditure, sometimes, have adverse impacts on willingness to work and save. Government expenditure on social security aperiens may bring such unfavorable effects, like old age pension, insurance benefits, and sickness benefit. In another way government can impact to gross same part of industry and trade by allocation of resources among different industries & trade.

Effects on Distribution: As some public services Is in the interests of the rich class, so spending on these services mean a transfer of purchasing power to people with small incomes. This may seem contrary to justice, but the government structure based on social solidarity among members, the poor and that they benefit the rich pay services. Therefore, the government for implement social justice among population can use the policy distribution of public expenditure. And Government can collect excess income of the rich through income tax and sales tax on luxuries. The Funds thus mobilized are directed towards welfare programmers to promote the standard of poor and weaker section.

Effects on Economic Stability: Government's spending policy can be impact to gross economic cycles in achieve lower unemployment, low or no inflation, achieving price stability, improve the distribution of income among members of the community, raise the level of access for individuals so public expenditure is used as a mechanism to control instability, to cure inflation government must follow surplus budget policy by reducing its public expenditure. On contrary, government must follow deficit budget policy during deflation by expanding public expenditure. This is simply because public expenditure can simply adjust the volume of money in the economy.

2.5.3 Public Revenue

The means of public revenue as a financial instrument is a "total entry that gets government from various sources in order to cover the public expenditure and achieve economic and social balance. more of governments depends on taxation for the biggest part of the revenues which are used to finance public expenditure and achieve economic and social balance; the remaining part of their revenues comes from non-tax sources such as grants and foreign aid, user charges, the sale of assets, property income, and from the ownership of resources and enterprises and the like. Any shortfall of expenditure over all sources of revenues (a budget deficit) has to be financed by government borrowing. We try to explain the most of important recourses of public revenue (hamza and fateh 2014).

2.5.3.1 Tax

In the OECD classification, the term "taxes" is confined to compulsory, unrequited payments to general government. Taxes are unrequited in the sense that benefits provided by government to taxpayers are not normally in proportion to their payments or in the another definition we can say, general government consists of supra-national authorities, the central administration and the agencies whose operations are under its effective control, state and local governments and their administrations, social security schemes and autonomous governmental entities, excluding public enterprises (Chairman, 1996).

To have fine taxation system in are used to finance public expenditure and achieve economic and social balance, required the following characteristics of taxation:

- Payment will be in cash.
- Tax is Include on obligatory element.
- Generality of tax (does not exclude members of a community).
- Without pay a specialty return.
- Will be taxes aim to cover of public expenditures.

A "good" tax system for developing countries was once considered one based on progressive income taxes. More recently, emphasis has been placed securing revenues from broader bases at lower rates from consumption as well as income taxes. A framework for evaluating public finance structures and institutions in terms of revenue and spending as well as the fiscal balance is set out, and some key areas such as value added tax (VAT), earmarking, tax evasion and administration, and non-tax revenues are discussed. Increased globalization challenges national tax bases and make it even more important to improve local fiscal expertise and institutions in developing countries (Bird and Das-Gupta 2013).

2.5.3.1.1 Types of Tax

The terms direct and indirect taxes relate to who ultimately bears the burden of the tax. Direct taxes are assessed on and collected from individuals who are intended to bear it, such as income tax. Indirect taxes are those taxes that are levied on a taxpayer and for which the burden of the tax can be passed on to some extent. For example, VAT is levied on firms at each stage of production and distribution. This tax will cause the price to the final consumer to rise; therefore, this is actually a tax on consumers that is collected from businesses (James and Nobes, 2007).

Direct Tax: It is deducted directly from income or capital, and the sources of these taxes are personal income taxes levied on individuals' income, and corporate income taxes. Given the more of sources in the modern tax systems, tax by the source of work and capital or both together had a great importance, it may be the work commercially and industrially or liberal profession, etc.

The taxes on property or assets (taxes on land, wealth, precious metals, wages etc) and taxes on transfers between individuals (including taxes on inheritance and gifts) has two other important types of direct taxation.

Indirect Tax: The taxes that are not lowering important of direct tax and can called taxes spending, and it imposes on the individual when they spends their capital or income in order to achieve the needs, It includes all taxes that are imposed on the sale of goods and services like, sales tax, customs tax, value added tax (VAT), specific/special tax, or goods and services tax (GST), etc (Bulk 2016).

This tax is being imposed on spend of income to get the goods and services and have indirectly affecting on income; Indirect taxes can be imposed on:

- Domestic goods and services.
- Goods and services that form part of a country's international trade.
- The trade and transit of persons, goods and services within a country.

2.5.3.1.2 Tax goals

The tax an important role in developing countries mainly for the mobilization of economic resources and direct them to projects that achieve development purposes and is therefore used to encourage savings and their impact on invest propensity and directed to the economic activities, but also represents the basic structure is the most important goals of financial, political and economic goals (Rao and Rakshit 2011).

Financial Goals: And it is intended to cover general liability when the tax will allow the provision of financial resources of the state in guaranteeing them and it is intended to cover general liability when tax will allow the provision of financial resources of the state in guaranteeing them fulfilling and towards agreement on the required services to members of the community any finance spending on public services and on government investment management.

Economics Goals: The goals to achieving stability across the economic government through tax cuts during the recession to increase spending and increase inflation period in order to absorption of purchasing power may also be used to promote a certain economic activity to be granted exemption period necessary primary resources for this activity as an activity vital to achieve economic development

Political Goals: Tax has a directly linked to socio-economic development plans, Imposing a customs fees in pay the products of some countries and reduced other products it is considered the use of tax for political, It represents a tool of foreign policy tools such as the use of tariffs to trade up with some State or reduce them in order to achieve political purposes.

2.5.3.1.1 No-Tax Revenue

Most public economics texts cover tax finance in detail, but pay little if any attention to other sources of public finance, including debt, seignior age, asset sales, and other revenue sources. "Other revenue sources" or non-tax revenues include all receipts other than taxes and seignior age, and capital receipts from debt issues or asset sales. The absence of discussion of principles governing non-tax revenues makes coverage in these texts of limited use to economies, typically resource rich economies, with limited dependence on taxation. In fact, according to the World Bank's World Development Indicators around 2002, roughly 39 percent of revenues of the 166 countries covered there not just resource rich economies were from non-tax revenues.' If as has been claimed in some recent writing, increasing globalization erodes a country's ability to raise tax revenues, this percentage is likely to rise (Tanzi 1997).

The revenue acquired by the government from sources other than tax is called non-tax revenue or public income received by administration, commercial enterprises, fees, fines or penalties, Surplus from public enterprises, special assessment of betterment levy, Grants and Gifts and deficit Financing are the source of non-tax revenues of the government. We explain the most important type:

Fees: Fees are calculated by the government for performance a service to the beneficiaries, unlike tax, there is no compulsion involved in case of fees. The government provides certain services and charges certain fees for them. Like Court fees, passport fees, etc

Fines or penalties: Fines or penalties are enjoined as a form of retribution for breach of law or certain conditions or for dud to observe some regulations. Like taxes, fines are compulsory payments without quid pro quo, However while taxes are generally imposed to collect revenue. Fines are imposed as a form of punishment or to prevent people from breaking the law.

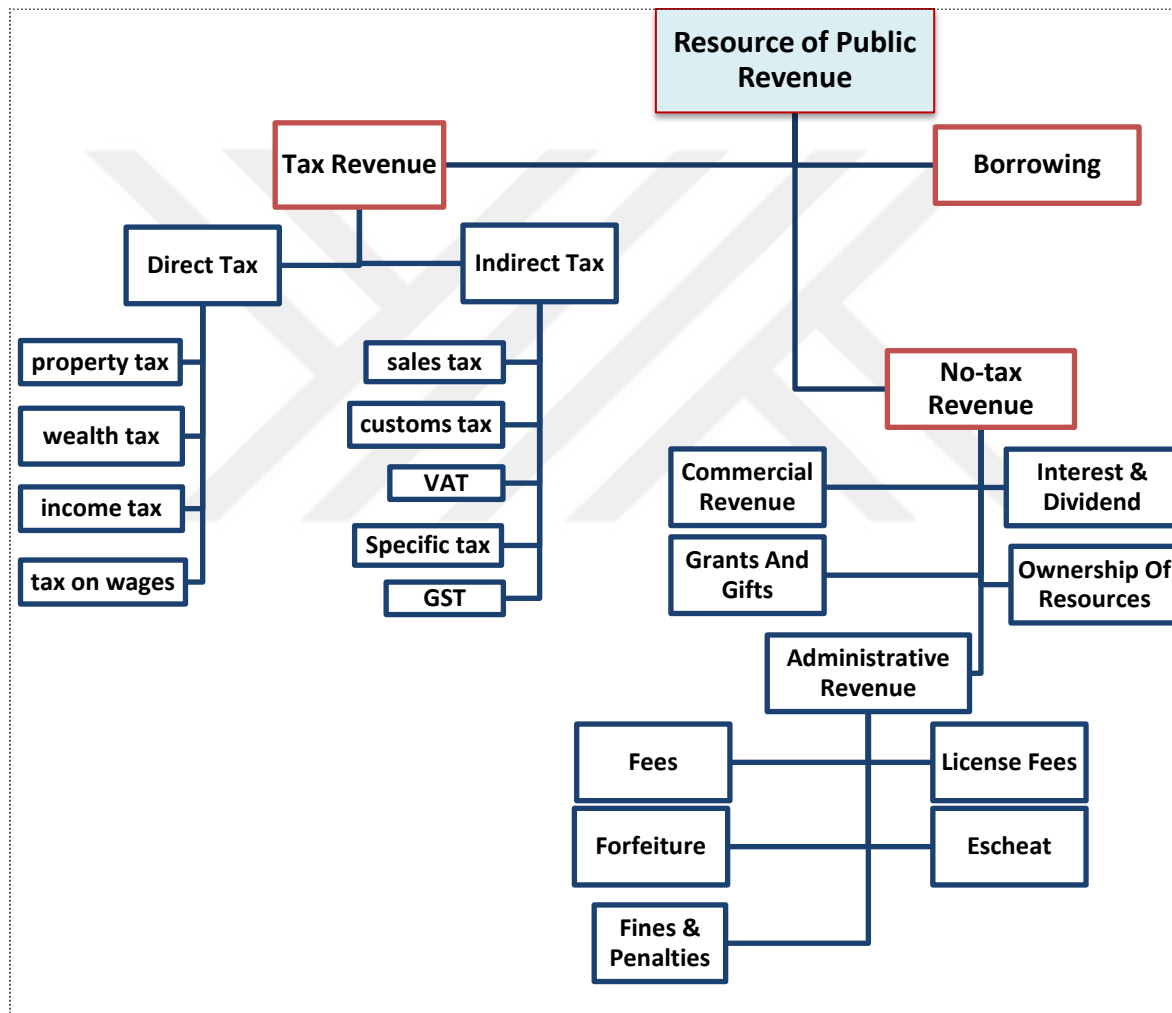
Grant and Gifts: This part of public revenue is significant source of revenue during war and emergency, these are purely voluntary contributions from native people or institutions may make gifts to the state. Grants from foreign countries are known as Foreign Aid. Developing countries receive military aid, food aid, technological aid, etc. from developed countries. For example the military aid from UN and NATO countries to Iraq, Syria, and KRG to ISIS war.

Commercial revenue: Collector in pay for government produced goods and services. Like, salary fees of public educational institutions are included, postal charges, complication and interest on loans of state financial institutions or national banks.

2.5.3.3 Borrowing

This is a resource of the state financial resources and a toll of finance public spending, it's a debt recorded in the bonds of Members of the public, financial institutions, banks within the borders of borrower state or individuals, financial institutions and banks in abroad or foreign governments with a pledge to pay the amounts borrowed and pay interests loan according to the conditions.

Figure 2: : Resource of Public Revenue



Resource: (Rao and Rakshit 2011)

2.6 Objectives of fiscal policy

2.6.1 Employment generation

The major objective of fiscal policy is to obtain and keep full employment or to achieve a state of near full employment to achieve developing economy, by expenditures toward in assist to create new employment opportunities and increase the productive efficiency of the economy. And spend sufficiently on social and economic overheads. To increase employment in the country through efficient fiscal measure government can use Investment in infrastructure to make direct and indirect employment, reduce taxes and duties on small-scale industrial (SSI)... etc (Acocella and Jones 2005).

2.6.2 Price stability and control of inflation

As previously mentioned in table No.1.1, then government how can have a role in price satiability and how can impact to Closing an inflationary gap, for this government can decrease government expenditure to cut aggregate demand or increase taxes to cut disposable Income and this leads to increase consumer spending for reduce aggregate demand. In developing country, inflation is a permanent phenomenon where there is a propensity of increase prices due to expanding direction of public expenditure.

2.6.3 Accelerating the rate of economic development

Fiscal policy can try to achieving economic growth by focus on the infrastructure development. Fiscal policy measures such as taxation, public borrowing and deficit financing etc. for example use a part of the government's revenue to invest in the infrastructure development. As a result of this, all sectors of the economy get a boost.

2.6.4 Optimal allocation of resources

To make efficient allocation of financial resources government can push the growth of social infrastructure through fiscal measures. Public expenditure, subsidies and incentives can favorably influence the allocation of resources in the desired channels like allocated for development activities like expenditure on infrastructure for example railways. as so fiscal policy measures, can highly impact the allocation of resources in various occupations and sectors.

2.6.5 Reduction of inequalities in income and wealth

To decreases inequalities and to give distributive justice, the government can invest in productive direction which include service ad benefit to weak income groups and are helpful in raising their productivity and technology. And can reducing rate of tax of income on the poor people as compared to on the rich people or increases rate of Indirect taxes because are also more in the case of semi-luxury and luxury items, which are mostly consumed by the upper middle class and the upper class (Acocella and Jones 2005).

2.6.6 Balance of payments and Reducing the Deficit in the Balance of Payment

The mean is balance between capital and trade rate, government can use tools to achieve goals of fiscal policy like Exemption of income tax on export earnings, Exemption of central excise duties and customs, save foreign exchange earned (exports goods and services) by import substitutes or Imposing customs duties on imports.

Third chapter

3. Economic Reforms

3.1 What Is Economic Reform?

Differs economic reform concept in one State to another, based on type of prevailing system and economy reform, has a hidden power to achieve economic growth of a country. Normally a country by use some measures, try start economic reforms like, riddance of limitations on imports, Elimination balance of payment deficits, support investment by foreign financial institution, Liberalization of industries, technological change to support capital and skilled labor and national products....etc.

Economic reforms as defined by the International Monetary Fund are a collection actions used by the state in order to decreasing or cancellation economic imbalances, internal and external financial and origination elements of the economic market problems.(Ahmad Najar 1996)

In general economic reform should to be have positive impact in hole of economic sectors ant try to activating manage aggregate demand to get the economic balances and curb inflation, Increased efficiency in the economic performance and resources distribution, Prevent monopoly and deepen market competition, mobilizing physical, financial and human capacities and put them to service of sustainable development.

Economic reforms comprise various mixtures of measures designed to stabilize the economy, steps oriented to change its structure, and, at times, sales of public assets. The central purpose of stabilization is to slow down inflation and improve the financial position of the state. The central goal of structural reforms is to increase the efficiency of resource allocation (Carlos & Maravall & Przeworski 1990).

3.2 Economic Reform In Terms Of Economic Thought Schools

Systematic economic theory has been developed mainly since the beginning classical economics. It was developed in the late 18th and early 19th century by Adam Smith, Jean-Baptiste Say, David Ricardo, Thomas Malthus, and John Stuart Mill. Classical economics (also known as liberal economics) asserts that markets function best with minimal government interference. Is also associated with the capitalist economic thought, which depends on the existence of financial abundance, and capital is the main axis around which all economic activities, such as: competition between companies, care to rationalize consumption, conservatism to carry out business correctly and guarantee success enterprise in their work. Moreover on the assumptions full employment through the free interaction between supply and demand in conceivable that there were no unemployment at the level of the economy as a whole, and hence believe that the fluctuations that occur in economic activity in the short term will fade in the long term and this is accordance with Subjectivity stability factors In the economic system, which is the most important in the flexibility of wages and prices and interest rates.

But after failed classical school to changing economic crisis that hit the world in the years of twentieth and thirties century and couldn't find solutions for it, appear Keynesian school, Which responded to the interpretation of the factors that led to the build of this crisis with the proposal of the policies necessary to remedy in the short term, and based on economic fundamentals and concepts as following: (J. M. Keynes 1936)

- Supply cannot create demand in exchange for its
- The economy can be put equilibrium at less than full employment level
- Unemployment is not optional
- wages and prices not flexible towards a depreciation
- Government must intervention to revitalization aggregate demand and at the same time control the general level of prices

More than handling the crisis in assuming constancy of change in a combination of factors in short period like:

- Instruments and consumer habits
- Product ability
- Management and level of administrative
- Labor quantity and properties of labor
- Quality and size of productive
- Level of competition and monopoly
- Income distribution and social structure

The Keynesian think the fiscal policy is a key tool for achieving economic stability and their belief in the important role that fiscal policy played due to the economic fluctuations, return to real reasons like uncertainty on behavior and decisions of economic units, especially investment and production decisions and however determine the prices of products firms in light of the costs of production means, that the market in which they operate these facilities are incomplete market competition.

Based Keynesian theory on economic fundamentals and concepts as following (hamza and fateh 2014) :

- Supply cannot create demand in exchange for its
- The economy can be put equilibrium at less than full employment level
- Unemployment is not optional
- wages and prices not flexible towards a depreciation
- Government must intervention to revitalization aggregate demand and at the same time control the general level of prices

When the economic Phillips publishes practical study for data period between 1859-1959 years in English economy, monetarism emphasizes (Monetarism) the role of governments in control of the money in circulation. And focus on the effects of money on the economy and variations in the money supply have major influences on national output in the short run and on price levels over longer periods.

Has been estimated in this study, the relationship between the rate of unemployment and the rate of change in the money wage as an indicator of the rate of inflation, given that wage

represent a significant proportion of the cost and existence an opposite relationship between the unemployment rate and rate of rise in wages. Monetarists assert that the objectives of monetary policy are best met by targeting the growth rate of the money supply rather than by engaging in discretionary monetary policy (aamro hesham 2009).

Milton Friedman was a, and perhaps the, major reason for the success of that group, and then criticize Keynes' theory of gluts using fiscal policy. He said "inflation is always and everywhere a monetary phenomenon" (James R. Lothian 2009).

With all these developments and the rise liberal ideas and mechanisms of a free market economy, and beginning the prosperity of financial markets in the world and the rapid movement of capital and flows of foreign direct investment and indirect on developing countries, and receding the role of the public sector by virtue of privatization mechanisms, and need to growing economic reforms began a new wave of Keynesian ideas was known as the **neo-Keynesians**. It can be summarized the most important developments and modern Intellectual trends, like as Real Business Cycle Approach to Economic Fluctuations or New Keynesian. The Real Business Cycle Approach to Economic Fluctuations was the alone a dominant American schools of economic thought, it was developed by Neo-classical at the beginning of the eighties of the last century. And rejected the view then said the unexpected monetary shocks make fluctuations in the both output and employment (Hesham Muhammad 2009)

And now mainly the use of monetary and fiscal policy to achieve economic stability is the main difference between the New-Keynesians on the one hand and New-Classics in another hand.

3.3 Economic Policy Reform

In the circle of development, reform include, the economic reforms, division and active delivery of public goods and services, working on human behavior for the plan to prove themselves and help them through laws, advocacy and persuasion. Economic reform is the leaving the current period and getting into better period. Reform includes different meanings and relating the time and context. Even want the some government try to reform in religious, societal standards and human behaviors. The main tools of economic policy reforms or we can say government can use three policies to achieving economic reform these are regulatory reforms, fiscal policy reforms and monetary policy reforms.

3.3.1 Regulatory Reforms

In 1970, the world economy roughly accorded with the idea of three distinct economic systems: a capitalist first world, a socialist second world, and a developing third world which aimed for a middle way between the first two. The third world was characterized not only by its low levels of per capita GDP, but also by a distinctive economic system that assigned the state sector the predominant role in industrialization, although not the monopoly on industrial ownership as in the socialist economies. The years between 1970 and 1995, and especially the last decade, have witnessed the most remarkable institutional harmonization and economic integration among nations in world history. While economic integration was increasing throughout the 1970s and 1980s, the extent of integration has come sharply into focus only since the collapse of communism in 1989. In 1995 one dominant global economic system is emerging. The common

set of institutions is exemplified by the new World Trade Organization (WTO), which was established by agreement of more than 120 economies, with almost all the rest eager to join as rapidly as possible. Part of the new trade agreement involves a codification of basic principles governing trade in goods and services. Similarly, the International Monetary Fund (IMF) now boasts nearly universal membership, with member countries pledged to basic principles of currency convertibility (Sachs & Warner, 1995).

Regulatory policy is about achieving government's objectives through the use of regulations, laws, and other instruments to deliver better economic and social outcomes and thus enhance the life of citizens and business. Regulatory reform reduces barriers to competition and market openness, and fosters market dynamics, while ensuring essential social and environmental welfare. Incorporating practices for consultation, transparency and access to law, regulatory reform also contributes to reduced corruption (Josef Konvitz, 1990) .

3.3.2 Fiscal Policy Reforms

The primary purpose of fiscal policy is the push promoting economic and social development and positive impact on the national economy movement, and to achieve social justice in the distribution of wealth and income.

As described in the first chapter that the government through fiscal policy could have a positive impact on improving the economic situation and can entered the market through expansionary and Contractionary fiscal policy. Fiscal policy, by use the main tools such as taxation and expenditures try to move, currently economic situation to another better situation to receive economic reform.

If the government wants to increase the level of economic activities, so that they can Increasing government spending or cut down the rates of direct or indirect taxes like income tax, sales tax, toll tax, excise duties, entertainment tax, etc. On the other hand, if due to inflation, the government tries to slow down the level of economic activities they can do so by increase direct and indirect taxes or cutting down government expenditure.

To know more about, how can fiscal policy impact on inflation and recession, review table No 1.

3.3.3 Monetary Policy Reforms

Achieve economic stability by strengthening confidence in domestic currency, and try on the stability of its price, and treatment the inflation problem. Use the mechanics of this policy, in cooperation with the fiscal policy in order to reach a state of economic balance. And this requires, above all, a clear economic strategy, related to the objectives of national development.

Monetary policy like fiscal policy can have a important rule to fix economic situation by influences and controls money supply to set a line with economic activity or we can say monetary policy implemented reforms, by bringing about changes in interest rates and volume of money supply, etc. to know more about, how can monetary policy impact on inflation and recession, review table No 1.

3.4 Elements of Economic Reform and LPG Policy

In the world of globalization, economic reform has important policy, mostly in developing countries. Many have adopted the Liberalization, Privatization and Globalization (LPG)

approach. Economic policy to direct falling and unstable economy and to achieving economic and financial growth, need to have economic reform programs to improve level of production, rate of employment, fiscal conditions and finally gross GDP (gross domestic product). And purpose of LPG policy is a using three methods to bring economic reform like liberalization, privatization and globalization.

3.4.1 Liberalization

Economic development and international trade, leads to the formation a world interdependent economic system and moving toward in integrated global economy.

Nowadays economists, regardless of their school of thought, insist on the role of government, to achieving economic growth. Lower tax rates, fewer licenses and permits for doing business, improved technical regulation system and customs reform are reforms that are more important in developing countries.

One of the most influential government's economic policies on economic growth, particularly in developing countries is international trade and commercial liberalization. So liberalization is an important feature, duration applying the economic reform program. And it is a beneficial to give approach to initiate economic programs open, flexible and responsive to the external market. Many of country use the Liberalization to achieve create an active environment for business with foreign investors and relation with domestic market and allowing privatizing the state enterprises.

Governments always in the duration of applying economic reform program, especially Liberalization policy, following the steps to give develop international trade and commercial liberalization. And for applying this policy, use some steps like; customs reform, new laws provide for the introduction of technical regulations in compliance with international standards to significantly simplify procedures for exporters and importers, Independent determination of interest rate, Increase in the investment limit of the Small Scale Industries and liberation to import capital goods and technical knowhow, to expansion and production Industries....etc.

3.4.2 Privatization

The process of liberalization like of process in economic reform that had started in many developing countries in early 1980s. The reform assume varied in ownership and contents in different countries. The reforming countries can be classified into three groups. The first group consists of a number of countries in East Asia which continued their own dynamic industrial and trade policies initiated in 1960s. The second group includes a large number of countries, mostly in Africa, which have gone through the reform programmers designed and dictated by the IFIs. The third group comprises a number of Latin American countries that undertook economic reform since early 1980s, initially under the pressure from IFIs (S.M. Shafaeddin April 2005).

So privatization is the process of transition from a mechanism centralized economy to a market economy mechanism in the production of goods and services, so it's a process by which the increased activities of the private sector and reduce the activities of the public sector in economic activity for the production of goods and services.

3.4.2.1 Goals of privatization

One of the important goals in economic policy in the implementation of the economic reform program is to try to develop private entrepreneurship by creating a favorable business climate. Economic reforms are aimed at ensuring economic growth based on liberalization and private sector development. During this process and to give it successful effect, in the privatization process we can use some goals like:

- Orientation towards market economy and the achievement of full competition and raise the operational efficiency of the projects that have been transferred from the public to the private.
- Reduce government spending as much as possible and thus reduce the deficit in the state budget caused by abuse of financial results in public projects.
- Increase government revenues by editing the public projects of bureaucratic restrictions and dependent on them in market forces and its mechanisms such as cancel support and pricing compulsory administrative.
- Increase the percentage contribution of the private sector in the Gross Domestic Product and achieve full operation of the labor force or who are able to work without neglecting the role of the public sector.
- Financing of privatization on the responsibility of the private sector away from the government's guarantee.
- Promote shared to new projects whether they are internal or external to achieve benefit from the funding, expertise and technical management and marketing.

However, privatized and liberalized public services might be controlled by some business giants and also in some places the legal monopoly may continue. In the sometimes, privatization can cause negative move, inside economic reform process in September 2000 several social groups disagree economic reforms such as currency devaluation, privatization of state firms, and the elimination of consumer (food) subsidies because of doubts about the benefits of these reforms or because they believe that these reforms will harm their economic interests. In the some process economic reform is inherently a political act so it changes the distribution of benefits in society, benefiting some social groups and hurting others (Adams H. Jr. Richard September 2000).

3.4.3 Globalization

There are numerous definitions of globalization but Charles Oman's definition is the most of all, referring this phenomenon to the economic phenomenon.

“‘Globalization’ is the growth, or more precisely the accelerated growth, of economic activity across national and regional political boundaries. It finds expression in the increased movement of tangible and intangible goods and services, including ownership rights, via trade and investment, and often of people, via migration. It can be and often is facilitated by a lowering of government impediments to that movement, and/or by technological progress, notably in transportation and communications. The actions of individual economic

actors, firms, banks, people, drive it, usually in the pursuit of profit, often spurred by the pressures of competition. Globalization is thus a centrifugal process, a process of economic outreach, and a microeconomic phenomenon” (Charles Oman 1996).

Another definition for globalization is Paul Bairoch's definition, he wrote the globalization is “...process in which the production and financial structures of countries are becoming interlinked by an increasing number of cross-border transactions to create an international division of labor in which national wealth creation comes, increasingly, to depend on economic agents in other countries, and the ultimate stage of economic integration where such dependence has reached its spatial limit” (Paul Bairoch and Richard Kozul 1996).

China and India have successfully implemented economic reforms in the era of globalization. China's economy has been socialist in structure while India holds to a traditional, agriculture-oriented, feudalistic economy. Both economies implemented numerous reforms over the last few years. The results in both cases have been highly encouraging and have set a high standard for other developing economies.

One of aim in economic reforms has a close partnership to economic of KRG with world economy. There will be an increased cooperation of KRG economy with world economies across the world. Capital and technology will flow from the developed countries of the world towards KRG.

3.5 Policy of International Monetary Fund (IMF)

The IMF is a specialized agency of the United Nations system agencies, established under an international treaty in 1945 to work on enhancing the safety of the global economy. It Located Fund headquarters in Washington, DC, and managed by its members who include all the countries of the world about their number of 184 countries. The IMF is the central institution of the international monetary system - any system of international payments and currency exchange rates, which allow for commercial transactions between different countries. The fund aims to prevent crises in the system by encouraging different countries to adopt sound economic policies, as it - as evidenced by his name - Fund could benefit from its resources Members who need temporary funding to address what they are exposed to balance of payments problems. The economic stabilization program and structural adjustment is aimed primarily at achieving equilibrium in the balance of payments, support the market economy mechanisms and remove mobility obstacles of capital, goods and components production in the international market by reducing the state's role in economic and social life, so as to remove all forms of state intervention in the price device whether directly or indirectly intervention, or from the price side, administratively or organizationally. And it is applied in many developing countries and the policies of the intellectual and theoretical hand derives a basically of economic ideas for schools classical and neoclassical, which believes that inflation is a monetary phenomenon. It is proposed to fund bank applied in developing countries to address economic imbalances and shift toward a market economy. Morocco, Yemen, Algeria, Egypt, India....etc are the examples of developing countries that have adopted the application of this kind of policies (IMF Main page website).

3.5.1 Objectives of the International Monetary Fund

The fund focuses primarily on macroeconomic policies of countries - any policies relating to the budget of the government, and cash management, credit and exchange rate - and financial sector policies, including the organization of banks and other financial institutions and oversight. In addition directs the International monetary fund enough attention to structural policies that affect the performance of the overall economy - including the labor market that affect the behavior of employment and wage policies. So the main objectives of the International Monetary Fund are as follows: (IMF Bulletin)

- To promote international cooperation on international monetary problems.
- Facilitate the expansion and balanced growth of international trade, and thus contribute to the achievement of high levels of employment and real income and conservation, and in the productivity of resources for the development of all member countries.
- Work on stabilizing exchange rates, and avoid competitive devaluation in currency values.
- Assist in the establishment of a multilateral system of payments.
- Make resources available (with adequate safeguards) to members experiencing balance of payments difficulties.

Fourth Chapter

4. The Impact of Fiscal Policy in Achieving Economic Reform, Study of Kurdistan Region-Iraq between Years 2008-2015

4.1 Introduction

After the fall of the dictatorial regime in 2003 and Iraqi occupation by the United States of America, The fall of former regime still has a very big social and economic burden and leaves high-priced cost on the people of Iraq, including the Kurdish people in Iraq's Kurdistan region.

In 2005 rise KRG make its own economic policy (financial, monetary and preparation of the general budget) so as an federally region within the republic of Iraq in accordance with article 109, and specifies article 110 of the constitution, the exclusive powers of the federal government (drawing up financial and customs policy, issuing currency, organizing trade policy among the region's borders and provinces in Iraq, setting the general budget of the state and formulating monetary policy and the creation of a central bank and his administration, and the census) and usually want to redistributing the share of the budget, according to its own economic policy.

After nearly a quarter century of this process, the region saw some qualitative developments on the political, economic, social and security levels, but these developments did not live up to the aspirations of the people of Kurdistan, and with the financial and human possibilities that available in federal aviation administration.

After the first legislative elections in 2005 and approval of the permanent Iraqi constitution in the same year by the Iraqi people appeared problems between successive governments and KRG on this ratio, and attempts were made to reduce the KRG annual budget share to (10%-13%), but that did not occur for lack of precise figures for the population in the region.

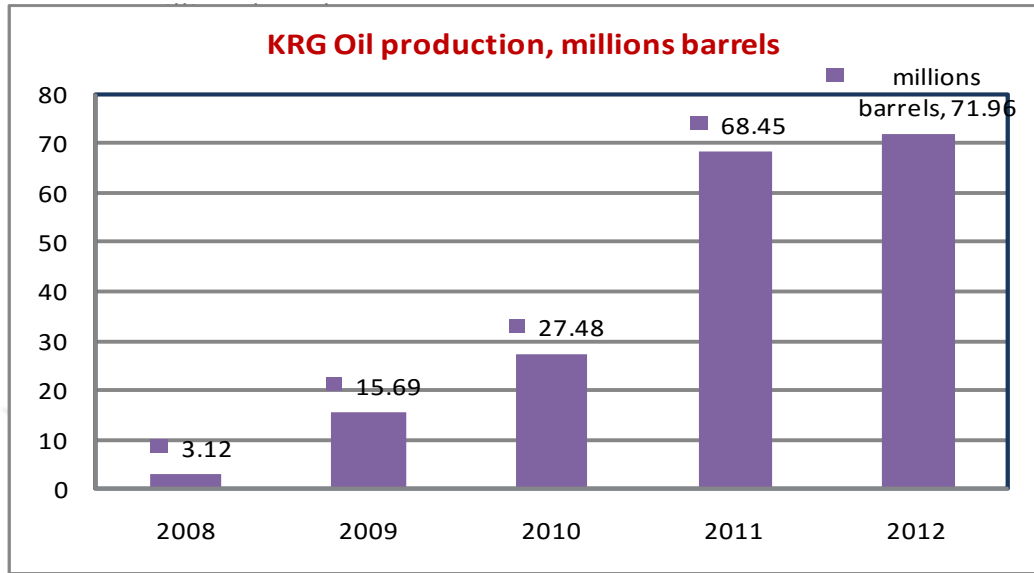
Today, the region is going through economic critical stage and difficult as a result of a number of reasons, including: lower oil prices and therefore revenue resulting from it, and the

differences between the center and region. A recession and a lack of liquidity, and worsening of debt of the Kurdistan Regional Government to foreign oil companies and commercial banks, and not to pay many of the employees of the Administrative Institutions and government employees' salaries since April 2015, and it for the not receive the region its share of the federal budget, and economic mismanagement as well as corruption.

Based on figure No.3 Indicates that oil production is increasing in KRG Especially in years 2011 and 2012, And in 2012 able to production of oil in 2012 to reach 71.96 million barrels.

With had emerged gradually oil investments in the region and successful production fields. And it was set up pipeline to export oil through Iraq's Kurdistan region at the linked to the Iraqi-Turkish border, with old in the pipe that connects the Kirkuk oil port of Ceyhan in Turkey. Since that time, have emerged new fundamental problems between the regional government and federal government about Calculation of the region's share of the federal budget, production capacity and sales and marketing of the oil produced from the region and legal prerogatives to both sides to act with oil of the region, and entitlements of foreign oil companies that operating. In the region, in addition to the issue of disposition of other financial resources like local taxes and customs duties and foreign aid and these issues, and others, are not resolved yet between the KRG and federal government (Qdure and Abdulla Badr 2015).

Figure 3 : KRG Oil Production Growth, 2008-2012



Source: ministry of natural resources, KRG, 2015

4.2 Public Finances in KRG during (2008-2015)

During the ruling of “Ayad Allawi” in 2004, the council of ministers approved that the Kurdistan region's share is 17% of the annual federal budget with this deducted sovereign expenses (the cost of the projects implemented by the central government for the region) and the settlement of the local revenue of the province of taxes and fees, and others. Usually this percentage of such expenses reaches to the (15%-20%) of the region's share. As we mentioned before, the first legislative elections in 2005 and approval of the permanent Iraqi constitution in the same year by the Iraqi people appeared problems between successive governments and KRG on this ratio, and attempts were made to reduce the KRG annual budget share to (10%-13%), but that did not occur for lack of precise figures for the population in the region.

The KRG annual share budget reduced year after year but for 2014 and 2015 due to the KRG cutting budget by the Iraqi central government and ISIS war and reducing oil prices which 95% of KRG budget depends on oil revenues, and also political instability and conflicts during 2014 and 2015 the KRG budget has not been approved by the parliament, that is why 2014 and 2015 revenues and expenditures are not available (Table 2).

Table 2: KRG: Share of KRG's government (2008-2013), 1200 IQD = 1\$

Years	Iraq Budget		KRG Share		% KRG Ratio
2008	\$	42,312,567,660.83	\$	6,357,319,166.67	17
2009	\$	42,006,846,532.50	\$	7,381,052,500.00	17
2010	\$	51,446,093,750.00	\$	12,480,000,000.00	16
2011	\$	67,445,658,750.00	\$	11,000,000,000.00	16.7
2012	\$	85,272,415,000.00	\$	10,500,498,333.33	11.02
2013	\$	99,413,885,913.33	\$	12,714,874,166.67	11.19
2014	Not Applicable *		Not Applicable *		0
2015	Not Applicable *		Not Applicable*		0

Resource: Iraqi Ministry of Finance, 2015

*In 2014 and 2015 due to the KRG cutting budget by the Iraqi central government and ISIS war and reducing oil prices which 95% of KRG budget depends on oil revenues, and also political instability and conflicts during 2014 and 2015 the KRG budget has not been approved by the parliament, that is why 2014 and 2015 revenues and expenditures are not available.

During these years Kurdistan economic has gone through two different circumstances, That according to official statistics, can say that KRG in the years 2008 to 2013 have to high incomes that year after year has increased and KRG could by using fiscal and economic policy provide the foundation of a dynamic economy and put its under serves to economic and infrastructure development, in the agricultural and industrial sectors and other departments and save the economic government to follow on the one sector. Though the government has managed to boom foreign investment and increase sales and production of oil products but has failed that put finding this section in the service of economic development and on the other hand wasting the country's revenues and sovereignty political parties on the state cause to financial slack and collapse political and economic system of the country in some resent year. And that led to weaken KRG economic unexpectedly in which government has obliged to reduce all public expenditures by the ratio of 80% which affects investment and person income. We could say that during 2013 to 2014 KRG economic growth was shrank to 49.5% of GDP and government revenues shrank from 87 percent of GDP in 2013 to 38 percent of GDP in 2014 reflecting multiple shocks. The contribution from tax revenues has remained small. The deterioration of government finances during 2014-2015 has dried government liquidity and slashed public investment. Government expenditures remained high despite sizable fiscal adjustment. Debt and arrears on payments of the Government payroll have mounted since 2014.

Table 3: KRG: Government Finances, 2012 – 2015 (% of GDP)

	2012	2013	2014	2015
Revenues (including oil)	78.7	87.3	37.8	55.8
Taxes	1.9	2	2.7	3.5
Social security contributions	0.5	0.4	0.2	0.3
Other revenues*	43.8	47.9	14.7	22.2
Total excluding oil	46.2	50.3	17.6	26
Oil revenues	32.5	39.4	20.2	29.8
Expenditures	79.8	89.2	49.6	58.1
Current expenditure	71.3	79.3	43.8	55.1
Wages and salaries	17.8	19.7	23.3	23.3
Social security benefits	6.8	9.1	7.8	6.9
Goods and services	10.1	9.7	4.8	5
Other current expenditure	36.6	40.8	8	19.9
Capital expenditure	8.5	9.9	5.9	3
Overall balance	-1.1	-1.9	-11.8	-2.3
Non-oil balance	-1.1	-1.9	-25.6	-22.4
Balance excluding oil and Fed.	-33.6	-38.9	-32	-32.1
KRG Debt	2.9	7.6	30	75.5
Arrears				36.4

Source: World Bank staff estimates

* Oil Derivation & Privatization Proceeds

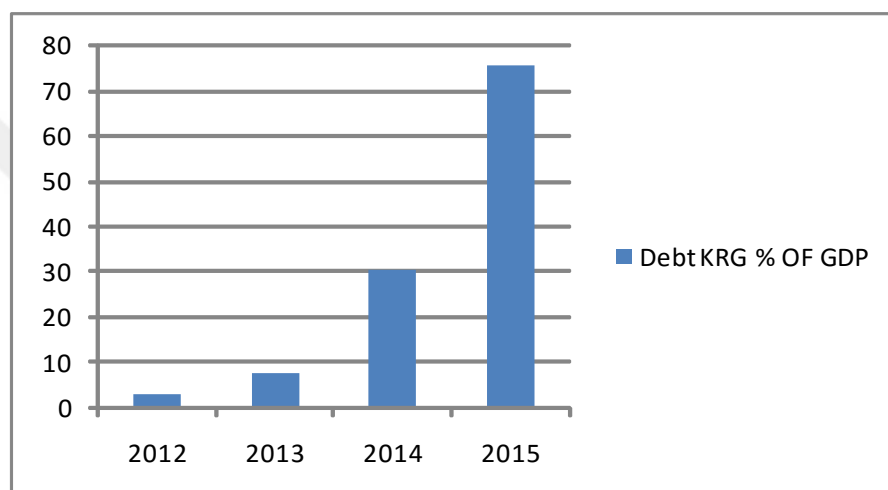
And government owes a huge amount of internal and external of money, Government expenditures fell from around 90 percent of GDP in 2013 to 50 percent of GDP in 2014 reflecting cuts on the purchase of goods and services, and payments to IOCs and contractors. and that is due to lack of economic policy and corruption in most of the governmental institutions and expending a lot of public money, with all these political and economical and international situation; like ISIS war, cutting oil prices, and political conflict between KRG and Iraqi government made the situation more complex which leads KRG economic to collapse (Table.3).

Fiscal policy means determining the financial resources of the state. Aspects spending and use the available mechanisms like the general budget, the tax system, the banking system and the insurance system in order to achieve them. The primary purpose of fiscal policy is to get economic development and social and positive impact on the national economy movement, and to achieve social justice in the distribution of wealth and income.

Debt is increasing rapidly. KRG's government debt reached about US\$17 billion at the end of 2015, of with accumulated arrears about US\$8 billion. The KRG planned to issue international bonds in the amount of US\$500 million, but this has not materialized. The Government is looking to sell some assets for serving the accumulated debt, including payment arrears. Still regulating of general budget in KRG is primitive, the distribution of the money on the basis of items and not have linked to development plans and indicators of economic and social (Figure.4).

Though the constitution and law of government finances and public debt emphasize to necessary foundations for the way to prepare the budget and distribution of resources and control implementation and need to have a link between the budget and development plan. And prepare the disclosures required by using funds, whether through prepare final accounts, or by detection cash flows, But all of that is not being applied, not by the executive branch at all levels and Nor by control regulators and especially the Kurdistan parliament, despite the confirmation of Financial Inspection Office reports.

Figure 4: KRG: Government Debt, 2012 – 2015 (% of GDP)



Sources: KRG, World Bank estimates.

4.2.1 Analysis of Public Revenue

At the beginning of this period 2008 -2013 regional revenues has been great development and more per cent increase is in 2013. however, the amount of KRG's share of federal government is according to table 2 is 11.19% but high oil prices and collecting internal revenue of services and oil by KRG and its cause increasing overall revenue to us\$ 12,714 billion.

So there is a great change in KRG revenue between 2008 to 2013, as it shows that KRG revenue form 2008 till 2013 considerably increased with the ratio 12%, but in annual growth rate 2008 till 2012 KRG has revenue considerably increased in 2013 by the ratio 21% .(table No. 4)

Table 4: KRG: Rate of KRS's total revenues %, (2008-2013), 1\$=1200 IQD

Years	Total Revenue	Average Growth	Annual Rate Growth
2008	\$ 6,357,319,166.67	11%	0%
2009	\$ 7,381,052,500.00	13%	16%
2010	\$ 8,830,980,000.00	16%	20%
2011	\$ 10,321,420,000.00	18%	17%
2012	\$ 10,500,498,333.33	19%	2%
2013	\$ 12,714,874,166.67	23%	21%

Resource: KRG Ministry of Finance, 2015

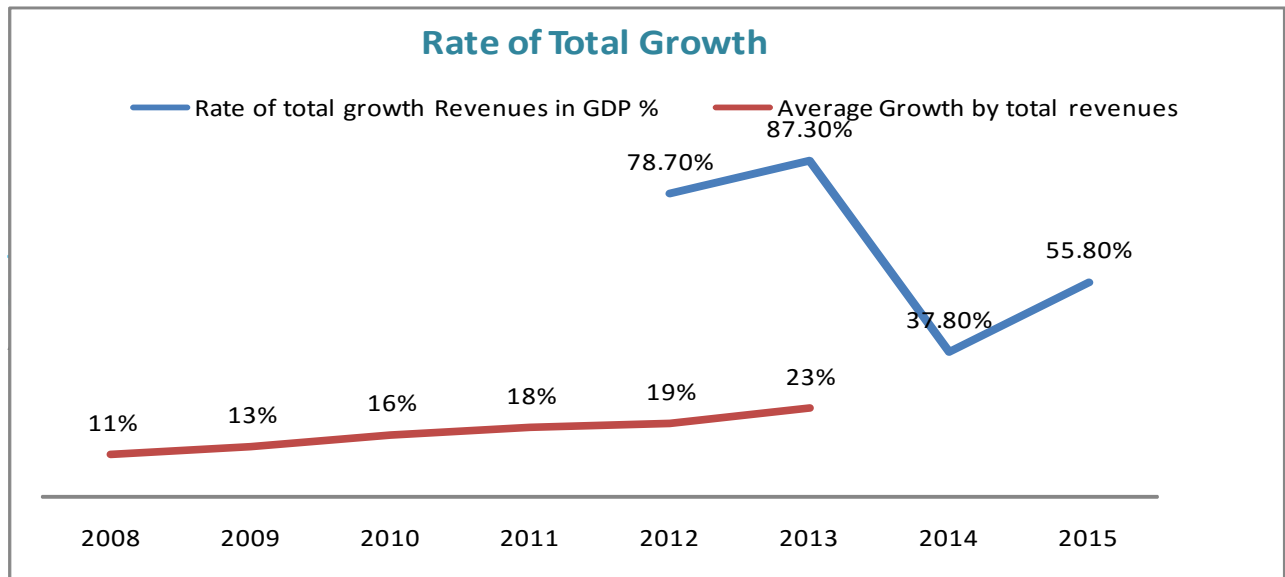
There we can say in the KRG, what is the role of fiscal policy that is a push promoting economic and social development and positive impact on the national economy movement, and to achieve social justice in the distribution of wealth and income?

Based on figure No.5 we saw the growth line of total revenue between the years (2008-2013), is uptrend and with this according to government statistics we can see a growth in level of each in population, industry, tourists, labor force, forecasts to life, agriculture, consumer price, foreign trade but all of them dependence on one sector like sale oil, Under the circumstance where no agreement has been reached with the central government on the oil revenue sharing and the budget transfer, oil economy has a predominant role in KRI: about 45 percent of all value added and more than 90 percent of all fiscal revenues are estimated to be generated by the oil sector. As such, the economic and fiscal dependency on oil is deeper than that of economies with much higher natural resource potentials.

now duration in (2014-2015) the KRG's economic above the big economic and financial crisis with shrank rate of total revenues in 87% in 2013 to 37% in 2014 with increases debt to 75% of GDP in year 2015. with out to have any sector to replacing oil sector so we can say the KRG's fiscal policy is not could to operate another sector to growth national economic.

First, the revenue volatility faced by KRG is much higher than what other resource-rich economies face. In addition to oil price fluctuations, KRG's revenues suffer disruptions that stem from the conflict with ISIS and disagreements with Baghdad. For instance, KRG received only US\$1 billion of its US\$12 billion share from the federal budget in 2014. Second, as a region within a federal structure, KRG is credit-constrained. Therefore, it is unable to close its financing gap. As a result, KRG has accumulated large arrears with domestic creditors and international oil companies in recent years. Third, KRI's future revenue stream is obscured by political and legal uncertainties. The relationship with Baghdad, the status of regional conflicts, and low public revenues has significant effects on KRG's fiscal inflows.

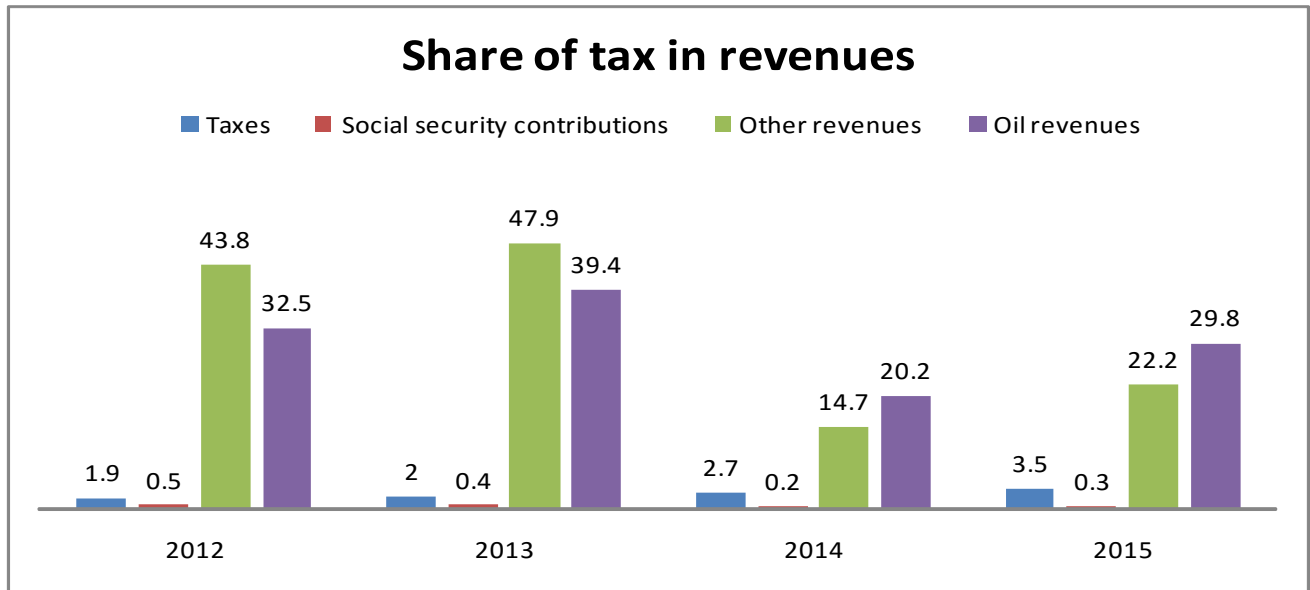
Figure 5: KRG: Increasing and Decreasing of Total Revenue Rate. 2008-2015



Resource: Relying on data from the table No 3&4.

Collecting Kurdistan region's national income and calculating in the budget is not transparent with the big amount of other revenues which reaches 29.8 % of GDP revenues in 2015, and this indicates that Kurdistan Region politically, finance and economically, and also legislative authorities and planning in not successful and based on the available data in the figure No. 6 from years 2008-2015 the government from tax and customs could have collected small amount of income which reaches 3.5% of total revenue on GDP% in 2015. And income of tax and customs were less than social security contributing, oil and other revenues (Figure No.6).

Figure 6: KRG: Share of tax in total revenues, 2012-2015



Resource: Relying on data from the table No 3.

4.2.2 Analysis of Public Expenditures

Based on KRG statistic in 2015 Kurdistan region's population is 5,722,436 people and till 2013 its public budget was between 10 to 12 billion dollar, though it faces annual budget deficit, and this indicates that public expenditure is very high in Kurdistan Region especially operation expenditure which contains most of the governments public expenditure compared to investment expenditure, with all that till now Kurdish society is a consumer community and it is far away from economic science and specially from investment and taking care of developing national economic.

That KRG public expenditure is increasing year by year, which in general for the selected six years in the table increased by 13%, in which most of the expenditures were for operational expenditures that amount 69% but share of investment expenditures is 31% in the year 2013 (Table 5 & 6).

For the years 2014 and 2015, in which the annual budget has not been approved and government started economic reform policies which include reducing government expenditures and Based on the ministry of finance formal website. Government could have reduced 80% of the public expenditures in which mostly is reducing government employee's salaries.

A rapid rise in government spending without an appropriate response from the local production system and cause to growing inflationary pressures that have left clear traces on the movement of domestic production and that government spending has continued increasing especially it's clearly shows in the budgets 2010 and 2011.

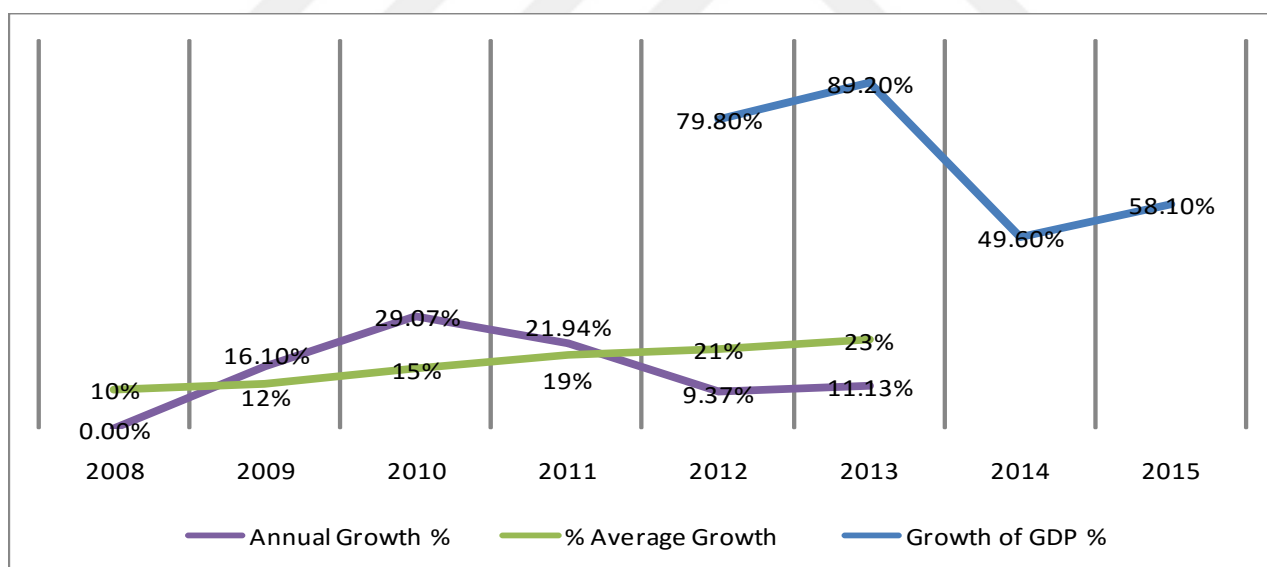
Table 5: KRG: Growth of Government Total Expenditure, 2008-2013, Unite US\$1= 1200 IQD

Years	Total Expenditure	Average Growt %	Annual Rate Growth
2008	\$ 6,357,319,166.67	10%	0.00%
2009	\$ 7,381,052,500.00	12%	16.10%
2010	\$ 9,526,813,333.33	15%	29.07%
2011	\$ 11,616,666,666.67	19%	21.94%
2012	\$ 12,704,831,416.67	21%	9.37%
2013	\$ 14,118,957,500.00	23%	11.13%
2014	Not Applicable		
2015	Not Applicable		

Resource: KRG Ministry of finance, 2015

And as illustrated in figure No.7 that the public expenditure liner is going up and we can see increase expenditures year after year by line of rate in increase on expenditures.

Figure 7: KRG: Growth of Total Expenditure and Expenditure of %GDP, 2008-2015



Resource: Relying on data from table No 3 and 6.

Government finance policy for all three years 2010 till 2013 KRG has faced budget deficit and the deficit has increased. In this case the economic policy and especially finance policy has to fulfill this deficit by using finance policy methods such as decreasing expenditures or increasing public income and developing national products, and if government couldn't be able to fulfill the deficit by using finance policy methods, it faces external loan so as the government will be able to use this loan for increasing national products in the country.

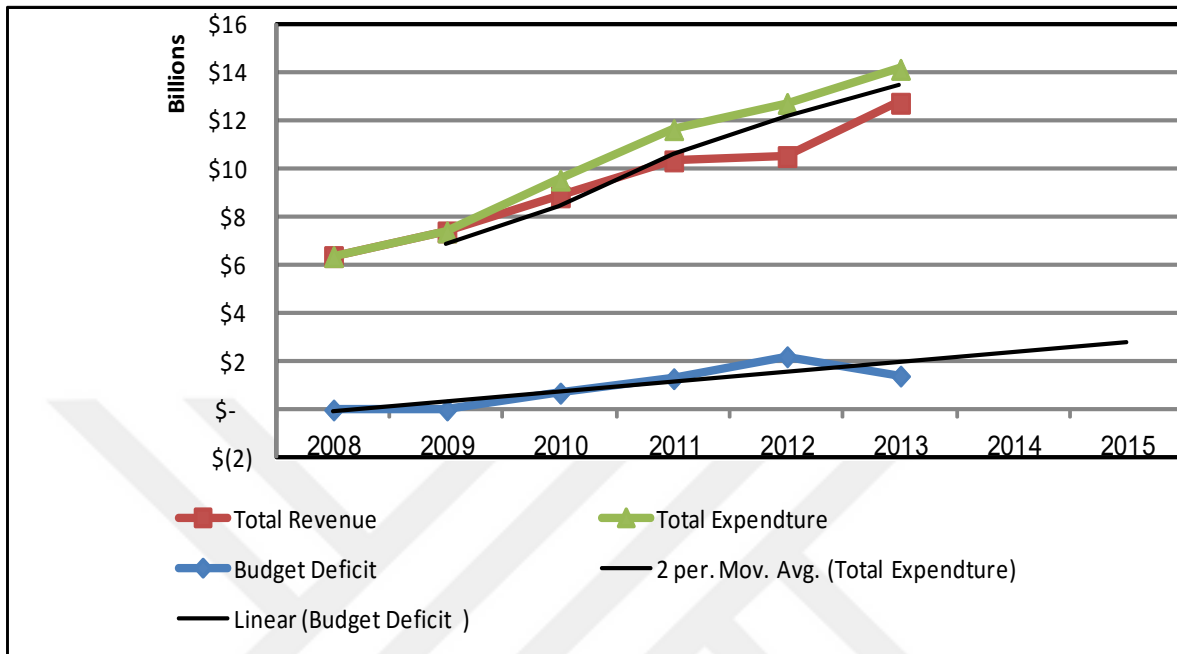
Based on table No.6 and figure No.8 which contains both total revenue and expenditures from 2008 to 2013, it shows that KRG finance policy couldn't make equality between public revenue and public expenditures and also face budget deficit from 2011 till 2013, despite that 2014 and 2015 KRG budget has not been approved due to the factors that have been discussed earlier in this research, which brought KRG to a huge economic and finance crisis, in which at the present time KRG owes 20 billion dollar. And we can see the uptrend line in for each of total expenditure and budget deficit especially years 2011 till 2013 and according to table No.7 this increasing further related to both of operating expenditures and investment expenditure with different rate.

Table 6: KRG: Budget deficit of KRG, US\$ 1=1200 IQD (2008- 2013)

Years	Total Revenue		Total Expenditure		Budget Deficit
2008	\$	6,357,319,167	\$	6,357,319,167	\$ -
2009	\$	7,381,052,500	\$	7,381,052,500	\$ -
2010	\$	8,830,980,000	\$	9,526,813,333	\$ (695,833,333)
2011	\$	10,321,420,000	\$	11,616,666,667	\$ (1,295,246,667)
2012	\$	10,500,498,333	\$	12,704,831,417	\$ (2,204,333,083)
2013	\$	12,714,874,167	\$	14,118,957,500	\$ (1,404,083,333)
2014	Not Applicable		Not Applicable		
2015	Not Applicable		Not Applicable		

Resource: KRG Ministry of Finance

Figure 8: KRG: Increasing Budget Deficit with Growth of Total Revenue



Resource: Relying on data from the previous table.

Already we discussed the phenomenon of increasing public expenditure, as we said the phenomenon of increasing public spending may return to the real and virtual reasons and in KRG both of them have a big role to cause on increasing the total expenditures.

it is necessary the KRG to act in financial resources at rational and transparent high pour into the service of development. According to table No.7 we can see the KRG's policy for general expenditure is in favor investment expenses because rate of growth on investment expenditure between 2009 till 2013 is equal to 14%, but this growth for operating expenses equal to 10%, as shown in figure No.9 the both of investment line and operating line moved in close together but the line of investment faced with more changes. And KRG must follow this policy in the larger size and reducing operating expenses and instead increase expenditures of investment.

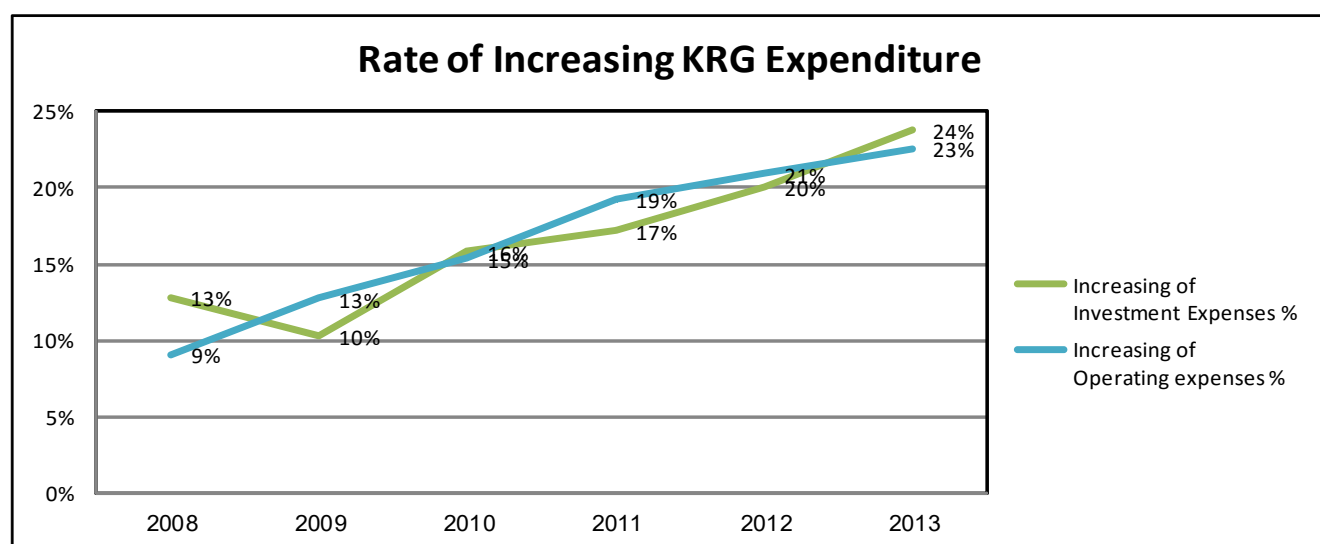
Table 7: KRG: Share Of Investment and Operating Expenses Of Total KRG's Expenditures (2008-2013), US\$ =1200 IQD

Years	investment Expenses	Operating Expenses	Total Expenditures	Share of investment %	Share of Operating %
2008	\$ 2,399,232,500	\$ 3,895,701,667	\$ 6,294,934,167	38%	62%
2009	\$ 1,919,448,333	\$ 5,461,604,167	\$ 7,381,052,500	26%	74%
2010	\$ 2,952,561,667	\$ 6,574,251,667	\$ 9,526,813,333	31%	69%
2011	\$ 3,210,000,000	\$ 8,247,250,000	\$ 11,457,250,000	28%	72%
2012	\$ 3,750,000,000	\$ 8,954,830,833	\$ 12,704,830,833	30%	70%
2013	\$ 4,444,825,833	\$ 9,674,131,667	\$ 14,118,957,500	31%	69%

Resource: KRG Ministry of Finance

Even allowing for security issues and the fact that one-in-three of the residents of the KRI are students (therefore a large number of teachers is justified), a disproportionate share of the labor force is employed in the public sector (around 680,000) which corresponds to 11.6 percent of the total population employed in broad public sector (including military and police) and 8.3 percent employed as civil servants. The international norm for civilian employment as percentage of population ranges from 3.5 percent to 6 percent respectively for low and middle income countries and is around 5 percent for the Middle East and Central Asia region. The share of public sector employment increased from 42 to 44 percent between 2007 and 2012, and went up to 46 percent in 2014. On average, between 2007 and 2012, KRI added approximately 32,300 jobs per year in the private sector and 31,900 jobs per year in the public sector. In contrast, in the 2012-2014 periods, the private sector lost jobs at the rate of 13,000 per year, while the public sector added jobs at the rate of 17,000 per year (World Bank grope 2016).

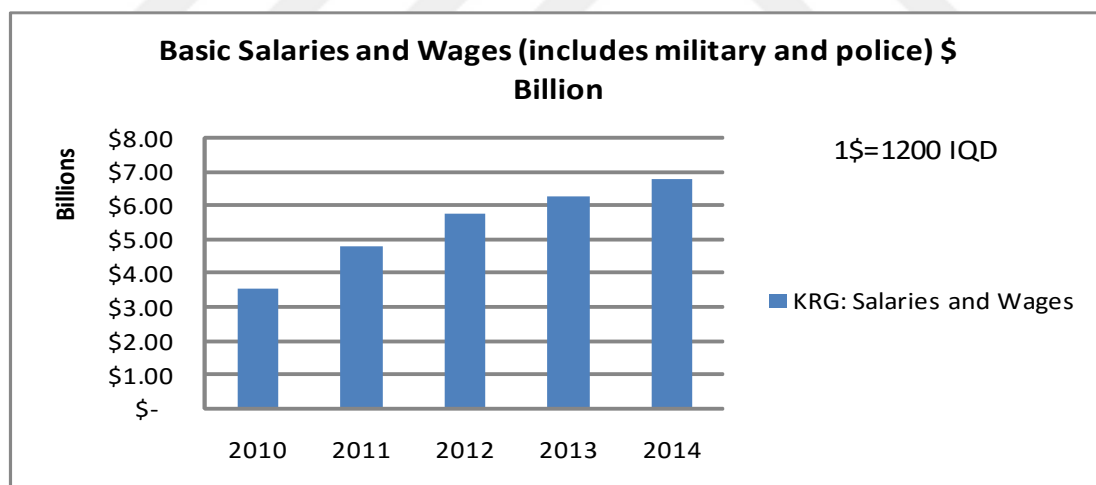
Figure 9: KRG: Increasing Rate Of Investment Expenses And Operating Expenses 2008-2013



Resource: Relying on data from table No 8.

Until the recent cuts in public sector wages and the emergence of salary arrears, the expansion in public sector employment has been accompanied by an increase in earnings among public sector employees, from already high levels compared to the private sector. The initial conditions in KRG are extremely challenging in terms of the size and compositions of public sector employees, the de facto role of government employment as a social safety net, its weak administrative capacity and the lack of systems to carry out operations, and evidence-based analyses. KRG's wage bill is rather high. In 2012, public sector employees earned 30 percent more than private sector workers, excluding benefits. Within the public sector, men earned, on average, 20 percent more than women in 2012. Given the sharp reduction in government revenues and oil prices, public sector wages have become a substantial financial liability that limits the ability of the KRG to make critical public investments and deliver services effectively. This situation is compounded by large un-targeted subsidies, which create dependence, discourage hard work and crowd out productive public expenditure. The KRG provides untargeted subsidies in a number of areas, from electricity to food to social welfare payments. These end up benefiting people who do not need assistance and reduce the ability of the government to fund services that will not only benefit the poor but will benefit all of the KRI through enabling a growing economy (world bank grope 2015).

Figure 10 : KRG Public Sector Salaries and Wages, 2010 - 2014



Source: KRG annual budget figures & world bank (2010-2014).

4.3 The impact of fiscal policy on the important variables during the period (2008-2015).

4.3.1 Consumer Prices and Inflation

Experienced THE CPI (consumer prices) in KRG's markets is increasing year after year till 2014 with rate 150% according to table No.8 we can see a different rate duration 2008-2015, with the lower rate 126% in year 2009 and highest rate in 2014 and inflation as a function of CPI have to move between lower rate -3.8% in 2009 to the maximum rate 7.8% in 2012 for a previous year.

Table 8: KRG Consumer Prices and inflation rate 2008-2015

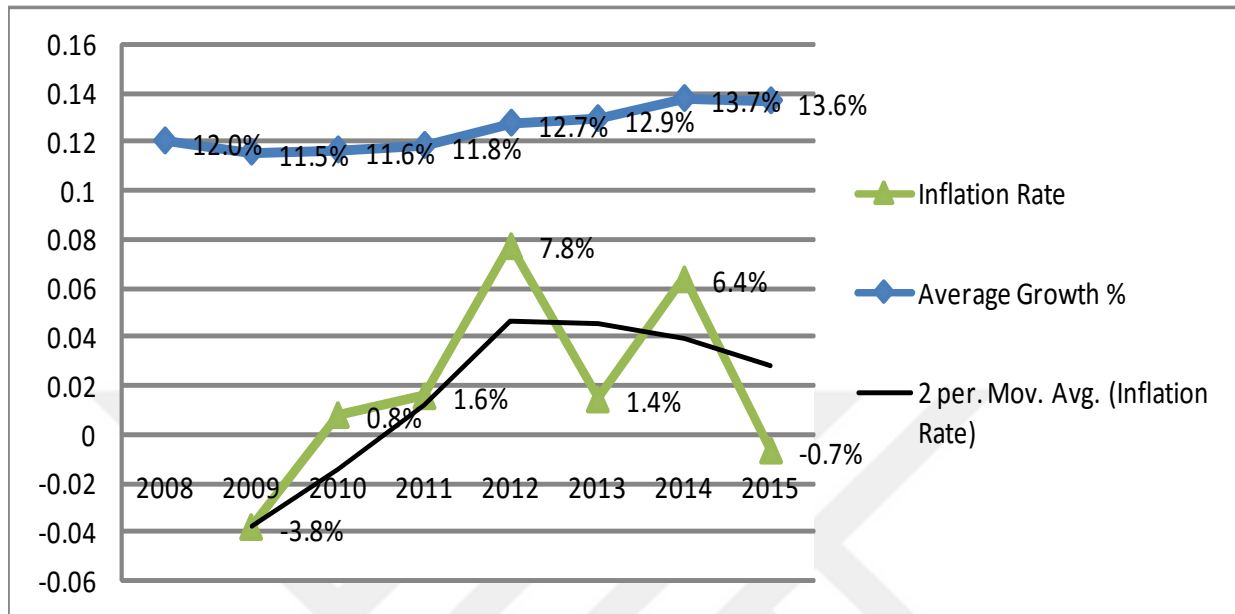
Years	consumer prices /CPI	Inflation Rate
2008	131	
2009	126	-3.8%
2010	127	0.8%
2011	129	1.6%
2012	139	7.8%
2013	141	1.4%
2014	150	6.4%
2015	149	-0.7%

Resource: KRG Ministry of Finance

So the government can be use tools of fiscal policy for treat gap of inflationary and contractionary and required to reduce aggregate demand in order to reduce cash income to reach the level of full employment it can be done by contractionary fiscal policy tools like reducing government expenditures and increasing tax. But economic policy for the treatment of deflationary gap is required to increase aggregate demand in order to increase income up to the level of full employment and can be done by expansionary fiscal policy tools like increasing government spending and cuts tax. According to figure No.11 we see the average growth line of inflation is uptrend in 12.0% to 13.79% in 2008-2015.

The exchange rate peg to the US Dollar and government controls of electricity, fuel and basic food prices have been key factors containing inflation during 2010-2015. Consumer price inflation was 3.7 percent on average during 2012-2014, and it fell to 0.8 percent in 2015 from 3.9 percent in 2014 (world grope 2015).

Figure 11: KRG: Rate of inflation during 2008 till 2015 in KRG



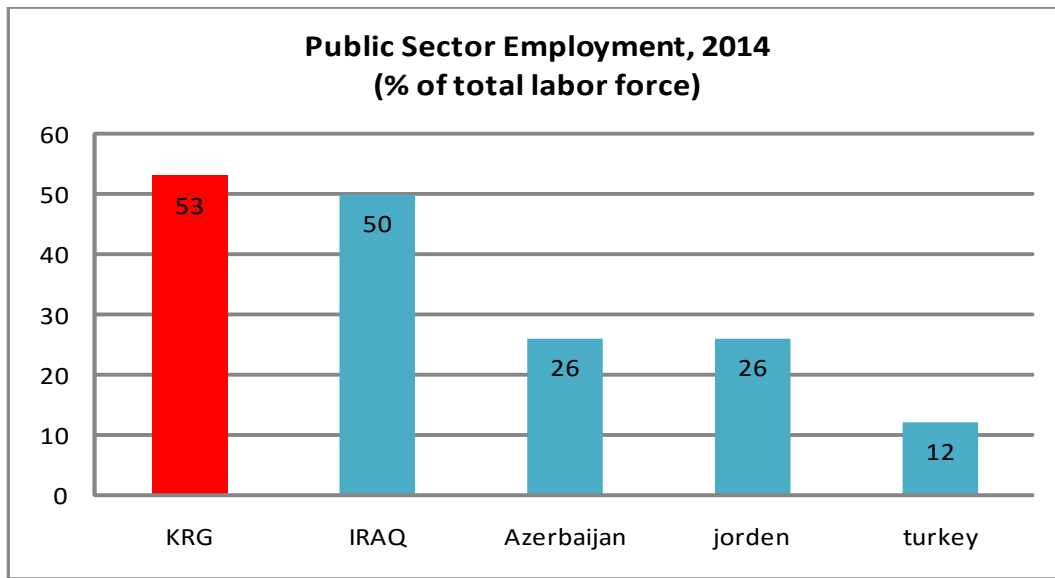
Resource: KRSO, KRG's official statistical

4.3.2 Unemployment Rate and Operating Rate

Job creation has not kept pace with the growth in the labor force and new jobs are increasingly being created in the public sector rather than the private. Between 2007 and 2012, more than 750,000 new jobs were created in Iraq, more than 80 percent of which were public sector jobs. Consequently, the share of public sector employment (which includes public administration, and other public sector jobs in education, health, utilities and other services) increased from 42.4 percent in 2007 (already higher than the national average of 34.7 percent in 2007) to 44.3 percent in 2012 (national average was 39.1 percent) and further to 53 percent in 2014 (Figure 12).

The Government should be reversing this trend by supporting private sector-led job creation which has the potential to reach many more of the poor. In 2012, 73 percent of the employed urban poor (primarily in construction, commerce and retail, and transport, storage and communication) and 78 percent of the employed rural poor (primarily in agriculture and construction) worked in the private sector (world bank 2015).

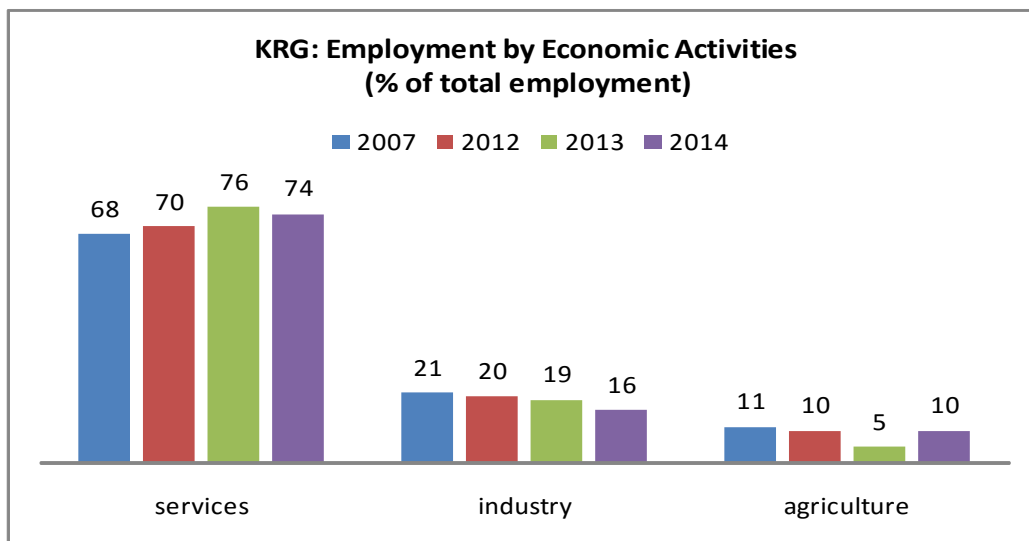
Figure 12: KRG: KRG's Rate Of Public Sector Employment In 2014 In Total Labor Force



Sources: KRG Labor Force Survey and world grope.

According to the economic division for the number of employees in KRG we can see a high rate of employment in KRG's government in services part that in the formal include more a government sector and the rate is upgrade to 74% in 2014 and While in the agricultural sector and industry sector this rate is not more than 16% in 2014, this suggests that most employees are consumer and small proportion of them work in the manufacturing sector. (Figure No. 13)

Figure 13: KRG: Economic Activities Classification for KRG's Employments 2007-2014



Sources: KRG Labor Force Survey.

Moreover Official statistics show that the average unemployment in 2012 is 7.90 that highest percentage of unemployment rate related to women in every 3 years And this difference increased in 2014 to 17% so KRG to decreasing rate of implement can be use the monetary policy like cutting interest rate to boost aggregate demand and can be use fiscal policy like cutting taxes to boost aggregate demand moreover by Education and training to help reduce structural unemployment and Geographical subsidies to help firms invest in depressed areas and Lower minimum wage to reduce real wage unemployment and More flexible labor markets, to make it easier to hire and fire workers (Figure 14).

Figure 14: KRG: Unemployment Rate Of KRG 2012-2014



Resource: KRSO, KRG's official statistical

4.4 KRG's Economic Reform

4.4.1 KRG's economic situation

Economic According to all of data that is given in this section, the KRG's income resulting primarily from the export of oil and its derivatives, and can see the severe weakness in the economy of the region and even diminishing, to contribution of agriculture and manufacturing industry in the formation of national product. The available official figures refer to a modest contribution to these sectors in the total output and a manner not commensurate with the financial resources and available the large non-financial, at 2012 Iraq into a whole level, the agriculture and manufacturing contributed to ratio 5.8% only of GDP.

The relatively stable security environment has allowed economic progress in the KRG before 2014. After achieving a semi-autonomous status in 2005, KRG's economy expanded every year and its real economic growth rate was about 8 percent in 2013⁸ driven primarily by oil production. In the past few years, construction sector has been an important source of growth followed by agriculture and services. These relatively high economic growth rates have been supported by large public spending especially by a large capital spending. And nominal GDP increased from ID 20,954 billion in 2008 to ID 28,320 billion in 2011.⁹ Per capita nominal GDP was US\$4,452 for KRG in 2011 recording an increase by 12.1 percent between 2008 and 2011 (world bank report 2015).

And now the KRG is engaged in a difficult political and financial crisis that began of 2014 by cutting the share of budget from federal government and coming ISIS and on the other hand falling oil prices with spread of financial and administrative corruption and dominance of the party authorities, on the government and together all of them cause to:

- withdraw capitalists from government
- The failure of commercial and civil projects
- Increasing unemployment
- Lack of cash in the hands of people
- Low prices domestic currency
- Reduction of foreign and domestic tourists
- Reduce trade exchange
- Reduce Government spending on economic infrastructure
- Decreased government services
- Increased Youth desire to migrate
- Increased conflict between people against lack of government services
- Increased government spending to deal with the terrorist group the Islamic State
- Increased government spending to help the Syrian and Iraqi refugees
- Decreased KRG total revenue.
- Decreased gross domestic products (GDP).
- There is a conflict and political and financial problems at home and abroad.

4.4.2 Acts to Achievement Economic Reform

On one hand increase in government spending and on the other hand decreased total revenue year by year and the fight against ISIS and financial disagreements with the federal government addition of this increasing internal and external borrowing money forced the KRG to be having a planning for financial and economic reform. But how can KRG success on this process and which acts and activities need to use to achievement economic reform? According to all of data and numbers of all of surcease that used above, and according to planning of KRG with the IMF, the KRG's government can be following these acts:

- Reviewed the Public sector employment, the size of the public sector workforce is unsustainable. Many public sector employees do not have adequate training or skills appropriate for the private sector. Productivity is low and performance incentives weak. A significant public sector pay premium exists which discourages searching for private sector jobs.
- Reducing the public sector salaries and wages, the public sector salaries and wages is excessive and share of wage, including pensions consume about 70 percent of the KRG budget so Government should be taken austerity measures on wage bill.
- Review delivery prices and costs, ensuring the cost recovery in the provision of goods and services, the reform will include reviewing of the size of employment, accountability in the delivery of products and services, and accountability in the management staff.
- Review the rate structure and composition of taxes to determine the appropriate tax system for KRI and created a highly limited tax enforcement agency. Raise the tax rates, the share of tax in total revenues is small (figure 6). Strengthen controls to reduce informality and improve compliance. Set up a well-staffed taxation unit that is capable of managing the tax system and enforcing the tax laws effectively. The current system of presumptive taxation is appropriate at this time. Develop a modern tax system for the longer-term that introduces self-assessment, initially for large tax payers, and other taxes such as sales tax, and VAT.
- Renewal the agricultural sector and growing proportion of participation on total revenues, and make the extension services, give information to farmers on new technologies. Suspend and give the benefit of the ultimate beneficiaries of the research and farmers and make the research centers and services information, decreases the cost of production and creation customs policies logical to protect domestic production.
- Development of the tourism sector, after a boom at the beginning of the decade, tourism has plummeted due to the political crisis in the region: the number of tourists has dropped by almost 50 percent between 2013 and 2015. So KRG should to make tourism strategic plan with include the improve the legal framework for licensing of travel agencies and tour operators and improve the quality of services through the

adoption of a quality certificate and remove the main regulatory and non-regulatory constraints for private sector that have been identified by the assessment.

- Develop an annual budgetary process covering all ministries departments and agencies under the KRG; submit to regional parliament for approval and publication. Develop a medium term fiscal framework and in due course a medium term expenditure framework to guide annual budgeting, and the establishment of a regional stabilization fund and Improve budget classifications in accordance with government finance statistical manual (GFMS) and Implement a system of commitment control and reporting, with detailed spending estimates.
- Improve Public investment management and capital investment project design, appraisal and selection. Management KRG faces the problem of allocating scarce resources towards competing priority needs. KRG should look into alternative financing of the capital investment budget to finance the infrastructure needs. Triage of the existing stock of stalled projects should be conducted.
- KRI has the chance to develop strong institutional framework, including an independent judicial system, which is a key for property rights and market system, and private sector growth.
- KRG does not have a comprehensive strategy regarding the type of investment it wishes to attract and the policies needed to do so. Currently, the law provides very generous tax breaks for investors, but there is little information available to assess whether these incentives align with the needs of investors, and of whether these incentives are supporting Government's strategy.
- Review trade sector and improve services and goods export promotion renewal customs information systems, and while maintaining employment for residents earning their living in the transit trade business.
- Improve oil sector, oil opportunities are not properly materialized. KRG has limited refining capacity and imports products for domestic consumption. KRG will need to develop regulatory reforms with a focus on contractual and commercial framework governing existing and future activities; enabling conditions for attracting investment; legal and regulatory reforms including pricing, subsidies, and fuel standards; enabling measures for increasing refining capacity (including refurbishment of existing units), optimization of import arrangements and fuel substitution.

4.4.3 Development limitations In KRG

Iraqi Kurdistan Region's economy needs a number of reforms and structural changes. Thus there is a need to form a team of academics and owners of expertise in the field of development and economic and social development and planning, and the diagnosis of the economic status quo and setting goals to be achieved in real time and landing development restriction like:

- The Lacked region contracts with foreign oil firms operating in it to high transparency. It was conclusion these contracts on the basis of participation in the production, which constitute a significant Inequities against The region and Iraq. According to some preliminary data, these contracts give those companies, for a long time has been more than 20 years, the share of high profits from oil extracted, And also participate in the ownership, low-cost, versus the development of oil fields in the region.
- The lack of a transparent vision and a clear strategy in a comprehensive and sustainable national development process, In addition to the opening up the uncontrolled market economy at the expense of retreat and weak performance of the public sector in the reconstruction process (infrastructure And modern technology), And diversity in the economic activities and financial resources of the region.
- The region is characterized by the small size of its local market which it represented, and its population is about 5 million people, it is about 14 percent of Iraq's population, which was estimated at about .33.4 million at the beginning 2013 And about 35 million people, at the beginning 2015 (KRG Bulletin Ministry of Planning).
- Thereby limits the extent of the economic development sectors. However, the excessive dependence on the import of foreign goods dumping the local markets and declining domestic production, and make gross domestic product is unable to withstand competition of foreign imports in terms of price and quality.
- Have large controlled by Turkey, Iran and China with rate 90% of the Kurdistan regional market, a rate 35%, 25%, 30% each of them, respectively. The volume of trade (which consists of the sum of the values of import and exports) between Iraq and Turkey in 2013 has reached 12 billion dollars, 70% of it with Kurdistan region (8.4) billion. And with Iran it reached 12 billion dollars, 50% of it with KRG (6 billion dollars), thus, the volume of imports (which may also include a transit trade to the rest of Iraq) from these two countries up to 14 billion dollars in 2013. While don't Increase KRG exports to them, oil and energy, for 100 million dollars annually, and reflect imports figures show us that this performance can be create a negative impact not only in the wasted foreign currency and financial resources in the region, but also in the leakage of the national resources of the local economic cycle and thus its contribution to stimulate foreign production rather than domestic production (Muwaffaq Mohammed 2014).

- Aggravation of unemployment, especially among young people. This ratio amounted about (25%-30%) of the total labor force in 2015, (KRG, Ministry of Labor and Social Affairs) due to the economic recession and the financial crisis afflicting the region and Iraq in general, lower oil prices and an unstable security situation as a result of the ongoing war with the (ISIS), prompting many foreign companies operating in the region to lay off large numbers of workers.
- Heightened social polarization and increasing gap between rich and poor people, and this matter is reflected in the growing concentration of wealth in the hands of influential groups in the top of the pyramid of party and administrative general which control in determining the general economic trends.
- Weak contribution of the tax system and customs duties in the local financing budget due to the spread of financial and administrative corruption in the its organs and the lack of public scrutiny, and difficulty of collection, and weakness of the control of the competent departments in the organization of its affairs, with the dominance of the party and the tyranny of the authorities in their affairs. On the other hand, there are obvious weakness in the performance of financial legislation and development of the tax system and financial institutions, especially the banks and sinks and insurance companies, and multiple accounting systems in public and private institutions. There is also a weak and limited the sources of qualified manpower and evolving, and do not put the right man in the right place with the necessary expertise in the production process.

5 Summary

According to the study it can be said that KRG do not succeeded in implementing fiscal policy to achieving economic reform. And Government in the years of 2008 to 2013 has become to Consumer economy that more of public spending expenditures in KRG has to operating, and the investment sector compared to operating sector is very low. And the policy has been used in KRG for sector of economic development at the period 2008-2013 are more on the construction and housing sector and forgotten other sectors that have been important to improve Infrastructure like agriculture and industrial. And in the years 2014 and 2015 KRG's policy to face financial crisis and economic recession that have been in some results like cat of KRG's budget share, ISIS fighting and dropping oil prices is the decreasing in expenditures but according to fiscal policies in the decoration status government should to be use expansionary fiscal policy and tries to increase the volume of aggregate demand in the country by increases government spending and reducing tax rate, increase government spending in order to increase economic activity when the economic activity in the private sector slows down, increasing direct payments to consumers by tax refunds. Expansionary fiscal policies are usually accompanied by expansionary monetary policies like purchase of bonds from persons or government to Increase the monetary base and money supply, and reducing interest rates and increasing money supply in money markets thus making access to money easier.

But KRG's government can't be using this police because the recourses of KRG'S revenues are just selling oil and oil cannot be accountable for government spending.

6 Results

The degree of success and failure of the economic reform program differed from case to case, this difference reversed efficiency in the application, sufficiently in the environment, economic, social and political surroundings, unity of economic difficulties, the extent of skeletal abnormality, recipes for the proposed Fund and the World Bank, and the situation of the global economy taken as a significant factor in this context.

At the overall level and in the short-term, medium and long, limited balances achieved on the account imbalances in some of the other variables (e.g. operation of the power level available Or avoid important aspects competitor, and physical investment in infrastructure, the real sector and the social dimension). In the context of openness and globalization, the private sector is the main engine of growth, the spectrum operations and the mechanics of the private sector should be free from all obstacles and brakes complex bureaucracy. And the private sector requires human resources, high efficiency and with facilities advanced administrative to benefit fully from the opportunities of globalization and economic openness.

And necessary to take into consideration the financial capacity, competitiveness and institutional private sector and the social impact by the privatization of public enterprises.

Improve oversight or governance by government transparency; facilitate the procedures, responsibility and the fight against corruption.

So fiscal policy has an important place in contemporary economic policy, where the state has become a tool for the guidance and overseeing the economic activity and prevents the stages of recession and inflation and so according to this study we can have same results like:

- KRG need to review the fiscal and monetary policy in basis of the fund's policies and international bank, total expenditures and revenues an taxes because monetary and fiscal policy is more than just control domestic credit and liberation Or financial openness and achieve the increasing total demand and gross national product (GDP), specifically in the economic situation of the Government of the Region (KRG).
- When dealing with fiscal policy tools show us that the general revenues of public expenditure as well as the general budget has a role to is effective in modifying the economic and social structure.
- Lower economic growth, increasing 1.80% of unemployment rate in 2013, increasing 6% of inflation rates in 2014 and 2015, however, strong economic growth between 2008 and 2013 was accompanied by very modest declines in poverty within the KRG.
- Very huge rise in the amount of government expenditure in the period studied.
- The social situation has Unfavorable through the 2014-2015 due to government policies to lower operating expenses and as especially in terms of salaries and wages cut by 50 percent.

- According the time that been studied Government economy Moved in two different periods of time, in 2008 to 20013 KRG's economic was developing In the sectors of construction, trade and foreign investment and also In terms of economic efficiency and prosperity of the people It was so good, but in terms of fiscal monetary policy and economic development policy with including all sector, was low and at this time despite with vast budget from the federal Government of Iraq, KRG owner a big amount of internal revenues but not considered to annual budget and all of this revenues was used for partisan interests.
- In 2014 till 2015 the economics of KRG dropping with height level and KRG Was facing to suddenly problems and most notably are the emergence of ISIS, cut the share of Kurdistan from the central government budget dropping oil prices as well as political and administrative problems at home and abroad.
- During this period, the government tries to reducing government spending to adjustment fiscal and monetary policy to achieving economic reform and KRG successes to decreasing total expenditure to rate 49% in 2014 and 58% in 2015 in GDP%, but this policy is not accordance with the financial and economic policy because reducing in total revenues the KRG has be forced to reduce the total expenditures.
- According the time that been studied KRG's government cant to improve sector of agriculture, foreign trade , industry and other sector that can to bee participation of increasing of total revenues cause total revenue in total sectors without oil sector is 17% in 2014 and 26% in 2015 in GDP% .
- Customs and tax gains In KRG's budget are too low (3.5% in total revenues of GDP% in 2015) and couldn't Government succeed in collecting revenues from this sector.

At the end is required to use rational and transparent policies on all aspects of political, economic, social and administrative..... Etc, and remove multi aspects backwardness by changing economic and social infrastructure and removal the conscious and sustained imbalance in current structure.

Work to increase the financial resources of the Kurdistan region and channeled to support the regular budget and the budget of investment development and support the laboring classes of the population and reliance on it during the initial stages on increasing oil resources. In addition, need to invest the rest of the primary resources to reduce the role of oil in the long term. Development of scientific research centers and technology to strengthen relations with the science and technology institutes in the developed world, as well as linking these institutes and scientific research centers with institutions, economic enterprises, universities and colleges.

Work to development of energy production and manufacturing industries, especially electronics industry and Precision machinery and oil derivatives and petrochemical industries as well as agro-industries for the development of food security.

Put a program to administrative reform and fight against to financial corruption and administrative and cronyism and clienteles and narrow partisanship.

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