



The Role of the Relationship Between Fiscal Discipline and Exchange Rates in the Iraqi Economy (2004-2022)

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Abstract: The relationship between the exchange rate and fiscal discipline is one of the most important lessons learned from economic theory, given the latter's effective role in saving monetary policy from chaos and lack of control. This relationship, according to international experiences, has had an effective impact on controlling most economic activities, whether in fiscal or monetary policy. Fiscal discipline has had an effective impact on achieving economic stability in many economies, especially those suffering from imbalances in the balance of payments. The Iraqi economy is one of the economies that is in real need of correcting the work of economic activities in line with the urgent need to make real changes at different levels. Through a theoretical review of the research, the researcher concluded that it is both easy and urgently necessary for economic policymakers to adopt fiscal protection and employ fiscal discipline to control the significant decline in the performance of fiscal policy, as demonstrated by the research findings. This can be achieved by expanding the types and quantities of public revenues to diversify them by stimulating dormant economic activities and introducing new types of products that can generate new revenue for the Iraqi economy. Introduction, Fiscal discipline is one of the most important indicators that has historically proven to have a direct and indirect impact on a wide range of economic variables, especially those whose effects are readily apparent in the economic reality. The exchange rate is one such variable, and maintaining it falls under the responsibility of the central bank. The exchange rate is a crucial factor in strengthening the monetary foundations of the Iraqi economy. Some international experiences in neighboring countries have proven that it is possible to effectively use fiscal policy tools that have an actual impact on economic activity, which indicates a significant decline in the Iraqi economy, especially in the area of competition between economic activities at the level of fiscal and monetary policies. This research, relying on a group of modern sources whose authors adopted the topic of fiscal discipline, addresses the basic hypothesis of the research, which is that there is a positive relationship between the application of fiscal discipline and the achievement of economic stability through the tool of the exchange rate of the local currency against foreign currencies.

Keywords: Fiscal Discipline, Exchange Rates, Iraqi Economy.

Introduction

Fiscal discipline is one of the most important indicators that has historically proven to have a direct and indirect impact on a wide range of economic variables, especially those whose effects are readily apparent in the economic reality (Brändle & Elsener, 2024). The exchange rate is one such variable, and maintaining it falls under the responsibility of the central bank (Anwar, 2022). The exchange rate is a crucial factor in strengthening the monetary foundations of the Iraqi economy. Some international experiences in neighboring countries have proven that it is possible to effectively use fiscal policy tools that have an actual impact on economic activity, which indicates a significant decline in the Iraqi economy, especially in the area of competition between economic activities at the level of fiscal and monetary policies (MA et al, 2021). This research, relying on a group of modern sources whose authors adopted the topic of fiscal discipline, addresses the basic hypothesis of the research, which is that there is a positive relationship between the application of fiscal discipline and the achievement of economic stability through the tool of the exchange rate of the local currency against foreign currencies (Olaide et al., 2025).

Importance of the Research

The research derives its importance from the actual and realistic role of using fiscal policy tools optimally, especially fiscal control, which is one of the important indicators for achieving economic stability for any economy suffering from a decline in financial activities. The Iraqi economy is considered a fertile environment to prove the researcher's point of view and a good introduction for researchers of economic goals to enrich the economic library with solutions to chronic financial problems.

Research Objective

The research aims to develop visions and solutions for economic policymakers in Iraq to move this economy from a floundering economy to a successful economy, given its large and diverse economic resources and its total dependence on oil revenues alone, which makes it a good climate for achieving the research goal.

Research Problem

The main problem of the research is that the Iraqi economy relies primarily on revenues from one side, and does not generate any other revenues from other activities. On this basis, this problem constitutes a real challenge to economic policy in Iraq, and by relying on the indicator of fiscal discipline, it is possible to overcome the financial problems that the Iraqi economy suffers from.

Research Hypothesis

The research is based on a basic premise that applying the fundamentals of fiscal discipline in Iraq achieves monetary and financial stability through control over the exchange rates of the national currency against foreign currencies, and thus influences the monetary base locally, which contributes to solving the financial problems that the general budget suffers from, which are chronic problems throughout the study period.

The Impact of Fiscal Discipline Policy on the Exchange Rate

Inflation is one of the serious ills that plague the Iraqi economy. At different times, monetary policy has tried to control the monetary disturbances that afflict the Iraqi economy. If we go back to the 1990s, the Iraqi economy witnessed the worst period of the most severe types of inflation, as economic sanctions were imposed by the United Nations. At that time, the monetary policymaker could only resort to the Central Bank to control the increasing demand for goods and services. In contrast, the Central Bank tried through continuous monetary issuance operations to control the rampant inflation, but to no avail. The following graph illustrates the relationship between fiscal control and inflation.

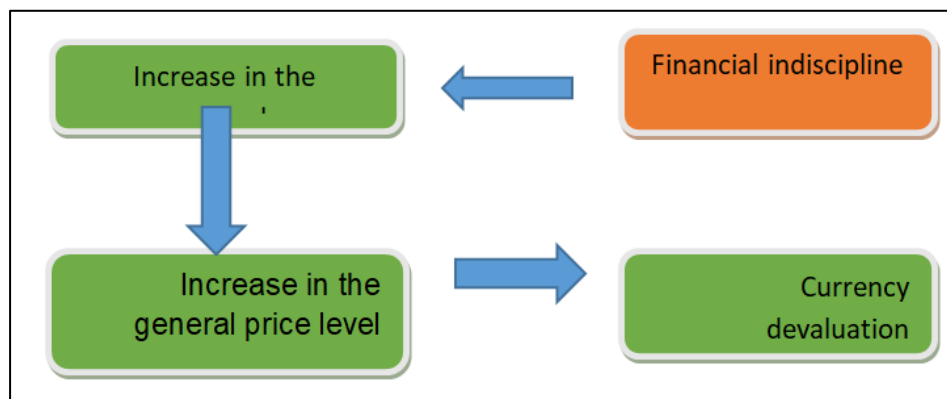
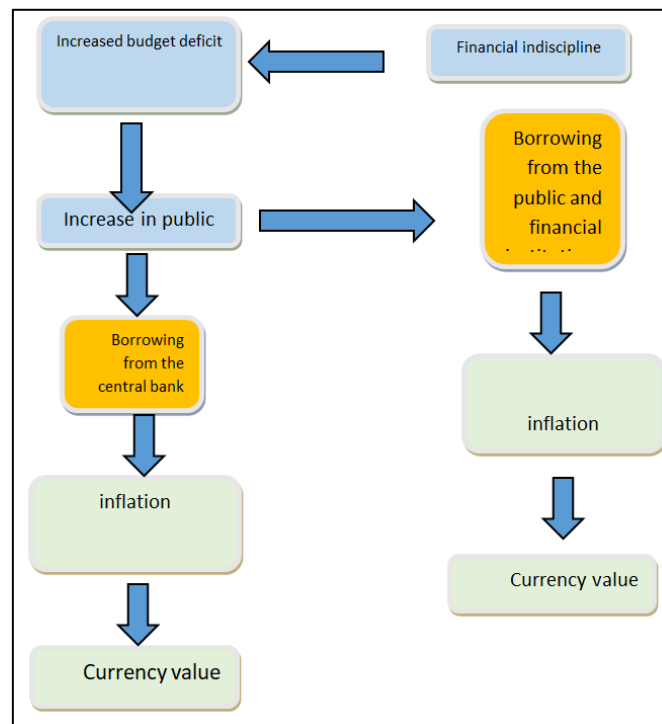


Figure 1. Inflation

The Deficit and Public Debt Channel: As a result of the three decades of wars that Iraq endured before 2003 and after the invasion, the Iraqi economy suffered numerous problems. All economic activities deteriorated, and the size of the external public debt and its interest payments became enormous—an inevitable consequence of the wars Iraq had fought. Therefore, the external public debt required restructuring to enable the Iraqi economy to recover. By implementing fiscal discipline and the World Bank's prescriptions, the Iraqi economy was able to recover and achieve significant progress in reducing its debt. The figure below illustrates the importance of the relationship between fiscal discipline and external and internal public debt.



The first requirement: The economic effects of the exchange rate

As is well known, the exchange rate is one of the basic measures that can be relied upon to describe the economic situation of any country, as it is a true expression of the productive reality of this economy and the strength of the country's local currency against other currencies. Given this definitional approach to the exchange rate, it can be said that it is possible to rely on the actual exchange rate variable if the correct financial rules are applied, including the subject of this research, financial discipline, as this indicator is a good measure to reveal the actual flaw in the adoption of various economic policies.

The Impact of Exchange Rates on Domestic Prices

The various effects of exchange rate fluctuations and changes are clearly evident in economies that rely on the free market mechanism (open economy).

We find that these fluctuations exert varying effects on domestic prices, differing between an appreciation of the exchange rate above its real value and a devaluation, as well as between a fixed exchange rate and a stable exchange rate, as follows:

1) Fixed Currency Value

A fixed exchange rate means that a country sets a specific price for its currency against other currencies, a global currency such as the dollar, or a reserve asset such as gold or Special Drawing Rights (Stoykova, 2021), based on realistic criteria, without exceeding or falling below the equilibrium price (Bresser-Pereira et al, 2025). Due to the mechanism of shifting or transferring influential forces that characterizes fixed exchange rates in free market economies, international exchange often results in an increase in domestic prices, as happened in the first oil shock in 1973, which led to an increase in average inflation from 8% annually to about 13% annually (Norbert, 2016). This effect is clearly evident.

This type of inflation seeps into the domestic economy due to the increased volume of transactions with the rest of the world (Gomez & Edward, 2025). Government authorities are usually unable to control it using domestic price stabilization policies and measures; therefore, they need to implement fiscal discipline in domestic markets to mitigate the negative effects of imported inflation (Peter, 2017).

This is where fiscal discipline and a sound and appropriate monetary policy come into play in the use of the exchange rate, should the government seek to combat inflationary pressures within the country. The best example of this is what Germany did during the period of floating exchange rates after 1973. The German central bank played a crucial and influential role in maintaining appropriate exchange rates between the German mark and the US dollar and other currencies. Authorities intervened in the foreign exchange market and interest rates to limit the impact of external factors (changes) on domestic prices, thus achieving economic stability for the country after price increases did not exceed 2.5% in 1978 (Federal Reserve Bulletin, 2009).

This is where fiscal discipline and a sound and appropriate monetary policy come into play in the use of the exchange rate, should the government seek to combat inflationary pressures within the country.

Currency Devaluation

This is the opposite of currency appreciation. Currency devaluation has received considerable attention from researchers and academics since the early 1970s, especially after many countries adopted it or floated their currencies against other currencies. Generally, the effect of devaluation on domestic prices depends on the type or nature of imported goods and their proportion of GDP, as well as the central bank's response to increased aggregate demand and credit demand. The overall effect of devaluation depends on increased foreign demand for domestic goods and services, which results from foreign countries—or some of them—that have trade relations with the country appreciating their currencies (Norbert, 2016, p. 13). The effectiveness of devaluation can be expressed by the following equation: $(\text{Domestic Supply Elasticity}) / (\text{Foreign Demand Elasticity} + \text{Domestic Supply Elasticity}) = \text{Effectiveness Degree}$

The result of the above equation ranges between zero and one, which illustrates whether or not the devaluation effect occurs depends on the response of each. The amount of currency devaluation is determined by foreign supply and demand. It should be noted that currency devaluation does not necessarily lead to price increases in the devalued country. This is due to the country's size within the global economy. In contrast, smaller countries tend to experience price increases following devaluation that exceed the price decreases in other countries with which they trade.

It is also observed that when currency and import controls are in place, devaluation has no impact on domestic prices. In this case, it reflects the existing imbalance between prices and costs within the domestic economy. In other words, government control and rationalization have effectively determined the levels of supply and demand for imported goods (Bernstein, 2003).

Second: The Impact of Exchange Rates on General Budget Items

It is clear that currency fluctuations have a significant impact on general budget allocations, such as salaries and wages, current expenditures, and transfers, most importantly subsidies for essential goods. Furthermore, they affect investment budget allocations and investment transfers, among other things. Since the allocations included in the general budget are affected to a certain extent by inflation and global and domestic price level movements, it is necessary to study the impact of currency fluctuations on local prices and their repercussions on production costs and other services.

On the other side of the general budget, which is represented by public revenues, fluctuations in the value of the currency leave clear and important effects, including changes in the total proceeds of exports, and other changes that include taxes and customs duties, and taxes and fees imposed on the profits of companies and public bodies (economic and service). Changes also occur in capital revenues such as foreign loans and credit facilities, and returns obtained from loan installments due from foreign countries. As a result, the general budget will be affected, whether it is issued with a deficit or a surplus, by the changes that occur in the value of the currency (Fleming, 2001, p. 322), which allows governments to identify the imbalance and address it by introducing a system of control, rationalization and planning into the items of the general budget.

Controlling Public Spending

A significant and substantial increase in the volume of public (government) consumption spending negatively impacts the economy, leading to a budget deficit. Introducing rationality and efficiency in government spending through fiscal discipline will reduce this deficit. Currency fluctuations are a fundamental principle upon which controlling public spending is based, particularly in the current budget, which includes all current expenditures such as wages, goods, and current transfers. This necessitates studying the impact of exchange rate changes on each item of public (current) spending in order to control it, as follows: (Khoshnaw, 2017, p. 75)

A. The Impact of the Exchange Rate on Salaries and Wages

Exchange rate policy influences local wages through its impact on the general price level and the subsequent changes in wage levels. First Case: Stable Value of the Local Currency (Stabilized Exchange Rate)

$$\Delta e = \Delta p = m/e \Delta m.p$$

Where:

$$(m/y)/(e/y) = m/e = \text{imports/wages}$$

Δe = Wages level

m = Imports to national income ratio

Δp = General price level

e = Wages to national income ratio (cost of living)

$\Delta m.p$ = Imports value in changes

It is clear from the above equation that the change in the wage level is equal to the change in the general price level in the country that devalued its currency. This change is equal to

the change in import prices multiplied by the product of the relationship between the ratio of imports and wages to national income. This relationship holds true whenever there is a close correlation between wage rates and the cost of living. However, the response of wages to currency devaluation appears to be slower than the response of prices and production conditions, as the wage response depends on how quickly consumer prices are affected by the prices of imported goods (Ali, 2018, p. 152).

B. The Impact of Exchange Rates on Current Expenditures (Transfers)

Case of Currency Devaluation

In this case, the state, with its increased dependence on the outside world, acts as an inflationary tool. Imports become more expensive than exports, leading to higher costs for raw materials, intermediate goods, and imported government purchases. The general price level also tends to rise. This depends on the proportion of foreign investment in domestic products, which reflects the cost-push inflation element when the prices of imported goods increase.

When the government addresses the economic situation within the country, devaluing the currency will lead to further devaluation and the dissipation of financial resources due to speculators' predictions of a series of currency devaluations. For example: What happened in the United States during the period 1971-1973 resulted in the export of inflation to the rest of the world (Todaro, 2009). Studies have shown that a 10% currency devaluation leads to an increase in domestic spending ranging from 3.7% for major industrialized countries to 7.7% for smaller raw material producing countries. This also means an increase in current expenditures in the general budget, depending on the degree of government intervention in economic activities and the management of public institutions, as well as the use of the general budget to achieve certain social objectives (Fleming, 2001, p. 318).

As for current transfers, the logical consequence is an increased burden on the general budget due to the cost of imported essential goods. This also increases the burden on social security and pensions, as the government is obligated to compensate beneficiaries for losses (currency difference) incurred due to inflation. Furthermore, the government's burden increases as it purchases essential goods from local producers and sells them to citizens at reduced prices (price subsidies for essential goods). The burden of the government's interest payments on domestic and foreign loans depends on the levels of domestic and foreign interest rates. This may compel the government (monetary authorities) to increase the money supply in response to inflation resulting from currency devaluation. Consequently, domestic interest rates tend to rise as a reaction to increased demand for money driven by transactions. The result is a doubling of the burden on the state's general budget and a departure from the fiscal discipline the government seeks to achieve. Conversely, if the government reduces the money supply to achieve domestic monetary equilibrium and, consequently, economic stability, the opposite occurs.

The opposite occurs if the government reduces the money supply to achieve domestic monetary balance and, therefore, economic stability. From the above, we find that the rise in prices resulting from currency devaluation leads to a decrease in the real

value of government expenditures on imported foreign goods to their pre-devaluation level. This reflects the nominal value, which tends to rise. This necessitates rationalizing and controlling government (current) spending, because otherwise, the government is considered inefficient in fulfilling its duties towards its citizens.

C. The Impact of the Exchange Rate on Investment (Capital) Expenditures

Investment expenditures include government appropriations for public or governmental investments, as well as capital transfers, which are payments made by the government to its subsidiaries to finance their investments up to the limits of available funding (available revenues). They also include loan repayments and other obligations. Controlling public expenditures is a primary objective of every budget; therefore, several restrictions are placed on public spending. Public spending is used to control government expenditure, which is reflected in a decrease in the annual growth of government spending, as well as a reduction in the ratio of public spending and the deficit to GDP.

Investment expenditures differ from current expenditures in that they do not recur periodically throughout the year, but rather occur only once a year. Therefore, they are less susceptible to the effects of currency fluctuations, especially when a floating exchange rate policy is followed. The impact depends on the currency value at the time of expenditure (when the funds allocated to finance the investment are disbursed). Apart from this, the various effects of different exchange rate policies on current expenditures are similar to those on investment expenditures, although the impact is greater in the latter case due to the larger size of investment transactions. Furthermore, current expenditures are consumption-based, while investment expenditures are productive and generate income.

Controlling Public Revenues

There is no doubt that public revenues are crucial for financing the expenditures in the general budget. Public revenues refer to those funds that are regularly and periodically deposited into the public treasury and are known as sovereign revenues. These primarily include oil revenues – for oil-producing countries like Iraq – as well as revenues from various taxes and fees (customs duties, etc.), taxes levied on production and business activities, and price differentials for consumer and durable goods. They also include service and local revenues, revenues from current operations and securities, and subsidies received by the authorities from local and international sources. Furthermore, they encompass the state's earnings from its affiliated companies and economic entities, insurance premiums, and loans granted both domestically and internationally, in addition to oil revenues for crude oil exporting countries (Daadoush, 2020, p. 33).

Currency value fluctuations also have direct and indirect effects on revenue items (domestic and external). Domestic revenues and receipts within a country's borders are affected indirectly through their impact on financial and monetary variables.

It is worth noting that the significance of the price difference between domestic and foreign prices depends on several factors, including the degree of import dependence of the devalued country. The greater the reliance on imports, the less effective the

devaluation will be. Another factor is the nature of the imported goods: are they raw materials essential for exports, or are they consumer goods? If they are consumer goods, the devaluation will be less effective.

2) The Impact of the Exchange Rate on Imports

3) Trade Imbalance and Exchange Rate

The trade balance represents the difference between the value of exports and the value of imports. If the value of exports exceeds the value of imports, the trade balance results in a surplus; conversely, it results in a deficit. The exchange rate is a key determinant of this balance. A currency's value increases when a unit of a country's currency becomes worth more than units of other countries' currencies. The difference between exports (x) and imports (m), i.e., $(X-M)$, is a portion of total expenditure.

Exports and imports have a direct impact on a country's exchange rate. The exchange rate should be at its optimal level when the current account balance is stable. When a country imports a specific commodity, payment is made in the exporting country's foreign currency. The importing country buys the exporting country's foreign currency and sells its own local currency. Therefore, any change in economic transactions, whether imports or exports, leads to a change in the exchange rate. In the case of a trade deficit, meaning the value of imports exceeds the value of exports, the demand for foreign currency surpasses the supply of the local currency. results in an imbalance in the country's trade balance (Eguren-Martin, 2015, p. 11).

What can be concluded is that the exchange rate is directly related to the trade balance. The greater the exports than the imports, the more the trade balance improves in favor of the exporting country and increases its foreign currency reserves. This allows the government to move forward with achieving fiscal discipline, which depends on sound government decisions in controlling its trade policies (fiscal and monetary) and implementing programs and strategies based on thorough feasibility studies to achieve the desired goals.

The result is that the exchange rate is directly related to the trade balance. Section Three: Exchange Rates and **External Loans – Financing the Twin Deficit**

- 1) The Concept of External Loans, External loans are those loans contracted by a country with other countries or international or foreign financial institutions. The value of these loans is denominated in foreign currencies – often US dollars – of the lending countries. Loans included in the general budget are denominated in the local currency based on the exchange rate between the lending country's currency and the currency of the lending country. Countries typically resort to external loans to balance imbalances in the general budget and the trade balance. A lack of fiscal discipline and a budget deficit necessitate financing this deficit, and external loans are one source of financing.
- 2) Exchange Rates and External Loans Exchange rate fluctuations have a clear and significant impact on external loans, potentially increasing or decreasing their burden depending on the nature of the exchange rate change. In this case, the impact of currency fluctuations is felt only at the local level. The following outlines the impact of

currency fluctuations on external loans from various perspectives of the exchange rate system employed, which affects the achievement of fiscal discipline within the country:

- The Impact of a Fixed Exchange Rate on External Loans: When a country adopts a fixed exchange rate policy, whether or not this rate reflects the true value of the currency in international markets, the value of external loans and their interest remain unaffected. The burden on the general budget and the trade balance remains the same until the loan is fully repaid with interest (Al-A'sar, 2016). Thus, the country can The government is unable to implement its plans or programs included in the general budget, which aim to achieve economic and financial stability and ultimately reach a state of fiscal discipline in public expenditures allocated to ministries and departments specializing in implementing the government program.

3) The Impact of Currency Devaluation on External Loans

The Reality of the Exchange Rate in Iraq for the Period (2005-2020)

The effect of the exchange rate, through the foreign currency auction window, as one of the monetary policy tools, is to stabilize aggregate demand, which leads to price stability and reduces inflation rates by controlling liquidity levels and directly influencing the money supply. Thus, the introduction of the currency auction at the end of 2004 significantly reduced the large fluctuations in the dinar exchange rate that characterized the Iraqi economy before 2003, following the adoption of the multiple fixed exchange rate system. The improvement in the exchange rate is a direct result of the increase in foreign reserves held by the Central Bank, resulting from the monetization of government oil revenues, which is the sole source of foreign currency (Dagher & Mahous, 2015). 279), as shown in Table 1.

Table 1. the sole source of foreign currency

year	official exchange rate	black market price
2004	1469	1485
2005	1467	1472
2006	1255	1475
2007	1193	1267
2008	1170	1203
2009	1170	1183
2010	1170	1182
2011	1170	1186
2012	1166	1196
2013	1166	1233
2014	1188	1214
2015	1190	1247
2016	1190	1275
2017	1190	1258
2018	1190	1253
2019	1190	1258
2020	1190	1257
2021	1450	1460

year	official exchange rate	black market price
2022	1450	1460

As we can see from Table (1), the exchange rate has decreased compared to previous years, which were characterized by significant fluctuations. The primary reason for this is likely the decline in foreign currency revenues due to economic sanctions, in addition to several internal factors caused by these sanctions, including excessive money supply due to inflationary finance, decreased imports and GDP, and distortions in price and service structures. However, during the study period, the exchange gaining its independence under Law authority adopting a foreign currency auction policy to maintain the value of the Iraqi dinar. The exchange rate then reached 1469 dinars, while the parallel market rate reached approximately 1472 dinars. The period 2016-2020 saw no significant changes in the parallel market, but by the end of 2019, it had reached 1258 dinars per dollar. The parallel and official exchange rates are (1190) Iraqi dinars to the dollar. The gap between the official and parallel exchange rates is attributed to political interference in the Central Bank's policy through the legislation of Article (50) in the 2015 Federal Budget Law and the decline in oil revenues.

Second

As is known, the currency auction began operating at the end of 2004 and continues to this day. The Central Bank aims to control the money supply, or the supply of Iraqi dinars and domestic liquidity, in order to curb inflation. The general price level in Iraq is directly linked to the dinar's exchange rate, and the currency auction achieves a number of objectives, including: (Abbas, 2017, p. 24)

1. Directly stabilizing the Iraqi dinar's exchange rate. 2- It is a means of indirectly implementing tools for managing liquidity in the Iraqi economy and controlling its levels.
2. Unifying the exchange rates of the Iraqi dinar, which were unequal between the official and parallel exchange rates before 2003. Providing foreign currency to local banks so they can open letters of credit, issue letters of guarantee, and conduct international transfers.

The Central Bank also conducts two types of dollar sales in the currency auction: (1) transfers abroad to finance imports by private sector entities, and (2) cash sales to meet the demand of Iraqis (domestic demand) for dollars for tourism, travel, medical treatment, education, and other purposes. The Central Bank's exchange window serves as the central market in Iraq, through which it satisfies domestic dollar demand, thereby achieving consistency in the exchange market mechanism across the country. Therefore, the official exchange rate is the rate announced in the exchange window and represents the selling price of dollars to banks and authorized transfer companies. The parallel market rate, on the other hand, represents the market rate, which is the price at which banks and transfer companies sell dollars to traders and other dealers. In other words, it is a rate based on the

laws of supply and demand. By setting the exchange window rate, the Central Bank attempts to influence the market rate and achieve the objectives of the exchange window.

Table 2. illustrates the interrelationship as follows:

Yaer	Money transfers	Currency	Total sales	Foreign currency reserves size
2005	-	-		7.823.980
2006	-	10.462	10.462	13.501.58
2007	-	20.605	20.605	19.100.33
2008	-	15.980	15.980	31.403.21
2009	29.421.081	25.569	25.569	50.100.92
2010	36.067.234	4.569.310	4.597.310	44.345.74
2011	39.800.539	2.192.798	2.192.798	50.622.97
2012	44.809.599	1.457.585	1.457.575	61.034.98
2013	41.411.782	3.655.091	3.655.091	70.327.02
2014	37.167.470	12.388.385	12.388.386	77.743.19
2015	38.315.055	14.562.990	14.652.990	65.365.52
2016	28.832.527	5.989.012	5.989.011	53.139.06
2017	31.375.025	4.689.646	4.698.646	44.516.00
2018	31.327.368	9.352.300	9.365.300	48.499.08
2019	32.543.900	7.765.310	7.765.310	56.789.11
2020	30.200.068	11.686.270	11.686.270	63.654.756
2021	31.411.099	8.370.199	8.370.199	57.300.55

Source: Central Bank of Iraq, Annual Statistical Bulletins, various years (2004-2021).

The currency window was intended to operate for a short period until the economy stabilized, after which it would cease. However, the continued operation of the currency window, funded by Iraq's crude oil revenues, led to the depletion of enormous sums from the Central Bank's foreign reserves. Fearing further depletion of these reserves, Finance Committee, on dollar sales. This was enacted into law. Article (50) of the must limit its daily foreign currency sales at auction to a ceiling not exceeding (75) million dollars, while ensuring fairness in the sales process. Participating banks are required to submit import documents, tax settlement statements, and customs declarations within (30) days of purchasing the funds. Failure to do so will result in penalties as previously stipulated in the Central Bank of Iraq Law .

manages its foreign reserves, which fluctuate in size depending on oil revenues and the government's (specifically the Ministry of Finance's) decision on how to utilize those revenues. Therefore, the growth of the Central Bank's foreign reserves is a direct result of increased oil prices and the revenues generated from oil exports ,Table 24 shows the evolution of foreign reserves during the study period (2004-2020). The reserves began to rise in 2004, reaching a compound annual growth rate of approximately 44.9%, when the price of a barrel of oil in global markets was around \$87.93, higher than in 2007 when the price was around \$66.73. However, the reserves declined in 2009 due to a drop in the price of a barrel of oil to \$59.44, resulting in a net foreign reserve of \$44,335.74 million, representing a negative growth rate of 11.5%.

Conclusions

The researcher concluded that the optimal use of financial oversight represents a genuine shift towards economic stability in Iraq, through controlling government spending and directing public revenues towards their designated objectives. The measures implemented by the monetary authority during the period 2005-2023 are considered among the most important, as the authority applied a managed float exchange rate, making the currency market more flexible and responsive to fluctuations in the local market. This was coupled with its careful practice of direct market intervention to maintain the established pattern based on actual market needs.

Furthermore, considering the policies adopted by most countries that have implemented mechanisms to maintain fiscal and monetary policies through financial adjustments in spending, operations, and investment, it is possible to learn from their experiences to avoid repeating past mistakes.

The current study also suggests the need for the sample to focus on future trends, emphasizing the necessity of adopting, even partially, a reliance on financial oversight as a foundation for financial success in achieving economic stability in all modern economies. Therefore, the Iraqi economy can benefit from achieving optimal financing by adopting a financial oversight approach across all activities to achieve the government's objectives in all sectors.

Recommendations

1. The researcher recommends adopting the highest levels of fiscal discipline due to the excessive government spending in terms of operational spending, which constitutes more than 68% of the total public expenditures, by following fiscal discipline methods to achieve lean spending free from extravagance and waste.
2. Reduce monetary sterilization operations and the associated financial corruption and money laundering, which deplete foreign reserves, and adopt a fiscal policy based on sound financial principles.
3. Implement fiscal discipline indicators and rigorously monitor and enforce them to ensure compliance with the established ratios. Maintaining the ratios allocated to each indicator will contribute to the improvement of the Iraqi economy.
4. Implement fiscal discipline indicators and rigorously monitor and enforce them to ensure compliance with the established ratios. Maintaining the ratios allocated to each indicator will contribute to the improvement of the Iraqi economy. edit rating, fixed-income foreign currency deposits, and monetary gold held with.

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