



THE RESPONSE OF ECONOMIC GROWTH TO THE SPACE AVAILABLE FOR ECONOMIC POLICIES IN LIGHT OF THE CORONA PANDEMIC, WITH A REFERENCE TO IRAQ

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Abstract: The spread of the new Corona virus, Covid-19, cast a shadow on the global economy, as economic growth rates declined, the volume of global trade decreased, unemployment rates increased, and global financial markets witnessed severe turmoil and achieved very large losses, coinciding with a recession in the global economy and a trade war between the United States In the US and China, the effects of the virus outbreak extended to most countries of the world and global demand shrank, and countries have launched huge initiatives and programs to stimulate and support their economies, according to the policy space available to them, from reducing interest rates to levels close to zero, providing financial support and loans, and following facilitative policies to support economic activity. . As for Iraq, it did not have an appropriate space to confront the pandemic, and the significant improvement in oil prices in 2021 played a major role in supporting the economic recovery.

Keywords: economic policy space, rescue and stimulus packages, Corona pandemic, the Iraqi economy, economic growth.

Introduction

At the beginning of 2020, the global economy faced the worst health crisis known in modern history, caused by the outbreak of the Corona virus, Covid-19, which became a known and transcontinental virus that struck most countries of the world, turning into a strong economic crisis due to the suspension of most economic activities in the context of the measures taken to confront the pandemic. The global economy has begun a severe downturn, and a few months ago it has been facing tremendous pressures due to the outbreak of the pandemic and the negative health and economic effects that it has produced, and it is waging a severe health and economic battle in its quest to get out of it, and this crisis is still ongoing and there is no specific time horizon for its end(1). It has turned into an unprecedented humanitarian and economic crisis that has confused the economic and social system. Undoubtedly, the imposed measures and restrictions have created a state of uncertainty and uncertainty and a sharp decline in the performance of the global economy (2).

The shock has caused a severe depression that the world has not witnessed for decades, and data from the World Bank and the International Monetary Fund in its reports for the year 2020 indicate that the global economy has contracted by more than 5% (3), which represents the worst recession since World War II, and the economies of developed countries contracted by nearly 7%, and emerging market economies and countries Developing countries by nearly 2.5% this year, their first contraction as a group in at least 60 years, and average per capita income decreased by 3.6%, causing millions of people to fall into extreme poverty in 2020. Financial conditions are likely to remain severe The difficulty, which hinders the return of economic growth to its normal course in the coming years (4).

In light of these difficult conditions, countries have decided to move immediately and urgently to confront the crisis (the Corona pandemic) by taking unprecedented measures and using various tools in light of the economic policy space available to them (5).

Research Objective: The research aims to show the effects that the Corona pandemic has produced on the global economy in general and the Iraqi economy in particular, and the great role that the available policy space played in stimulating economic growth and reducing the severity of the effects it produced.

Research problem: The research problem is that the limited space available for economic policies and the lack of financial and monetary rescue packages would affect the paths of economic growth and its sustainability, especially in oil-producing countries (such as Iraq) due to the link of their economies to world oil prices (6).

Research hypothesis: The research stems from the hypothesis that the financial rescue packages launched by countries, according to the policy space available to them, have significantly stimulated economic growth (7).

First: covid-19 is an unparalleled crisis....

During the past three years, the global economy faced a number of challenges that clearly affected its performance. Even before the outbreak of the Corona pandemic, the global economy was suffering from many turmoil and challenges, most notably the trade tensions between the United States of America and China (the customs tariff crisis), and Britain's position on Exiting the European Union (8), as well as the structural factors that some European economies suffer from, all of which were reflected on the prospects of the global economy and affected its growth rates, as it reached about 2.9% in 2019 compared to 3.6% in 2018, and the growth rates of global trade volume declined To reach 0.9% in 2019 compared to 3.8% in 2018, unemployment increased to 188 million people in 2019 compared to 172 million people, and the volume of investments declined (9).

In March 2020, the World Health Organization announced the outbreak of the Corona virus, turning it into a global pandemic, and countries were quick to impose restrictions on most activities and social distancing measures...etc. The outbreak of the virus has led to serious social and economic repercussions and repercussions on the global economy on both sides of supply and demand due to the state of uncertainty, and the effects have moved across borders, and when the shocks come simultaneously across a large number of countries, the effects may deepen through international trade and financial links, which weakens Global economic activity pushes commodity prices down, and the whole world has faced an economic health crisis different from previous crises in light of an economy suffering from fragility and weak performance (10).

The spread of the epidemic in most countries of the world caused a sharp decline in economic activity, causing the global economy to face a double shock (supply and demand shock) that was reflected in economic growth rates, to shrink

The global economy increased by -3.4% in 2020, to witness the world's worst crisis since the thirties of the last century (11).

While foreign trade was greatly affected by a supply shock (decreased production) and demand shock (decreased purchases), foreign trade became very weak, declining by 13-32% during the last quarter of 2019 and 2020 (which is more than the decrease during the crisis). Mortgage) and the volume of goods shrank for the first time since 2009, as well as the movement of ports and air freight (), and most economic sectors incurred heavy losses (12).

The spread of the pandemic led to a shock in the labor market, a supply shock (production shock) and a demand shock (consumption and investment), which was reflected in the loss of jobs in many economic sectors and on small and medium-sized companies as a result of the restrictions and measures taken by countries to confront the outbreak of the epidemic, and reports indicate The International Labor Organization indicated that the shock had far-reaching effects on the labor market, as well as concerns about the health of workers, and confirmed that the shock affected three main dimensions: the quantity of jobs (unemployment and underemployment), the quality of work (wages and access to social welfare), and the effects on groups. Specific are subject to negative outcomes in the labor market (13).

The World Bank estimates that between 119 and 124 million people around the world will fall into extreme poverty (the individual lives on an income of \$1.90 per day) in 2021 (the number of new poor people due to the Corona pandemic is calculated as the difference between the expected poverty rate in light of the pandemic. and the expected poverty rate without the occurrence of the pandemic).

The poorest groups were most affected, as the average income of the poorest 40% of the population in the global income distribution decreased by 6.7% from pre-pandemic expectations, while the income of the poorest 40% of the population decreased by 6.7%. The average income of the richest 40% of the population decreased by 2.8%, and between 2019 and 2021, the average income of the poorest 40% of the population decreased by 2.2%, while the average income of the richest 40% decreased only by 0.5% (14).

Global financial markets were subjected to unprecedented pressure at the beginning of the pandemic, witnessed widespread turmoil and displaced \$36 billion from stock and bond funds in just one week, and global financial markets lost 15 trillion of the value of high-risk assets around the world within a month due to the impact of Corona, and that Risk-averse investors withdrew \$5.3 billion from emerging market stocks, which is the highest

level in 30 weeks, as well as the supply and demand in the world fell on the stock exchanges of dry materials such as construction materials and primary commodities, similar to what was witnessed in the most severe phase of the global financial crisis, due to the decline in economic activity Combined with unprecedented efforts to contain the disease. This decline is unparalleled during the spread of previous epidemics or even after the September 11 attacks, as financial market indices declined across the world, and the largest losses were in the Gulf stock exchanges, and the oil companies were the biggest losers in Saudi Arabia, as Aramco lost a tenth of the value of its shares in its trading, and stock prices fell in The Tokyo Stock Exchange increased by 5% and Sydney by more than 7%, and the Wall Street Stock Exchange in New York suffered its most severe loss since the 2008 crisis, as the Dow Jones Industrial Average and Standard & Poor's lost nearly 8% of their value, and the Nasdaq index lost 7% of its value, and lost Billions of dollars' worth of companies listed therein (15).

To confront these challenges, countries have set out to take a number of economic measures (financial, monetary and precautionary) according to the space available to them to advance economic growth, support economic activity, stimulate output and employment, and enhance consumption.

Second: the available policy space... the options available to confront the pandemic

The available economic policy space means the space available to each country to use the economic policy tools (financial, monetary and prudential) to support economic recovery. The space may be to direct the surplus achieved from budgets and sovereign funds to stimulate growth and employment, or the use of monetary policy tools (foreign reserves, interest rates, Quantitative Easing Programs and others) or prudential policies to stimulate aggregate demand, or even through reforms that help provide financial resources to support economic activity (16).

In other words, the space available for economic policies is the extent of space available to policy makers to take decisions during the period of economic downturn to revitalize the economy and return it to its normal path (17). International institutions' reports indicate that the recovery of economic growth during 2021 and 2022 comes mostly as a reflection of the financial and monetary support provided by countries to stimulate growth, especially from the United States of America (the American Jobs Plan and the American Family Plan) and the financing provided through (the European Union's Next Generation Recovery Plan, And the International Monetary Fund's financial monitor report indicates that the large financial measures packages announced in the United States of America and the European Union may lead to an increase in total output of 4.6 trillion dollars between 2021-2026 (the expected effect of the rescue packages is a major boom). in GDP and exports), and additional measures are expected during 2022 (18).

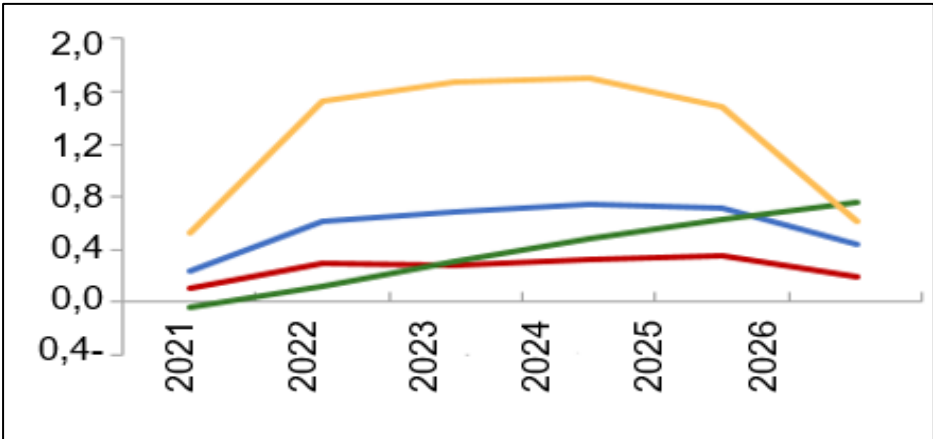


Figure (1) The financial impact of the three rescue packages on some macroeconomic variables

Gross Domestic Production, Consumption, investment, exports

Reference: Source: Vitor Gaspar et al., Public Finance in an Uncertain World, International Monetary Fund, 2021(19).

1- Fiscal policies: rescue packages and exceptional support to secure recovery

Fiscal policy remains a mainstay for confronting the effects of the pandemic, whose effects are still continuing in light of an atmosphere of uncertainty and inequality, and the support provided by the public finances has facilitated recovery and recovery, and fiscal policy is still facilitating it and continues the trend towards support, and governments have sought to use all that it has the space to confront the pandemic, by providing urgent vital supplies to save lives such as increasing public spending, public sector loans, guarantees, etc., and protecting individuals from losing their jobs and incomes, and companies from bankruptcy, and the countries of the world have taken

measures at the level of public finance equivalent to about 18 trillion dollars. To contain the pandemic and its damage to the economy, countries have implemented a variety of fiscal measures focused on increasing spending on the health sector, increasing social spending for eligible parties, temporary tax cuts, extending payment deadlines, and supporting wages for small and medium enterprises, in addition to using automatic adjustment tools, which are features that characterize them. The tax system stabilizes incomes and consumption, similar to progressive taxes and unemployment benefits. The following figure shows the packages of financial measures adopted to confront the Corona pandemic (20).

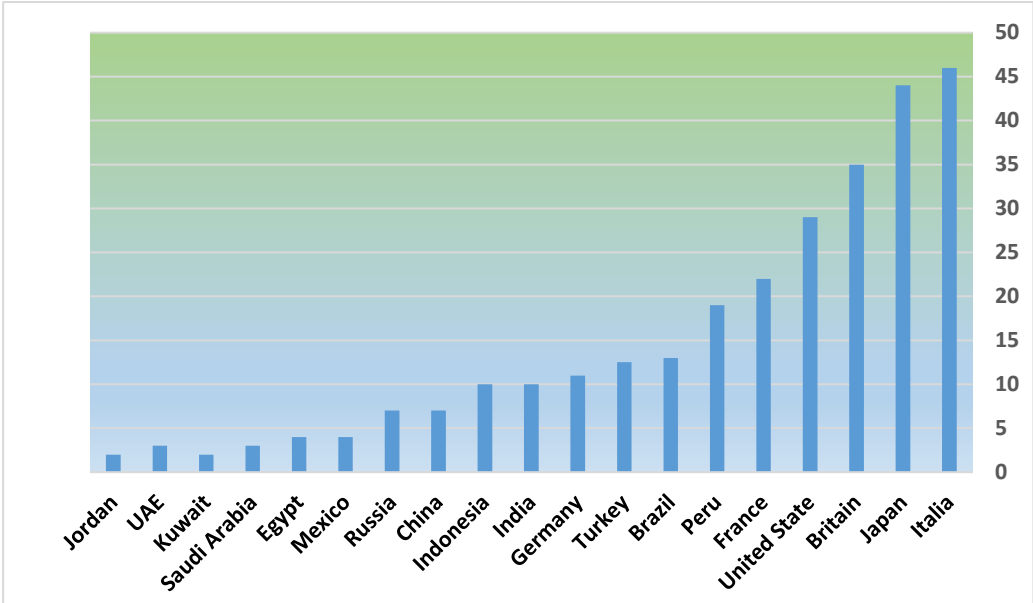


Figure (2) The financial measures packages adopted to confront the Corona pandemic (%) of GDP

The form of the researchers' work based on:

– International monetary fund, Policy Responses to covid-19, 2022

The financial measures packages amounted to about 11.7% of the gross domestic product on average for the developed countries, while it amounted to about 5.7% as an average in the emerging economies, while it amounted to approximately 2.4% of the gross domestic product as an average in the Arab countries (excluding Iraq) (21).

From the foregoing, it is clear that the great disparity in financial capabilities and in the size of the financial packages provided to support economic recovery between both developed and developing countries, which was reflected in the paths of recovery and economic growth (22).

1- Monetary policy in the face of the pandemic

Monetary policy plays a prominent and influential role in supporting economic activity and maintaining stability. With the spread of the virus globally, central banks and financial institutions rushed to take a number of decisive measures and measures to secure the stability of the economy and markets, enhance confidence, and try to avoid a deep, long-term recession. Central banks in countries around the world tended to adopt Measures and packages of measures amounting to about \$6 trillion. The measures were represented by a significant reduction in interest rates, stimulating credit and supporting liquidity, implementing huge programs for quantitative easing (QE) and easing pressures on the household and corporate sector (23).

In this context, the central banks have taken measures and procedures to confront the pandemic and ensure the provision of liquidity and secure credit necessary for the conduct of economic activity, through the use of tools such as, reducing interest rates, the legal reserve ratio, repurchase and counterpurchase agreements, exchange rate flexibility, open market operations, The withdrawal of foreign reserves, the injection of more liquidity, the use of precautionary reserves, and the facilitation of macroprudential policies to support credit (24).

In this context, most central banks have reduced interest rates, and some have resorted to intervening in the foreign exchange market, while some banks have reduced reserve requirements, and taken supportive measures such as postponing debt repayment and providing credit guarantees, and many supervisory authorities have implemented

a wide range of interventions. In the financial sector, it aims to use the safety margins of capital and liquidity available in banks, and to maintain the continuity of operations and workflow in banks as well as payment systems (), which was reflected in the availability of liquidity and alleviated the severity of credit conditions.

As for the Arab countries, monetary policy has played an effective role in mitigating the economic repercussions resulting from the pandemic by adopting many measures and measures to support liquidity and provide credit, and the following table shows this.

Table (1) Monetary policy measures used in some Arab countries

Country	DW deposit window	Re-discount price DICS	REPO . REPO PRICE	Required statutory reserve ratio RRR
Jordan	√	√	√	√
UAE	-	-	√	√
Bahrain	√	-	-	√
Tunisia	√	√	√	-
Saudi Arabia	-	-	√	√
Amman	-	√	√	-
Palestine	-	-	-	-
Qatar	-	-	√	-
Kuwait		√	√	-
Egypt	√	√	√	√
Morocco	√	√	√	√

reference: Arab Monetary Fund, Financial Stability Report in the Arab Countries, Abu Dhabi 2021, p. 139

On the other hand, the central banks in many countries resorted to using quantitative easing policies, which proved effective in facing the mortgage crisis in 2007 and is still continuing in the United States of America, Japan and the European Union, through central banks buying securities from commercial banks. And, for the first time, about 20 central banks in emerging markets launched a process of quantitative easing (asset purchase programs) by buying government and private sector debt to ease pressures and help keep markets operating, which helped achieve stability in local financial markets (25).

1- Macro Prudential Indicators

Macroprudential policies (which have increased in interest more broadly after the subprime crisis) aim to reduce systemic risks to the financial sector, absorb shocks and help banks perform their work during shocks (the core of financial stability), which are regulatory measures taken to influence the stability of the financial system and are different from The precautionary measures that have been taken to ensure the stability of financial institutions at the individual level (). These tools affect the budget and operations of banks to ensure their safety, mitigate systemic risks, and ensure financial stability.

In the context of the crisis, banks and financial institutions issued directives and instructions regarding banks' dealing with the Corona virus, to support economic activity and maintain the efficiency, safety and stability of the financial system.

In this context, many central banks in developed and emerging countries have liberalized or mitigated some of the tools of prudential policy. At the level of capital tools, the capital margin has been liberated to counter cyclical fluctuations, in addition to reducing the weights of risks within the capital adequacy of some sectors. With regard to liquidity instruments, a number of countries have reduced the liquidity coverage ratio (from the prescribed ratio of 100%) and some countries have also set ceilings on the debt-to-income ratio or loan-to-value ratio, and other measures have been taken to prevent Distribution of annual profits and bonuses (26).

With regard to the Arab countries, the Arab central banks have benefited from the flexibility allowed by the use of macroprudential policy tools, especially with regard to liberalizing the margin of the prudential pillar of capital and the margin of cyclical fluctuations in increasing the level of the sector's ability to grant credit(27), and these procedures can be illustrated through the table following.

Table (2) The macroprudential policy measures followed in some Arab countries to maintain financial stability during the Corona pandemic

	CCoB 1	CCyB 2	LCR 3	NSFR 4	DTI 5	LTV 6	DSIB 7	RWA 8	DIVs 9	Others 10
Jordan							√	√		
UAE	√	-	√	√	-	√	√	√	-	-
Bahrain	-	-	√	√	-	√	-	√	-	-
Tunisia	-	-		-	-	-	-	-	√	
Saudi Arabia	-	-	-	-	-	-	-	-	-	
Amman	√									
Palestine	-	-	-	-	-	-	-	-	-	
Qatar	-	-	-	-	-	-	-	-	-	
Kuwait	√	-	√	√	-	√	-	√	-	
Egypt	-	-	-	-	-	-	-	-	-	
Morocco	√	-	√	-	-	-	-	-	√	

1-Conservative Capital Margin 2- Counter-cyclical Capital Margin 3- Liquidity Coverage Ratio 4- Net Stable Financing 5- Debt-to-Income Ratio 6- Loan to Value Ratio 7- Capital Margin for Important Banks Regulatory locally, 8- Risk-weighted assets, 9- Profit distribution restrictions, others include the ratio of loans to deposits, reducing the interest rate on foreign exchange exchanges by 50 points, and exempting banks for a period of one year from the percentages of concentration of credit portfolios with the largest 50 clients

Source: Arab Monetary Fund, Financial Stability Report in the Arab Countries, Abu Dhabi 2021, p. 139

From the above it is clear that, since the outbreak of the virus turned into a suffocating economic crisis, economic policy makers in various countries of the world have adopted unprecedented monetary, financial and precautionary measures and measures (despite the difference in the available policy space between one country and another) to mitigate the resulting effects and face financial pressures. To support economic activity and maintain financial stability.

Third: Variation in growth paths: the gap between the haves and the have-nots

The global economy is witnessing an uneven recovery, two-way or three-track, and is concentrated in major economies and some other countries, while the economies of emerging markets, developing countries and poor countries are suffering from a slow and weak recovery, as the pandemic has dissipated the gains made before in the field of poverty reduction and led to the exacerbation of poverty. Food insecurity and other challenges exist in low-income countries, and the governments of these countries face difficulty in achieving recovery and maintaining a stable and sustainable economy (28).

Economic growth declined in 2020 to record a growth rate of -3.4 percent globally. South Asia contracted the most with a rate of -5.2 percent, followed by Latin America and the Caribbean at -6.4 percent, then the advanced economies came at a rate of -4.6 percent, while the Central Europe was the least affected region with a rate of -2.0%, while East Asia and the Pacific was the only region that recorded positive growth rates of 1.2%.

While the support from developed countries continues to stimulate economic activity and face the repercussions of the outbreak of Corona and its variants, by the end of 2020, the period prescribed for most of the measures taken by emerging market and developing economies has ended, and they began to think about rebuilding the safety margins in their public finances, and some emerging markets also began to raise The interest rate of its monetary policy to ward off price pressures. The following figure shows the wide disparity in the available space between developed countries, emerging markets and low-income countries.

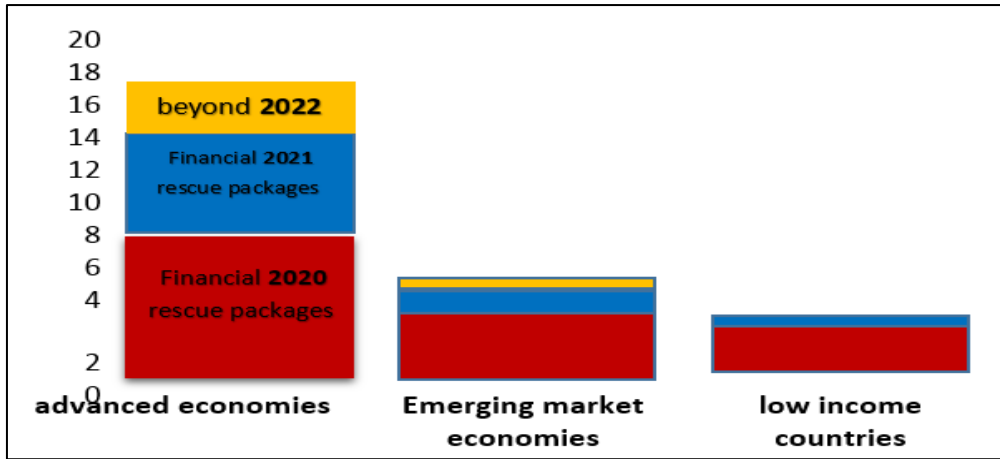


Figure 3: The disparity in policy support provided to stimulate economic activity

reference: Adapted by researchers from: Gita Gopinath, More Divergence: Gaps Widen Between Paths to Global Recovery, International Monetary Fund, 2021 (29)

In light of the support policies, rescue packages, and unprecedented support for fiscal and monetary policies since the beginning of the pandemic to revitalize the economy and spread vaccines at an accelerating pace, economic growth returned in 2021 to reach about 5.5% globally, but it is noticeable that economic growth witnessed great variation and took multiple paths and at different speeds. South Asia and East Asia and the Pacific were the fastest growing, reaching 7.1% and 7%, respectively, followed by Latin America and the Caribbean with a rate of 6.7%, and then emerging economies with a rate of 6.3%, while the Middle East and North Africa recorded Sub-Saharan Africa has growth rates of 3.1% and 3.5%, respectively.

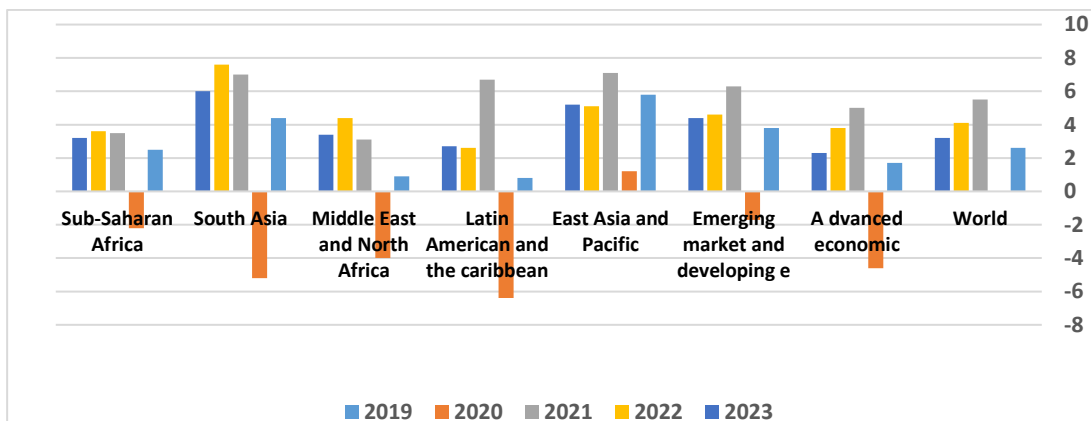


Figure (4): Economic growth rates for the period 2019-2023 2022and 2023 forecasts, figure from researchers' work based on: World bank group, global economic prospect, Washington, January 2022, p5.

From the above, it is clear that in 2021 the global economy witnessed a three-track recovery and recovery. There are countries and regions that witnessed growth rates that ranged between 6-7%, while there are countries in which growth rates exceeded 5%, and poor and low-income countries witnessed growth rates that ranged between 3-7%. 3.5%. Most studies and reports issued by the International Monetary Fund and the World Bank indicate that developing and low-income countries are witnessing a fragile and slow recovery due to the erosion of the fiscal space and the shrinking of the available space for economic policies (30).

In this context, estimates indicate that the losses of the pandemic would have been three times more had it not been for the support measures and the space available for policies, and therefore the effects of the pandemic focused on a number of countries that did not have enough space to confront it and respond to its repercussions (31).

The Organization for Cooperation and Development has indicated the need not to rush to withdraw financial support measures early to avoid unfavorable effects, similar to what happened in the wake of the global financial crisis (the mortgage crisis 2007).

At the beginning of 2021, the Global Economic Prospects report was issued, and it indicated that, after a strong recovery in 2021, the global economy is expected to witness a sharp and strong slowdown in the midst of new risks stemming from Corona’s variables, high levels of inflation, debt and income inequality in the context of continuing Disruption of economic activities in the near term, and the noticeable slowdown in advanced economies, including (the United States and China) will affect external demand in emerging market and developing economies (32).

The report indicates that economic growth rates will witness a slowdown and decline during 2022 and 2023, and all regions and regions will be affected, as it is expected to reach about 4.1% and 3.2%, respectively, which means a decline of two points compared to 2021, and all regions and all countries of the world will be affected. With the exception of South Asia, which is expected to record 7.6% and 6.0% growth in 2022 and 2023, respectively, most emerging market and developing economies are expected to witness a significant decline in output as a result of the pandemic, while expectations indicate that low economies will record Income growth rate does not exceed 3%, which is the slowest growth in the last twenty years, and its growth paths will not be strong enough to return investment or output to pre-pandemic trends in the time period covered by the forecast 2022-2023 (33).

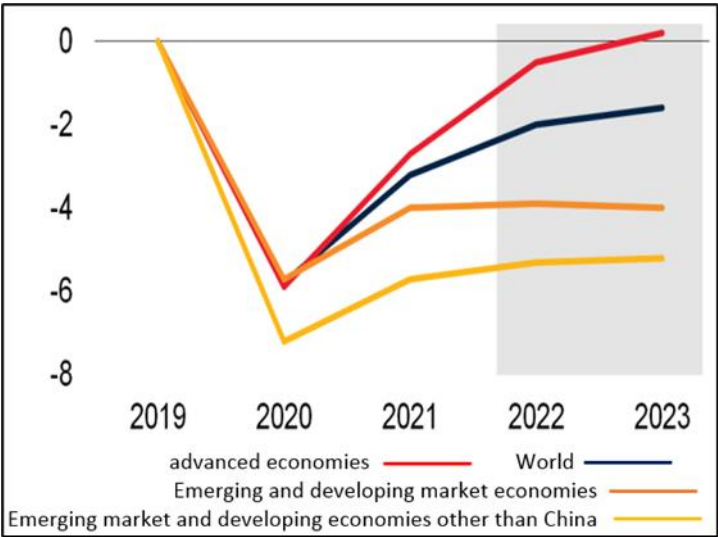


Figure (5) Deviation from pre-pandemic levels

On the other hand, UNCTAD reports indicate that the rescue packages and the space available for economic policies to support the recovery strongly contributed to the recovery of foreign trade throughout 2021, and its growth remained strong, reaching nearly 28.5 trillion dollars, an increase of 25% compared to 2020 in 2020, and an increase of 13 % compared to pre-pandemic levels, and reports indicated that the strong growth of foreign trade resulted from easing restrictions, rescue packages and support provided by economic policies.

It is expected that foreign trade will slow down again during 2022 and 2023, affected by the slowdown in economic activity and the ongoing challenges to global supply chains, and it is expected that services trade activity will remain subdued (especially tourism activity), all of which are due to the decline in support provided to recover from the repercussions of the pandemic.

With the shrinkage of the available financial resources, the narrow policy space and the lack of financial buffers to confront the pandemic, this recovery will continue in a bilateral or triple track, and poor countries will be unable to support their economies, and this may cause major economic challenges that these countries cannot face in the future.

Third: The Iraqi economy: successive crises and a narrow space for economic policies.

Before the Corona pandemic, the Iraqi economy faced difficult challenges. In addition to the political instability and security turmoil, it was exposed in the middle of 2014 until 2017 to a stifling crisis called the crisis or the double shock (ISIS terrorist occupation of a third of the area of Iraq and the drop in oil prices), which had negative and significant repercussions on the economy, However, the return of oil prices during the period at the end of 2017-2019 alleviated the severity of the crisis and allowed the government to expand the current spending by no means, to raise the volume of government spending to about 67% in the 2020 budget.

In November of 2019, large-scale popular demonstrations and protests began due to poor economic conditions, high unemployment rates and high poverty rates that forced the previous government to resign, after

which a health crisis erupted due to the outbreak of the Corona virus, which quickly turned into an economic crisis due to the cessation of most economic activities. And social distancing measures to reduce oil prices (the only resource for financing the budget) to more than 50% at the beginning of the crisis, to form a new complex and complex crisis with dimensions (health, economic and political). It quickly cast its negative shadow on the Iraqi economy, as oil revenues became unable to cover operating expenses due to the drop in oil prices and the (OPEC +) agreement, which reduced about one million barrels of Iraq's exports, not to mention the decline of most other economic sectors, especially transportation, services, banking and tourism, which It constitutes about half of the non-oil output.

1- The impact of the pandemic on the Iraqi economy and the collapse of oil prices

The Corona pandemic has invaded Iraq, and it is already suffering from political and social turmoil, along with a fragile economy that is unable to face the challenges and pressures imposed and imposed by successive crises. The outbreak of the pandemic led to the suspension and closure of most economic activities as a result of the measures taken to confront it, so that the demand for oil decreased significantly, and the markets were exposed to a strong shock due to the supply glut, as oil prices lost more than 50% of their value, which was reflected in the performance of the Iraqi economy being the main source of financing Budget and engine of economic activity. The drop in oil prices affected public spending, both operational and investment, which in turn led to a decrease in the overall demand for goods and services due to uncertainty.

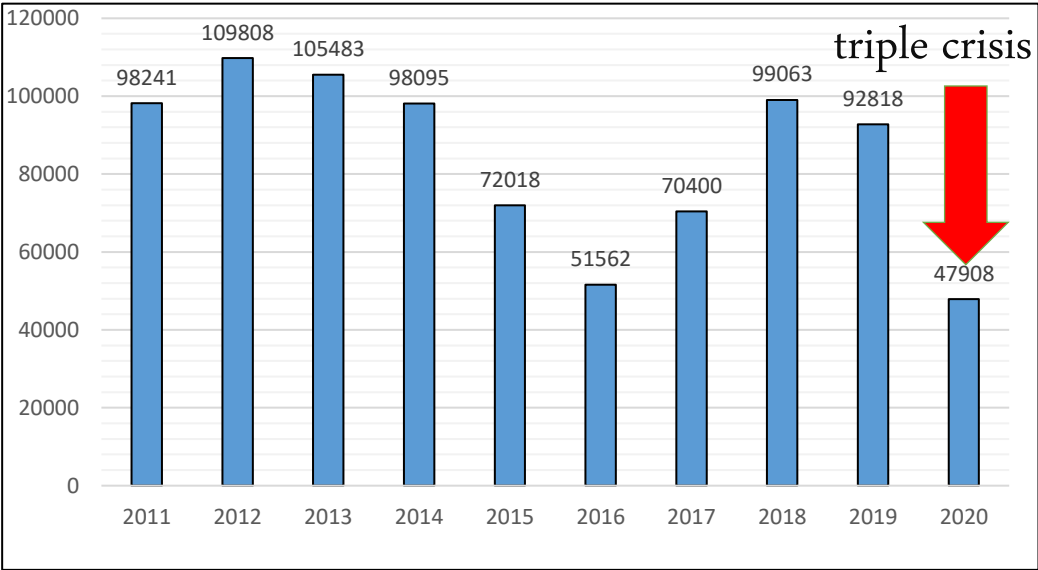


Figure (6) Oil revenues for the period 2011-2020 (billion dinars)

The form of the researcher's work based on:

- Ministry of Planning, Central Statistical Organization, Annual Statistical Group, various numbers

The decline in global oil prices due to the pandemic and the abundance of supply, as well as the reduction in production quantities resulting from the OPEC + agreement, negatively affected the gross domestic product, which suffers from a clear structural imbalance as it depends on oil exports only, which constitutes more than 50% of it and about 91% of the country's financial resources. and 99% of its exports, and the crises that the Iraqi economy has witnessed during the past six years have imposed enormous pressures on the performance of economic activity, causing the gross domestic product, whether oil or non-oil, to decline significantly and clearly, as the gross domestic product shrank by about 11% in 2020.

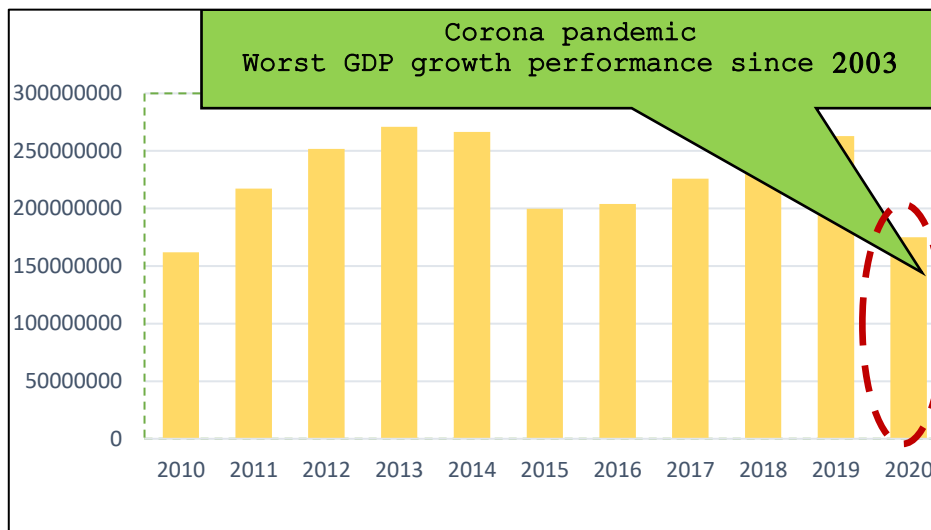


Figure (7): GDP for the period 2010-2020 (million dinars)

Figure of researchers' work based on Ministry of Planning, Central Statistical Organization, Annual Statistical Group, various issues.

The performance of economic growth has been significantly affected by the pandemic due to the drop in oil prices, and the pandemic has doubled the difficulty of the economic conditions that Iraq faced before the pandemic, bringing the average per capita income down from \$5,539 in 2019 to about \$3,850 in 2020. Iraq recorded the highest decline in Growth rates in GDP at constant prices in the Arab countries after Libya and Lebanon decreased by 15.5% compared to the rates achieved in 2019.

Table (3) Growth rate of GDP in local currency and dollars (2019, 2020) (%).

GDP growth rate in national currency		GDP per capita growth rate		GDP growth rate in dollars	
2019	2020	2019	2020	2019	2020
4.5	10.9-	1.9	13.5-	2.6	28.7-

reference: Arab Monetary Fund (and others), Unified Arab Economic Report, Abu Dhabi, 2021, p. 29.

The pressures to increase spending to face the crisis have generated growing financial commitments and transferring financial resources from other doors to finance these commitments, which was reflected in the increase in the budget deficit during the year of 2020.

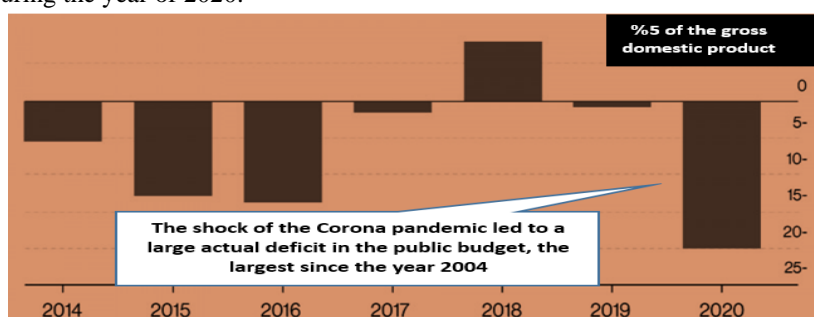


Figure (8) The budget deficit for the period 2014-2020

Source: Adapted by the researcher

- Abeer Abo Omar, Khalid Al Ansary, Iraq's Currency Devaluation May Not Be Enough to Salvage Sinking Economy,

Non-oil revenues witnessed sharp declines to reach about 10 trillion dinars in 2021 compared to 33 trillion dinars in 2015, which reflects the dominance of oil revenues over financial revenues in the country, and as a result the public debt (external and internal) has risen to nearly 130 billion dollars, including 25 billion sovereign debts

payable during the period 2020-2028 from the remnants of Paris debt, and 12 billion dollars due to the repercussions of the double crisis (ISIS and low oil prices), in addition to 43 billion dollars in sovereign debt outside the Paris Agreement, as well as 60 billion dollars in debt Internal, whether in cash or in return for a guarantee to pay the debt from the Ministry of Finance, and data from the World Bank indicate that the debt is expected to reach approximately \$170 billion in 2024.

In general, the outbreak of the Corona virus contributed to the exacerbation of the financial crisis in Iraq, and the actual revenues decreased by -41.2% in 2020 compared to the actual revenues of 2019, and the options available to the government to get out of the hardship are limited in light of the lack of adequate space to deal with the crisis, as well as the lack of A financial budget that manages the economic situation of the country during 2020, not even financial resources available to confront the outbreak of the Corona epidemic, nor financial allocations to the dilapidated health sector to mitigate the health effects, and there is no plan for financial rescue in light of the increasing need for social spending and the need to support those affected by urban procedures and disruption. The volume of reserves with the Central Bank decreased by 2%, and the external economic situation witnessed a significant and sharp deterioration and the current account deficit increased (33).

Second: Measures taken to confront the pandemic Space for economic policies in Iraq

In the context of facing the Corona pandemic, the government has taken a set of measures in terms of fiscal and monetary policies.

1- Fiscal Policy:

The fiscal policy represents the first line of resistance (in the economic aspect) to mitigate the negative effects of the pandemic, and it is clear that the Iraqi government did not put the constraints of the economic situation resulting from the Corona pandemic, as it did not take decisive and strong measures to mitigate the impact of the crisis, and the financial policy became suffering from a double shock. On the level of spending to meet the spending requirements on the health sector, and on the level of revenues due to the drop in oil prices and the lack of financial resources to cover the increased spending, but the matter went beyond making the revenues insufficient even to secure and cover the salaries of the public sector, and the government endeavored to search for debts, whether internal or In order to face the decline in oil prices and provide the financial resources necessary to fill the shortfall in revenues, Parliament has approved a law on public internal borrowing in the amount of 12 trillion dinars (approximately 10 billion dollars) to cover salaries and wages, and then the public debt may increase to levels that exceed international standard ratios, which It constitutes a grave danger to the future of the Iraqi economy. The Prime Minister stated during a press conference to the government's ability to provide salaries and wages during the first month of 2021, which reflects the fragility and weakness of the Iraqi economy.

It is noted that the government, instead of providing rescue packages through more financial resources to support economic activity, the government has significantly reduced spending, especially investment spending and focus on securing salaries and supporting the health sector, and this is due to the lack of financial space due to the nature of the Iraqi economy linked to oil prices.

The Iraqi government, through the Ministry of Finance, allocated at the end of June 2020 additional funds to enhance the budget of the Ministry of Health to confront the new Corona Virus Disease (Covid-19), at a value of 50 billion Iraqi dinars (about \$40 million) to confront the Corona pandemic. Statistics indicate that the financial rescue packages amounted to about 0.2% of the gross domestic product, which is a weak and almost negligible percentage compared to the countries of the world in general and the Arab countries in particular.

2- Monetary and Banking Policies:

In the context of efforts aimed at staving off the imminent danger, monetary policy attempted to confront the shock and mitigate its severity and took a number of measures, namely.

- The Central Bank of Iraq established a fund to collect donations from financial institutions worth 30 million dinars to be placed in a bank account designated for this purpose, as well as donations from banks and financial institutions from the public and private sectors amounted to about 17.34 billion dinars.

- Deducting treasury transfers by approximately 26.4 trillion dinars during the year 2020 to fill the deficit caused by low oil prices due to the effects of the pandemic and its consequences.

Postponing the payment of debt maturities from small and medium enterprises through the direct lending initiative to these companies with a value of one trillion Iraqi dinars, encouraging banks to extend the maturity dates of all existing and future loans to the sectors most vulnerable to the repercussions of the virus, and reducing the cost of borrowing,

- Reducing the mandatory reserve ratio imposed on current dinar deposits to 13% instead of 15% to provide liquidity to the banking sector.

- Enhancing the liquidity of previously funded projects that were affected by the pandemic measures, with an amount not exceeding 5 million dinars, and with the same previous guarantees.

- Postponing the payment of all fines imposed on banks and non-bank financial institutions.

1- Macro-prudential policies: At the level of macro-prudential policies managed by the Central Bank of Iraq, a number of measures have been taken, including.

1- The launch of a new financing package directed to the housing sector through the Real Estate Bank and the Housing Fund at an amount of 3 trillion dinars with a term of installments of 20 years. With regard to the real estate bank, the lending ceiling reached 125 million dinars for units within residential complexes with a commission of 5% and 100 million dinars for units outside residential complexes and at an interest of 2 % annually.

2- Coordination and dialogue with international organizations (the International Labor Organization, the Islamic Development Bank, UNDP, the Korean International Cooperation Agency) in order to benefit from the offers made to finance or guarantee loans granted to finance large, small and medium projects and microfinance within the initiatives of the Central Bank.

3- The Central Bank has adopted a set of projects to enable the digital economy, to create a strong and stable financial and monetary sector that will gradually be reflected in economic growth, especially after the Corona pandemic, including the project to localize salaries, apply the electronic collection system and enhance financial inclusion, and the project to link with the regional system for clearing and settling inter-Arab payments (Bunni platform) and the adoption of the Iraqi dinar as one of the main currencies in this system, and the continuation of studies and research on the possibility of launching and using the digital dinar and addressing the obstacles that stand in the way of this project and creating areas that require the use of this type of transactions.

From the above it is clear that there is a wide gap between the measures taken by the countries of the world to confront the pandemic and the measures taken in Iraq, which is self-evident in the Iraqi economy, which suffers from conflicts, conflicts and fragility, as well as its dependence on a single source of financing, and therefore the space for economic policies What is available is almost non-existent or very weak, and economic policies do not have sufficient flexibility to move towards facing the crisis.

Third: The response of economic growth to the space available for economic policies in Iraq

Iraq entered 2021 suffering from the repercussions of low oil prices, strong financial fragility, high debt levels and deep imbalances, and statistics indicate that oil revenues amounted in 2020 to about 41.7 billion dollars, with exports dropping by 55% and revenues by 46% as a result of the health crisis and the drop in oil prices, which It amounted to about \$38.8 on average, and all of this led to a narrowing of the available policy space, and an inability to face economic challenges.

In general, and in the context of lifting restrictions, the return of economic activity and the recovery of global demand during the second half of 2021, oil prices rose significantly to reach about \$70 as an average. For 2021 (that is, an increase of about 65% over the prices fixed in the general budget law), and this price hike certainly had positive results on the Iraqi economy.

In the middle of 2020, the Iraqi government prepared a reform paper, "the White Paper", which was consistent and consistent with the memorandum of the World Bank "Rising from the Reality of Fragility" in order to achieve sustainable financial stability through economic reforms, rationalizing public finances, controlling government spending and trying to get rid of the rentierism of oil and achieve diversification. Economic. On the other hand, the Central Bank depreciated the exchange rate in an attempt to maintain international reserves at safe levels.

Reports indicate that the Iraqi economy has achieved a clear recovery during 2021 as a result of the rise in oil prices, the devaluation of the currency, the rise in foreign reserves, and the transformation of the planned budget deficit into a surplus. Economic growth reached about 0.9% during the first half of 2021, and the current account deficit turned into a surplus. It was about 4.7%.

In general, the improvement that occurred in the conditions of the Iraqi economy and the return of its recovery was supported by the strong rise in oil prices in global markets, and the financial rescue packages had no significant importance in supporting the economic sectors.

Although this tangible improvement in growth is fraught with risks, as it is a transient growth as a result of dependence on oil prices, and often excessive rises in oil prices portend severe subsequent declines, and therefore these high levels should not be relied on in formulating economic policies in Iraq.

Conclusions and Recommendations

Conclusions

1- The global economy faced the worst health crisis in 2020 that led to a sharp decline in economic activity, causing the global economy to face a double shock (supply and demand shock) that was reflected in economic growth rates, causing the global economy to shrink by -3.4% in 2020, to witness the world's deepest recession since the 1930s the last century.

2- To confront the pandemic, the countries of the world have taken measures at the level of public finance equivalent to about 18 trillion dollars, and the central banks in the countries of the world have tended to adopt measures and packages of measures amounting to about 6 trillion dollars.

3- The year 2021 witnessed a two-way or three-track (multi-speed) recovery and recovery. There are countries and regions that witnessed growth`

Recommendations

1- Economic policy makers at the international level should benefit from the experience of the Corona pandemic to build strong health systems that can face such crises, build financial margins, invest in health and social protection, and develop strategies to deal with and combat health crises in the future.

2- The necessity of working to establish a sovereign fund in Iraq in which the financial surpluses resulting from the rise in oil prices will be placed, for its role in providing an appropriate space for economic policies that help in protecting the economy and avoiding crises and mitigating them in the future.

3- Working on reforming the public finances in Iraq and continuing efforts to direct spending, achieve efficiency and enhance debt management to avoid returning to the borrowing path.

4- Improving the investment and business climate and mobilizing private investments to mitigate financial risks and create a more enabling investment environment for economic growth in the Iraqi economy.

5- The necessity of approving and activating the Iraqi public-private sector partnership law and unleashing the potential of the private sector to contribute to economic growth, because of its active and strong role in providing revenues to the state through taxes, fees and others, in addition to being a sector that provides job opportunities and supports employment.

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