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## The Role of the Iraq Stock Exchange in Creating Government Fiscal Space: A Forward-looking Perspective

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### Abstract:

The stock market is one cornerstone of an economy, and relying on limited financial resources in any country has become increasingly challenging. Recognizing the significance of the financial market in bridging the financing gap in the economy, most countries have acknowledged its pivotal role, especially in the aftermath of numerous global financial crises. This acknowledgement involves mobilizing savings from surplus entities to deficit entities and channeling them into various investments by issuing financial instruments such as stocks, bonds, and government securities. Consequently, the financial market provides liquidity and cash flow, creating a fiscal space that can be utilized to fund developmental investment projects without the need for external borrowing and the associated risks of high interest rates on loans, which can impact the government's ability to repay. Therefore, the primary objective of this study is to analyze the reality of the Iraqi securities market (ISX) using financial market indicators and the government's ability to leverage the financial market to generate high financial, which Iraq's government needs. Thereby expanding the government's Fiscal space. The research revealed that the Iraqi securities market (ISX) needs more capacity to diversify its financial sources and attract local and international investments. Additionally, there is an almost complete absence of the issuance of government securities, which could contribute to creating the government's Fiscal space.

**Paper type:** Research paper.

**Keywords:** Iraq Stock Exchange, Government Fiscal Space, Government Bonds, Sustainability.

## **1.Introduction:**

The fund is considered the primary driving force for any economic institution and is one of the pillars of the economy. Given the periodic financial crises that the global economy experiences, researchers have shown increased interest in addressing financial crises by exploring new and non-traditional revenue funds that provide necessary liquidity, away from external borrowing and its associated adverse effects, such as the increase in debt service on the national economy in this context.

The role of the stock market is highlighted through its fundamental function of mobilizing financial savings and transferring them from surplus to deficit sides to finance investment projects. Such a function positively affects the national economy, contributing to economic and financial vitality for Countries. Moreover, it allows investors to profit when contributing to financing investment projects based on the type and form of funding.

The role played by the stock market in economic life depends on the degree of development and organization of the market, as well as the reduction of risks associated with fluctuations in securities prices. This positive impact on the country's economic development is reflected in the country's economic growth and development. Therefore, this research explores the role of the Iraq Stock Exchange in supporting economic activity in Iraq and activating its role by providing the necessary liquidity for financing investment projects, considering it as a supporting entity for the government, as is the case in most developed countries.

### **1.1 Literature Review:**

There are many studies discussing the stock market, as follows:

Alani (2013) wanted to confirm how important the stock market is in evaluating its role in transitioning towards a market economy. It examined the problem of the government's failure and its public sector, exploring its economic orientations due to internal or external factors that led to the loss of decades of development. This resulted in indebtedness to the International Monetary Fund or the World Bank, with its associated conditions regarding financing; the research hypothesis suggested that activating the transition towards a market economy and establishing the foundations of its success requires the presence of an efficient securities market. The government plays a role in building its legislative and institutional framework in line with the philosophy of economic freedom; the study concluded that the importance of the securities market during the transition period is a response to economic developments rather than a government decision.

Abdul Haq (2017) concluded that it was necessary to understand the developments in the Arab stock market, its operation mechanisms, the diversification of traded instruments, and the extent of openness to investors. The study focused on understanding how stock markets finance economic development in some Arab countries. It assumed that financing economic development requires the existence of an efficient financial market achieved through developing market performance, providing a conducive investment climate, and diversifying financial instruments. The study concluded that financial markets impact economic development and play a significant role in financing it.

Daham (2021) investigated the effectiveness of financial markets in financing investment projects in developing countries, focusing on the Algerian and Egyptian financial markets. Development is the primary goal for developing and developed countries, which requires channels to attract financing. Therefore, financial markets are crucial to influence economic financing positively. The research problem centred on how to make these markets efficient in perfecting investment and how effective they are in developing countries financing investment projects. The study concluded that financial markets in developing countries stand for an excellent investment opportunity and a significant factor in attracting local and foreign capital, especially in stable economic, political, and security conditions.

Jalill (2022)) concluded to understand the role of the Iraq Stock Exchange in developing local savings in the context of the phenomenon of hoarding for the period (2004-2020). The research aimed to determine the amount of savings the market could attract and channel into investment and identify the problems hindering the increase in savings. The research problem is rooted in the lack of a developed securities market, which is one of the reasons for the low and declining savings rate in Iraq. Additionally, Iraq needs to be visionary about financial culture, awareness of savings, and their effective utilization for public benefit. The study concluded that the limited savings capacity could be employed through the primary market towards long-term investments. However, the market's size is weakened due to its restriction on ordinary shares.

Also, many studies discuss fiscal space, as follows:

Cheng and Pitterle (2018) explained that the prolonged sluggishness in the world economy since the global fiscal crisis has led to growing calls for reorienting macroeconomic policies toward more supportive fiscal measures. Such calls inevitably raise the question of how much fiscal space governments have. This paper systematically reviews the most popular definitions and measures of fiscal space. It examines the evolution of fiscal space measures and discusses the pros and cons of each measure. It then outlines several key factors that could help to strengthen existing approaches further and allow a more comprehensive assessment of fiscal space; by illustrating how different measures paint different pictures of an economy's fiscal space, the paper underscores the need to use a dashboard of indicators.

Aizenman et al. (2019) confirmed that many countries need more financial capacity to cope with periodic financial fluctuations. The study aimed to identify the flexibility of public sector funding during recessionary periods as a critical factor in determining fiscal space and providing funds more effectively. The study concluded that reducing external and internal private and public debt as a percentage of the gross domestic product (GDP) and the ability to borrow in local currency are linked to the available fiscal space. This allows for borrowing at a lower cost during challenging times.

Hussein (2020) revealed that Iraq needs to improve its infrastructure and delayed projects, with a small budget allocated to vital sectors due to inefficient distribution. The study aimed to highlight the importance of fiscal space in reactivating revenues and its implications for driving human and material development through infrastructure development and restructuring; the study concluded that wars and harsh conditions in Iraq had forced governments to sacrifice, directing available fiscal space towards security and defence, losing the opportunity to invest in projects that could uplift the country's reality.

Taleb (2020) examined the contradictory relationship between financial fragility and fiscal space and its impact on financing the general budget in Iraq. The research aimed to study, analyze, and illustrate the reality of fiscal space in the Iraqi economy from 2003 to 2018. Iraq suffers from financial fragility in a way that hinders funding the general budget, supporting local investments, and facing shocks and emergencies, negatively impacting the creation of fiscal space. The study concluded that the state could not continue borrowing to finance its general budget due to its weak creditworthiness and the absence of internal funding sources from the banking sector, which is attributed to the weakness of financial depth, deepening the fiscal space's limitations.

There is a study linked between the first and second variables, such as:

The International Monetary Fund (2021) concluded that developing the government bond market is a complex task that depends on the evolution of each country's financial and market systems. For many governments, this involves immense challenges. The study emphasized the importance of developing the government bond market after the international financial crises and narrowing the gap between fundamental studies of the stock market and market development. It identified crucial issues facing policymakers seeking to support and develop the stock market in general and the government stock market.

The study concluded that some governments rely on a few local banks for financing, making competition rare and transaction costs high. The proliferation of government agencies issuing securities can lead to the fragmentation of national government securities markets. The absence of proper market infrastructure can further exacerbate these challenges.

The research problem is that government revenues are limited by the decline in revenues from oil sales and what accompanies them, and the increase in public expenditures will lead to a financial gap in the general budget, exacerbating indebtedness. Here, the following question jumps to mind: What is the role of the stock market in aiding the state through a government bond providing financial aid and financial sustainability in Iraq with a proposed scenario to achieve this?

The objective of the research is to analyze stock market indicators for the period 2014–2021

## **2. Material and Methods:**

The research hypothesis focuses on how to create and expand government fiscal space by relying on the stock market by offering government bonds on the market. The goal is to provide financial assistance to the state to achieve financial sustainability and reduce debt.

### **2.1 financial markets:**

#### **2.1.1 The concept of financial markets:**

The financial markets do not differ from other product markets or factors of production in being a meeting point for the demand and supply streams, determining equilibrium price levels, allocating resources, and establishing profit and loss levels for market participants. What distinguishes the financial market is the nature of the transactions that take place in it, as it is a market for financing that involves the supply and demand for capital (Dagher, 2007). Financial markets have a broad concept encompassing both banking and non-banking financial institutions, currency exchanges, and stock exchanges. Therefore, creating a homogeneous and coherent composition for financial markets, in general, has been challenging. However, there are unifying factors, especially the dual mission dealt with in market mechanisms: the duality of return and risk (Al-Jameel, 2015).

#### **2.1.2 Importance of Financial Markets:**

The securities market is highly significant for the government, deriving its importance from government bonds traded within it. It is a crucial channel through which funds flow from surplus to deficit entities (WB and AMF, 2001). Additionally, it enables the government or one of its public institutions to borrow funds from individuals or entities by issuing securities (government bonds, treasury bills) for trading, thereby financing budget deficits, combating inflation, or initiating major development projects (Abdel-Moaty, 2016). Bonds typically have long maturities, while treasury bills have short maturities, emphasizing the market's importance from various perspectives:

-The government's primary source of long-term funds is the securities market.

-It constitutes an essential element in the investment portfolio for many investors, such as pension funds and insurance companies, being prominent investors in high-quality government bonds.

-The securities market provides a risk-free investment avenue for local government bonds, as the government's ability to repay the debt and the associated interest is considered specific; the government is unlikely to default on its obligations (Abdulatif & Hamad, 2018).

The returns on government bonds can be relied on to determine other interest rates, such as corporate borrowing rates (Morsi, 2009).

### 2.1.3 Stock market functions:

Financial markets perform functions that explain their existence and economic importance, as through these functions, the financial system can achieve the best investment of financial resources, and one of the most important of these functions is

**-Diversifying sources of liquidity in the economy:** It is one of the most essential functions of the financial markets, which means the possibility of converting securities into cash liquidity with ease, high flexibility, and a low degree of risk. It also provides investors with various securities, allowing them a “wide” scope to choose what suits their abilities, which is problematic. Imagine it in the absence of these markets. Investments in the stock market provide the necessary financing to enable government business projects to produce the goods and services that people need, in addition to infrastructure projects. With the increasing importance of securities issued by joint-stock companies, governments have increased interest in public borrowing to finance massive projects.

**- The central axis of economic growth:** The primary and fundamental goal of any economy is to achieve economic development and achieve high rates of capital accumulation, which are provided by stock markets through financing long-term projects, as there is a close relationship between the GDP of a specific sector and the securities indicators of this sector in the long and short term.

**-Providing continuous and diverse markets:** The stock market is an open market that enables the trading public to buy and sell securities freely in pursuit of profit or change of investment so that traders can liquidate their physical assets at any time. It provides multiple opportunities to invest their savings, as the markets are open to traders regardless of their financial positions (Al-Jameel, 2015)

## 2.2 Fiscal Space:

### 2.2.1 The Concept of Fiscal Space:

The term "fiscal space" has become popular in recent economic research, emerging when governments have argued the need to ease fiscal constraints to accommodate additional borrowing to finance infrastructure projects. This concept has gained immense importance because of the space available in the government budget, which allows it to provide financial resources to finance various development projects without endangering the stability of the economy, but what governments are keen on is ensuring that public debt moves at sustainable levels and reducing associated risks in both the medium and long term. With the upward trend of public debt in advanced and developing countries alike (Faraj & Ali, 2019), fiscal sustainability has garnered more attention from governments and regional and international financial institutions. *Fiscal sustainability* can be defined as a space in a government's budget that allows it to allocate resources for a desired purpose without jeopardizing the sustainability of its financial position or the economy's stability. In other words, fiscal space must exist or be created to provide additional resources for worthwhile government spending (Heller, 2005).

### 2.2.2 Importance of Fiscal Space:

The importance of fiscal space is highlighted by the pressing need for countries to spend and the challenge of finding the necessary resources to finance expenditures. As governments consider financial sustainability alongside economic growth, additional financial resources become available. This reflects the natural rebound of revenues significantly if expenditure rises slower. The availability of fiscal space over the medium to long term can be an issue that needs addressing. Many industrialized governments have committed budgetary resources to fund social insurance programs. For example, governments take responsibility for post-retirement health benefits or reform retirement pensions (Heller, 2005).



According to reports from the International Monetary Fund, countries such as Australia, Germany, the Netherlands, and Sweden have substantial fiscal space. This reflects several aspects, including these countries' ability to obtain continuous and stable financing from financial markets at low interest rates and the soundness of the state's public finances, and we find that the fiscal space for countries like Brazil, Italy, and Pakistan is minimal. This limitation reflects the heightened risks of financing from financial markets and increased levels of debt and debt servicing. Therefore, countries with limited fiscal space face risks to their overall fiscal soundness. In contrast, countries with fiscal space, though not extensive, such as China, Thailand, Russia, and the United States, do not face significant risks in obtaining financing or in keeping debt within reasonable limits (Claessens, 2014).

### **2.2.3 Uses of Fiscal Space:**

The use of fiscal space varies from one country to another. Owning fiscal space for a country is equivalent to having funds in the bank that can be withdrawn at any time, considering their rational use. Therefore, we see that the government is responsible for building fiscal space sufficiently and using it wisely without harming the long-term economic stability (Haksar et al., 2018). Moreover, the government can use methods to alleviate or repay public debt to encourage foreign direct investment through a specific space in the general budget, thus achieving its desired objectives without jeopardizing the stability of its economy and the sustainability of its financial position. (Hamdan and Hussein, 2020) Government spending is noteworthy, and fiscal space is an important and urgent issue for many countries because their current spending needs are crucial. For example, external grants and aid flows from abroad can provide more fiscal space than loans, considering the ability to repay the debt if the loans are favourable (Majeed & Ahmed, 2021). There are some other aspects of the uses of fiscal space, including the implementation of United Nations development programs, which are:

#### **A- Mobilizing resources for development priorities:**

The options for mobilizing financial resources for human development are diverse. They include harnessing fiscal space and using it for climate purposes, addressing unemployment issues, and creating job opportunities for youth (ESCWA, 2010). Additionally, essential aspects include helping low-income families escape poverty and malnutrition, sending their children to school, obtaining clean water and adequate housing, and leading a healthy life. Educational participation, housing, and women's empowerment programs are crucial. With growth, achieving the Millennium Development Goals is possible (Jansen & Khannabha, 2009). Effective programs to alleviate poverty can lead to a faster reduction in poverty. Economic growth and human development will suffer when the government faces difficulty in providing the necessary funding for infrastructure and social services. Therefore, it is essential to generate additional government revenues to fund government activities and use financial resources more efficiently (Jahan, Jespersen. 2016).

#### **B. Mobilizing resources to improve the health situation:**

Usually, aid provides a fundamental fiscal space that can be used in the health sector. In 2009, Ghana studied the possibility of improving revenue collection to increase the health budget, even though the share of the total government budget allocated to health remained constant. The purpose of the fiscal space within this use is to further invest in the health sector (Jones, 2007).

### **2.3 The reciprocal relationship between financial markets and fiscal space.**

There is harmony between financial markets and the fiscal space as one help achieve this and others in most cases because it helps the key role that the financial market plays in the economy

### **2.3.1 The Role of Financial Markets in Providing Government Financing:**

Government debts continue to increase due to the expansion of their activities. Some governments fear borrowing from the central bank to avoid inflation rate hikes (Jacome and Townsend, 2012). Therefore, governments sell bonds in the securities market. In some cases, the law prohibits government borrowing from the central bank, as in the United States, where the law includes provisions protecting central banks from political pressures to lend to the government. It is noted that buying government securities generates two types of effects on money and capital markets: an increase in the money supply and a reduction in short-term interest rates (Abdel Razzaq, 2017). Therefore, both advanced and developing countries turn to financial markets to find new sources of financing, attract private-sector financial resources, investments, and expertise, and pave the way for sufficient private-sector financing. This enables countries to meet their financing needs to fund strategic goals such as improving infrastructure facilities, ending extreme poverty, and enhancing prosperity. Government investment is crucial because it creates the necessary infrastructure to maintain effective, profitable private investment, production, and competitiveness (Hussein & Hamdan, 2020). The World Bank has worked on adopting various initiatives, such as supporting Kenya in implementing a debt relief program through mobile phone technology. Another initiative involves the experience of the Exchange Traded Fund (ETF) initiative, which is based on considerations for exporters with the Brazilian Treasury. This initiative supports the development of local currency bond markets through an innovative structure of government bonds from this fund (Parabrachial, 2017).

Governments strive within their authority to achieve a more equitable income distribution for their populations. Local governments may be more effective in these tasks because they better understand local conditions. The measures that can be taken to achieve this goal are diverse, and implementing this task can increase fiscal space (Jansen & Khannabha, 2009).

### **2.3.2 The Role of Financial Markets in Expanding Investments:**

When countries stimulate the stock market and increase investment rates in it to finance various economic projects, attention must be given to the following:

#### **A. Increasing the number of financial institutions in the country:**

Financial institutions are considered savings vessels for all individuals and aim to encourage investment to establish productive companies and projects. Therefore, financial institutions are required to do the following:

- Increasing the number of branches of financial and banking institutions.
- Improving and raising the level of financial services.
- Raising interest rates as an incentive to save (Eziro, 2022)

#### **B. Coordination between applicable financial systems and laws:**

This is done by facilitating and encouraging money transfers between countries, regulating laws on currency exchange rates, and legislating tax laws to avoid double taxation.

#### **C. Work to convert savings into investments:**

The financial market is a market for individuals and government institutions to invest their funds by purchasing securities representing shares of industrial or commercial enterprises in the form of bonds. There are several ways to channel savings into investments, such as: (Fathi & Youssef, 2019)

- 1- Mandatory deductions from employees' salaries in percentages in exchange for granting them shares in joint-stock companies.
- 2- Establishing investment clubs, which are specialized associations. The association invests individuals' funds on their behalf by purchasing securities.) Al-Aside and Al-Kubaisi,2023).

### **2.3.3 The Reciprocal Relationship Between the Stock Market and Government Bonds:**

With the increasing role of the state in economic activities, countries have turned towards developing financial markets, leading to an expanded role of financial markets in economic performance. Financial markets now play vital functions in economic systems, offering governments a broad avenue to provide the necessary liquidity to finance their fiscal deficits. This is achieved through issuing government debt securities in the market and conducting subscriptions with individuals, commercial banks, and other institutions (Abdullatif & Akawee, 2023). The stock market allows traders to buy and sell securities issued by institutions or Government bonds, also known as treasury bonds, which are financial instruments issued by the government to support government spending on developmental projects. They represent a form of debt-based investment with a predetermined interest rate. These bonds can have medium or long-term maturity and are tradable. They are considered low-risk investments, providing investors with a stable source of income, albeit sometimes nominal, as in the case of Treasury bonds issued by the federal government. Investors receive semi-annual interest payments, and many choose to hold bonds in their portfolios to save for retirement, education, or other long-term needs. Diversifying into bonds is a common strategy among investors to reduce risks and maximize returns (Chambers & Dimson, 2016).

Several types of government bonds are traded to expand fiscal space:

#### **1. Development bond:**

These bonds are issued in US dollars at different interest rates to mobilize the savings and deposits of the country's citizens working abroad to finance development requirements and projects to mitigate and adapt to climate change's effects. These bonds are distinguished by being exempt from taxes and fees and not subject to any restrictions. Censorship (Hussein & Hamdan, 2020)

#### **2. Housing Bonds:**

These bonds are issued in the local currency to finance construction and housing projects. Investors in new buildings commit to investing a percentage of the building's value in housing bonds. These bonds often enjoy tax exemptions, except for inheritance tax.

#### **3. International Institutional Bonds:**

Issued by international institutions such as the World Bank, these bonds are traded in various financial markets. They pool savings during periods of financial surpluses in countries. The funds raised through these bonds aim to finance countries facing balance of payments deficits (Abdel-Motaleb, 2016).

#### **4. Green Bonds:**

The government issues these bonds through the Ministry of Finance. The ministry is responsible for issuing the bonds; the proceeds are deposited in general financing accounts (Green et al.). The purpose is to finance sustainable development projects with a duration of five years and varying interest rates. Green bonds are a financial solution to meet urgent needs for environmentally sustainable investments. The proceeds from bond sales can be allocated to fund clean transportation, increase the share of renewable energy in electricity, combat pollution, adapt to climate change, and diversify government financing sources (Pazarbacioglu, 2017).

## **2. 4 The Emergence and Development of the Iraqi Stock Exchange and the Size of the Market's Performance**

### **2.4.1 The Emergence and Development of the Iraqi Stock Exchange**

First Stage: The initial attempts to establish an Iraqi financial market date back to 1921 in the twentieth century when the first joint-stock company was established. Subsequently, a law allowing the trading of stocks and bonds was issued in 1939, with a few companies in existence. With continuous development, the number of traded companies increased, reaching 40 companies in 1950, trading their stocks in an informal market.



Then, Law 31 of 1957 was issued, allowing the public to subscribe to shares in these companies, and four brokerage offices were established. After the political events in Iraq in the first half of the 1960s, Law 100 of 1964 was issued, nationalizing companies and commercial banks. This led to a significant decline in stock trading, and economic activity was managed by the state until the first half of the 1980s. (Shamkhi and Hameed.2021)

*Second Stage:* Starting in 1987, the Iraqi economy underwent various transformations, giving a more significant role to the private sector. Joint stock and mixed companies between the public and private sectors were established. There was a need for a regulated financial market to trade the stocks of these companies. The Arab Investment Law No. 46 of 1988 was issued, providing tax exemptions and capital transfer freedom for Arab investors (Al-Hilfi, 2008). Subsequently, the Baghdad Stock Exchange was established under Law No. 24 of 1991, officially opening for trading on March 23, 1992. The exchange facilitated the trading of shares of Iraqi joint-stock companies, government bonds, treasury transfers, and Iraqi and non-Iraqi securities. It focused on regulatory aspects and diversified investment instruments to attract savings.

Additionally, Companies Law No. 21 of 1997 encouraged the establishment and developing of private and mixed companies. The Financial Investment Companies Law No. 5 of 1998 allowed the establishment of investment companies, particularly in issuing bonds, loans, and certificates of deposit at prescribed interest rates. These companies also buy and sell treasury transfers, stocks, and bonds and manage financial brokerage activities.

*Third Stage:* The Iraq Stock Exchange, in its current form, was established in Baghdad by Law No. 74 of 2004. It adopted the same principles and methods used in the previous Baghdad Stock Exchange, employing the same staff. Initially, stock trading was manually conducted on plastic boards. This method continued until 2009, when the exchange transitioned to electronic trading of shares of Iraqi joint-stock companies and government bonds. Additionally, 39 licensed brokerage firms were established. The link between brokers and government intervention was severed, and the Ministry of Commerce, which used to grant licenses to financial brokerage companies, was no longer involved.

The market operates under the supervision of the Iraqi Securities Commission, an independent body modelled after the U.S. Securities and Exchange Commission. The commission aims to stimulate economic development, establish market rules and foundations, strengthen investment structures, promote fairness among market participants, and protect investors' interests in the market (Al-Hilfi, 2008).

#### **2. 4.2 Size of the Market Performance:**

The Iraq Stock Exchange has witnessed significant development since its official start in 2004, as the number of sectors contributing to the market was (7) sectors: (the banking sector, the insurance sector, the industrial sector, the investment sector, the services sector, the agricultural sector, hotels, and tourism). The banking sector represents (64%) of the total shares traded, while the other sectors represent (36%) of the total shares.

The number of contributing sectors continued to increase to (8) sectors, which included (telecommunications and money transfer companies), and the number of brokerage companies also increased. Finance to (42) companies is. gov, (2018-2021)

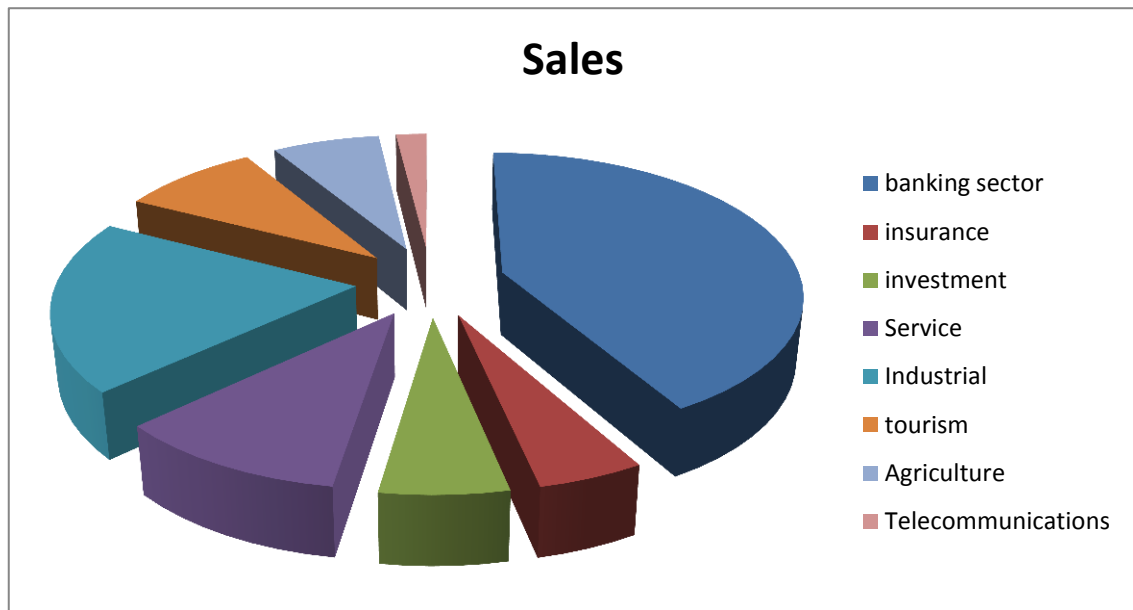
### 2.4.3 The Degree of Development of the Iraqi Stock Exchange Indicators for the Period (2014-2021)

Since its establishment in 2004, the Iraq Stock Exchange has witnessed many efforts by the market's Board of Governors to develop its tools and indicators and provide appropriate conditions to encourage investors at home and abroad to mobilize their savings and direct them towards investments that achieve good profits in the long term, (isc.gov. IQ, Annual Report), as the banking sector accounts for the most significant percentage of stock trading in the market, as its percentage reaches (64%) compared to the rest of the economic sectors, which represent (36%) of the total shares, which is considered the dominant sector in trading, in addition to companies in the sectors. Several types of oils have a significant role in revitalizing the market (Majid & Abdel Sattar, 2019). Despite the significant decline in oil prices in 2014 and the accompanying political and military conditions, which exposed the country to severe harm from the decline in national income and the decline in economic growth rates, it affected the activity and work of the market. Securities, until the introduction of improvements in trading systems and the adoption of global indicators in trading, such as the company's system (NASDAQ competent authorities to approve the treatments applied in global and Arab markets to attract investments and encourage trading in securities (International et al., 2017)

**Table1:** Degree of development of Iraqi stock market indices for the period (2014-2021)

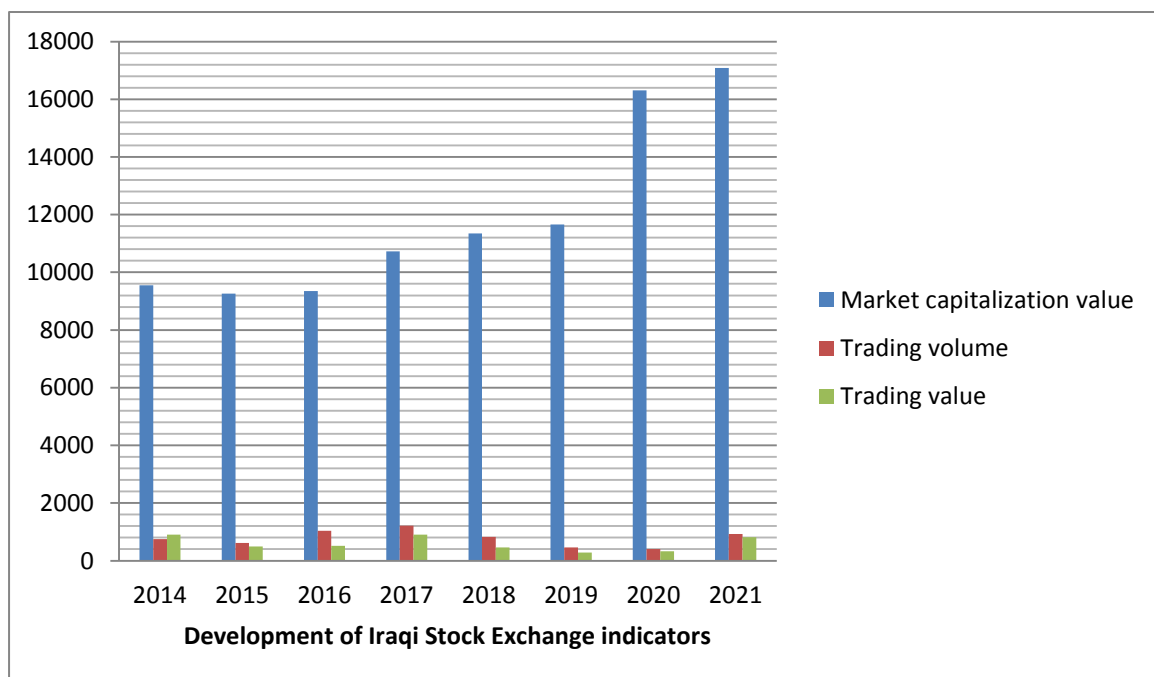
Market performance indicators	2014	2015	2016	2017	2018	2019	2020	2021
First: Number of trading transactions/million shares	104,6	120,7	111,2	958,1	910,5	819,7	732,9	1144,6
Second: Market size								
1- Market capital value/million dinars	954,6	926,5	935,5	1072,1	1135,0	1166,2	1631,2	1708,1
2- Number of listed companies	83	98	97	101	104	102	104	105
Third: Market liquidity								
1- Trading volume/million securities	746	619	1038	1215	832	460	403	930
2- Trading value/million dinars	901	495	516	900	466	284	330	812
3- Stock turnover rate	9.4	5.3	5.5	8.4	4.1	2.4	2	4.8

**Source:** Prepared by the researcher based on data from the Iraq Stock Exchange, annual reports (2014-2021)



**Figure 1:** The size of the sectors contributing to the Iraqi Stock Exchange for the period (2014-2021)

**Source:** Prepared by the researcher based on data from the Iraq Stock Exchange



**Figure2:** Degree of development of Iraqi stock market indicators for the period (2014- 2021)

**Source:** Prepared by the researcher based on data from Table (1)

Trading operations in 2014 amounted to 104.6 million, marking a decline to the lowest level in the research period due to deteriorating security conditions. This deterioration had economic repercussions as many individuals refrained from investing in the market, choosing to keep their funds readily available to face emergencies. The index then began oscillating in the subsequent years until it reached 1144.6 million operations in 2021, achieving the highest level within the research period. The market size index was low, reaching 954.6 million dinars, reflecting a 17% decrease. This decline was attributed to the country's deteriorating political and security situations, the global drop in oil prices, and the resulting decrease in oil revenues, leading to economic stagnation that impacted the securities market. Subsequently, the index rebounded due to economic stability and the global rise in oil prices. In 2021, the market capitalization value for the listed sectors reached 1708.1 million dinars. 2014, there were 83 listed companies, but this number will increase to 150 by 2021. The increase was attributed to improved compliance by companies with disclosing their annual financial statements within the specified periods, as required by Iraqi law. In 2014, the trading volume index was 746 million securities, but it continued to decrease in 2015 to 619 million, a 17% decline. Economic and security deterioration, falling oil prices, and increased budget deficit rates led to a decline in investor confidence. However, the index rebounded in 2016 to 1038 million, marking a 68% increase. The upward trend continued in 2017, reaching 1215 million, a 17% increase. Subsequently, the index fluctuated and reached 403 million securities in 2020 due to the economic downturn associated with the COVID-19 pandemic. In 2021, the index increased to 930 million, reflecting the resurgence of economic activity, the return of investor confidence, and the containment of the pandemic, with increased subscriptions attributed to enhanced financial awareness and major companies achieving substantial profits.

In 2014, the trading value index benefited from the Central Bank's decision to increase private banks' capital, the largest securities market investors, coupled with improved economic growth rates. As a result, the index reached its peak. However, in 2015, the percentage declined to 495 million dinars, a 45% decrease. This decline was attributed to significant economic and security events in Iraq that impacted growth rates. Subsequently, the values fluctuated in the following years, reaching 812 million dinars in 2021. The turnover ratio index 2014 was 5.4, indicating a moderate level of liquidity. It increased in 2017 to 8.4, reflecting heightened liquidity in the market. The values fluctuated between difficulties until 2021, reaching a 4.8% increase. Despite the increase in the market capitalization value for the securities market, the trading volume and value remained significantly low. This was attributed to the market's limitation to a few companies with weak economic activity, preventing diversification of financial instruments and the dominance of the banking sector. The limited number of companies with weak economic activity and the inability to diversify financial instruments, coupled with the dominance of the banking sector, contributed to the notable decrease in trading volume and value despite the increase in the market's capitalization value.

#### **2.4.4 A Future Vision for the Development of the Iraqi Stock Market:**

The securities market can play a pivotal role in addressing some of Iraq's financial problems, considering that the market reflects economic conditions and various challenges. These challenges include unemployment, investor mistrust, and a need for coordination between fiscal and monetary policies (Brihi, 2018). Therefore, the government's adoption of a policy of structural reforms for financial institutions is crucial to secure funding for economic development projects. This can only be achieved through:

1. Creating a balanced legislative, regulatory, and supervisory framework capable of keeping pace with financial development in the world on an ongoing basis, adapting to economic changes, reassuring investors and savers, providing the necessary protection for the rights of dealers, and creating an atmosphere of confidence in the markets.

2. The availability of monetary and political stability to encourage investment and saving, facilitate the flow of capital, and take the necessary measures to limit the adverse effects in the event of a fiscal crisis that leads to a mass exit of investors' capital from the stock exchange by imposing a high tax on money movements.
3. Availability of a high degree of transparency, disclosure and governance in companies issuing securities.
4. Encouraging holding companies with high liquidity to buy shares in their subsidiaries whose shares are traded in the market and whose prices are considered distinctive and stimulating for investment.
5. Moving towards more innovation in managing cash flows for the benefit of the national economy, especially projects whose financing is based on securities such as stocks and bonds.
6. Investment funds are established because they work to mobilize savings and invest them in many types of securities, thus reducing risks and ensuring moderate profit flow, which tempts other investors to enter this field.
7. Issuing government bonds in different denominations and types by the Ministry of Finance, in cooperation with the Central Bank in the stock market, and not limiting the issuance of bonds and transfers to banks to attract the most significant number of investors who wish to achieve a fixed and guaranteed return, and thus create an expansion of the government's fiscal space.
8. Encourage high-income classes of society to lend to the government through public subscription of government bonds in the stock market and provide numerous benefits, as bonds are considered government savings tools and are directed to finance investment projects.

### **3. Discussion of Results:**

The goal is to narrow the budget deficit without the continuous need for external borrowing by analyzing the relationship between the Iraq Stock Exchange and the composition of the fiscal space through the issuance of government bonds and various securities in the market. This is especially crucial after the financial crises faced by Iraq, including the decline in oil prices. Most of the country's revenues depend on oil sales, coupled with the economic challenges posed by the COVID-19 pandemic and the resulting global shutdowns. These factors negatively impacted infrastructure spending, to achieve financial sustainability and attain the required financial abundance for the state, shifting towards developing and diversifying government bonds in the Iraqi securities market is imperative. Learning from international experiences in this regard can stimulate the securities market and attract new foreign investments.

### **4. Conclusion:**

1. The stock market plays a significant role in the economies of most countries, whether it is a primary market or a secondary market, with the facilities it provides in creating securities for investment by individuals and institutions and provides a stable and secure financial resource that will enhance economic growth.

Based on the hypothesis of the thesis, the study reached a main conclusion: that the hypothesis's validity needs to be verified.

2. Stock markets represent excellent investment opportunities, as they are a factor that attracts local and foreign capital through the diversification of financial instruments from stocks, bonds and various securities, especially after the increase in financial crises and the increase in the amount of debt, as it accelerates economic growth by reviving local saving, so The developments in the stock market came as a result of economic developments in most countries

3. The absence of the role of financial institutions in the market, represented by (real estate banks, industrial development banks, and investment banks), as these institutions play a significant role in stimulating the stock market away from the rush towards harmful speculation.



4. The effectiveness of the Iraqi Stock Exchange could be more robust because it is limited to a limited number of companies (105 companies), which are companies with weak activity and do not motivate investors to invest.
5. The Iraq Stock Exchange had no role in expanding the government's fiscal space through offering and marketing government bonds due to the lack of the necessary legislation and laws to achieve cooperation between the Ministry of Finance, the Central Bank of Iraq, and the stock market, and the experience of offering government construction bonds was not marketed in the media in a way. It is widely used to introduce small investors to its importance and the amount of return achieved.
6. The absence of government frameworks and legislation that regulate the functioning of the market and protect investors from speculation weakens its role in achieving economic development and the openness to global markets that motivates foreign investors to invest in it.

#### **Authors Declaration:**

Conflicts of Interest: None

-We Hereby Confirm That All The Figures and Tables In The Manuscript Are Mine and Ours. Besides, The Figures and Images, Which are Not Mine, Have Been Permitted Republication and Attached to The Manuscript.

- Ethical Clearance: The Research Was Approved By The Local Ethical Committee in The University.

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## دور سوق العراق للأوراق المالية في خلق الحيز المالي الحكومي رؤية استشرافية

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### مستخلص البحث:

ان سوق الاوراق المالية هو احد اهم الركائز الاساسية في الاقتصاد اذ اصبح من الصعب الاعتماد على المصادر التمويلية المحدودة في اي بلد، فقد ادركت اغلب الدول اهمية الدور الذي يلعبه السوق المالي في سد فجوة التمويل في الاقتصاد نتيجة كثرة الازمات المالية العالمية وذلك من خلال حشد المدخرات من الجهات ذات الفائض المالي الى الجهات ذات العجز وتحويلها نحو استثمارات مختلفة عن طريق طرح اوراق مالية متمثلة ب(اسهم وسندات واوراق مالية حكومية ) فهي بذلك توفر سيولة مالية ونقدية وتخلق حيزا " ماليا" يمكن استخدامه في تمويل مشاريع استثمارية تنموية دون الحاجة الى الاستدانة الخارجية وما تحمله من مخاطر ارتفاع الفائدة على القروض والذي ينعكس على عدم قدرة الحكومة على السداد، لذا فان اهم هدف للدراسة هو تحليل واقع سوق العراق للأوراق المالية باستخدام مؤشرات السوق المالي وقدرة الحكومة في توظيف السوق المالي بالشكل الذي يحقق إيرادات مالية ونقدية عالية وبالتالي توسيع الحيز المالي الحكومي. وظهرت نتائج البحث ضعف قدرة سوق العراق للأوراق المالية في تنوع مصادره المالية وجذب الاستثمارات المحلية والعالمية بالإضافة الى انعدام شبه تام لطرح للأوراق المالية الحكومية التي تساعد في خلق الحيز المالي الحكومي

نوع البحث: ورقة بحثية<sup>1</sup>

المصطلحات الرئيسية للبحث : سوق العراق للأوراق المالية، الحيز المالي الحكومي، السندات الحكومية.