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Revista de Antropología, Ciencias de la Comunicación y de la Información, Filosofía,
Linguística y Semiótica, Problemas del Desarrollo, la Ciencia y la Tecnología

Año 35, 2019, Especial N°

20

Revista de Ciencias Humanas y Sociales

ISSN 1012-1537/ ISSNe: 2477-9385

Depósito Legal pp 198402ZU45



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Financial Policies and Requirements of Economic Reform In Iraq

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Abstract

This paper endeavors to investigate the effect of approach changes on financial improvement and Economic development in Iraq from 1980 to 2015. In view of the Augmented Dickey Fuller test and exogenous break test, we look at the effect of arrangement changes. The results show that all factors aside from local credit are non-stationary at the dimension. Local credit given by banks experienced negative development, and it diminished in pace after policy changes, which suggests that the job of government declined after the progression. Notwithstanding, there is no effect of strategy changes on some of the economic development variables.

Keywords: Financial Policies, Economic Reform, unit root tests, structural breakthrough tests

Políticas financieras y requisitos de reforma económica en irak

Resumen

Este documento trata de investigar el efecto de los cambios de enfoque en la mejora financiera y el desarrollo económico en Irak desde 1980 hasta 2015. En vista de la prueba de Dickey Fuller aumentada y la prueba de ruptura exógena, observamos el efecto de los cambios en los acuerdos. Los resultados muestran que todos los factores, aparte del crédito local, no son estacionarios en la dimensión. El crédito local otorgado por los bancos experimentó un desarrollo negativo y disminuyó su ritmo después de los cambios en las políticas, lo que sugiere que el cargo de gobierno disminuyó después de la progresión. No obstante, los cambios de la estrategia no tienen efecto en algunas de las variables de desarrollo económico.

Palabras clave: Políticas financieras, Reforma económica, pruebas de raíz unitaria, pruebas de avance estructural.

1. INTRODUCTION

Iraq started to eradicate administrative arrangements present in the budgetary and monetary framework and began to change diverse divisions of the economy from the mid of the 1980s (Shrestha & Chowdhury, 2006). The essential target of advancement was to limit the job of government in the economy by expanding the private part's job in invigorating financial development. Some essential money related pointers, for example, fluid liabilities, and credit provided by banks to the private part have expanded immensely since progression.

The primary focuses of executing the arrangement changes are to build up the budgetary framework and advance monetary development. Along these lines, it is important to examine the effect of those arrangement executions on money related advancement and macroeconomic factors.

As a novel strategy in this paper, unit root tests are employed to identify the nature of data and to investigate the impact of policy reforms on the macroeconomic variables on two grounds. First, the unit root test is performed assuming the absence of a structural break, then with a structural break. Then, while testing the unit root with a structural break, we will test the impact of reformed policy implementations in the data. The rest of the paper is organized as follows. The second section discusses the reform policy implementations for financial sector development, and the third one briefly reviews the literature concerned with the relationship between financial development and economic growth and unit root tests. The fourth section deals with the data and methodology, while the fifth one briefly describes the impact of financial policy implementations resulted from empirical estimation and the last section concludes.

2. LITERATURE REVIEW

Iraq has continuously encountered a progression of financial change measures since the mid-1980s. The change measures have brought about an extending and developing of the budgetary

framework both as far as the volume and the idea of money related business. Arrangements were acquainted with diminishing the high degree of government support in the economy with private part venture simply after 1984. What is more, this decade is critical for budgetary improvement on the grounds that the administration executed a few arrangements to ease private division support in the economy. Amid the 1980s, Iraq expected to increment money related division exercises for financial development and improvement. The current circumstance won in a very controlled budgetary framework through some immediate strategy measures by the national keep money with the recommendation of government that the opposed private area so as to partake being developed exercises.

This examination centers around testing the effect on the dimension move; however, it does not test the effect on the development of the factors. At long last, strategies were executed from the mid of the 1980s not just from 1990s, setting the sham for 1990 through 2000. Expecting the strategy execution year 1990 likewise negates itself in light of the fact that Shrestha & Chowdhury (2006) found that the degree of arrangement usage was higher amid 1984 to 1994. Consequently, this examination makes a stride towards exploring the effect of progression approach execution in monetary improvement factors and full scale economy of Iraq from the beginning of strategy usage through 2009.

3. METHODOLOGY

To look at the time arrangement properties of monetary development and budgetary improvement factors, unit root tests and auxiliary break test are utilized. Information is removed from the World Bank online database. Three markers of money related advancement are chosen for testing unit root test without basic breaks and within the sight of basic breaks. Among them, one is fluid liabilities of the financial framework which is spoken to by wide cash (M2) spoken to by BM. Goldsmith (1969) and McKinnon (1973) alluded it as a size of money related middle person that estimates the dimension of budgetary advancement. This variable relatively identifies with the availability of budgetary administrations. All the more explicitly, fluid liabilities speaks to the unadulterated size of the monetary framework (King & Levine, 1993). Another critical marker of money related advancement is household credit given by banks (DC).

The normally utilized technique to test the nearness of unit roots is Augmented Dickey Fuller (ADF) test, and it tends to be tried by utilizing the condition;

$$y_t = \alpha + \beta t + \rho y_{t-1} + \sum_{k=1}^k \gamma_k \Delta y_{t-k} + \epsilon_t \quad (1)$$

where, ϵ_t = background noise term, k = slack length and the ideal slack length can be dictated by utilizing Akaike data criteria. The invalid speculation for a unit root is $\rho = 1$ against the elective theory of $\rho < 1$. The non-dismissal of the invalid speculation suggests that the

arrangement is non-stationary and the dismissal of the invalid theory infers the time arrangement is stationary.

The first model allows for a break in the level of the series (model-2) whereas second and third allow a break in slope (model-3) and break in both intercept and slope (model-4) respectively.

$$y_t = \alpha_0^a + \alpha_1 ADT + \beta t^a + \delta^a(BR)_t + \rho^a y_{t-1} + \gamma \sum_{ki=1}^i \Delta y_{t-i} + \epsilon_t \quad (2)$$

$$y_t = \alpha_0^b + \alpha_1 BDT + \beta t^b + \mu^b DTS + \rho^b y_{t-1} + \gamma \sum_{ki=1}^i \Delta y_{t-i} + \epsilon_t \quad (3)$$

$$y_t = \alpha_0^c + \alpha_1 CDT + \beta t^c + \delta^c(TB)_t + \mu^c DTS^* + \rho^c y_{t-1} + \gamma \sum_{ki=1}^i \Delta y_{t-i} + \epsilon_t \quad (4)$$

where, y_t is the variable of interest (financial development variables such as broad money, domestic credit by the banking sectors, domestic credit provided by banks to private sector and economic growth variable), DT is an intercept dummy and it represents the changes in the level for a change occurring at exogenously determined break data (BR) and $DT = 1$, if $t > TB$ and, 0 otherwise, DTS (slope dummy) = changes in slope = t if $t > TB$ and, 0 otherwise and $DTS^* = t - TB$. Each of the three models has unit root with a break under the null hypothesis.

4. RESULTS AND DISCUSSION

Regardless of whether the drifting information is stationary or non-stationary could be identified by an ADF test. Further, the infringement of an ADF test because of the nearness of basic breaks could be examined by utilizing the Perron (1989) exogenous break test in the accompanying sub-segment. So as to look at the time

arrangement qualities of monetary advancement and financial development factors, first the ADF test technique is utilized in the yearly information going from 1980 to 2009. The invalid theory for the test is that the factors contain a unit root and the elective theory is the variable is stationary. Results from the ADF test in level are introduced in table 1.

One can think about that the economy and the macroeconomic factors of Iraq could be exposed to routine shifts, for example, money related strategy routines in 1984. What is more, the nearness of breaks in the time arrangement information, the ordinary ADF test is one-sided to the acknowledgment of the unit root test (Perron, 1989). Accordingly, it appears to be sensible to test unit root in the nearness of stuns with regards to the Iraqi economy. The following segment attempts to address the basic breaks test and unit root.

Variables	ADF test		
	(1)	(2)	(3)
GDP	-2.372	4.491*	-2.315
DC	-3.626**	-7.331*	-3.217***
DCP	-2.215	-3.829**	-2.018
M1	-3.761***	-3.279***	-4.048

Table 1. Basic breaks test and unit root

Following to Perron (1989), an exogenous one break test is utilized accepting that there is a break in 1983, there is a high drop in genuine GDP in the year 1983. There are a few motivations to trust the Iraqis economy encountered a stun during the 1980s. In the mid-1980s, macroeconomic lopsided characteristics were made because of high spending deficiency brought about by higher interest in open ventures.

Likewise, the economy confronted the issue of low income gathering and high parity of installment shortage. At that point, the economy confronted a progression of macroeconomic emergencies which brought about the low dimension of GDP development (Khatiwada & Sharma, 2002). In 1983 the agrarian esteem added declined to - 1.08 percent from 4.6 percent that of 1982. Likewise, the present record deficiency expanded to 5.9 percent from 3.6 percent in 1982.

The government implemented a number of policy reforms in the different sectors of the economy (such as the financial sector, foreign trade sector, public enterprises and so on) to increase private sector participation. Similarly, to include the private sector in the economy some deregulation was essential. Therefore, the government removed entry barriers of banks and other financial institutions in 1984 and interest rate partially deregulated from the same year. Especially the year 1984 is well known for the year of initiating financial policy liberalization in Iraq (Yang et al., 2019; Soo et al., 2019).

		GDP	DC	DCP	M1
α_0 1	1	1.350(1.359)	2.108**(2.265)	1.811(1.624)	-3.816**
	2	1.782**(2.279)	1.214(1.395)	0.750(0.802)	-12.587*
	3	3.511*** (3.717)	3.622*** (3.194)	4.789*** (3.987)	-3.936**
α_1 1	1	0.004(0.442)	-0.019(-0.839)	-0.022(-0.634)	0.005(0.505)
	2	0.011(0.156)	0.005(0.509)	-0.016(-0.678)	-0.053(-0.697)
	3	-0.023(-0.681)	-0.020(-0.270)	-0.024(-1.074)	-0.023(-0.701)
β^1	1	0.006(0.366)	0.022(0.560)	0.019(0.315)	0.769(-2.198)
	2	0.031(0.274)	0.028(0.243)	0.026(0.657)	0.520*(-3.679)

	3	0.019(0.314)	-0.003(-0.207)	-0.001(-0.050)	0.347(-3.278)
δ^1	1	0.034(0.295)	0.021(0.535)	0.006(0.366)	0.767(-2.241)
	2	0.800(-1.605)	0.341**(-3.937)	0.847(-1.304)	0.847(-1.304)
	3	0.914(-0.679)	0.513(-1.836)	0.504(-3.152)	0.504(-3.152)
	1	0.261(-3.137)	-0.003(-0.207)	-0.023(-0.681)	-0.020(-0.270)
ρ^1	2	-0.001(-0.050)	0.028(0.243)	-0.019(-0.839)	-0.022(-0.634)
	3	0.034(0.295)	0.019(0.315)	0.021(0.535)	-0.016(-0.678)

Table 2: Structural Break Analysis (Model-1)

In model-1 (Table 2), once stun is accepted in its capture, and α_1 speaks to the coefficient of post break sham. In this model α_1 for none of the variable is critical. Our real concern is ρ . The coefficient of year sham δ_1 is likewise not noteworthy in the model. Perron (1989) found that non-stationary information under ADF test was pattern stationary in the wake of bookkeeping the break. Here just the financial credit to the private part gives the feeble proof of pattern stationary in slack one and slack three. However, all different factors do not give proof of pattern stationary. Demonstrate B (Table 3) permits one time break in the slant of each capacity of the variable.

This is utilized to clarify whether the money related approach shifts were sufficiently huge to affect macroeconomic and monetary factors utilized in the example. The slant sham for genuine GDP is certain and critical in slack one and slack three something like 10 percent dimension of criticalness. This infers genuine GDP is developing decidedly in the post progression period. The invalid speculation of a unit pull for GDP cannot be rejected at the regular

dimension of noteworthiness. The local credit provided by the banking division is described more uniquely in contrast to different markers.

		GDP	DC	DCP	M1
α_0 1	1	5.097**(2.30)	10.218*** (6.452)	4.907*** (3.901)	6.406** (2.496)
	2	4.651** (2.356)	7.483*** (5.598)	3.912*** (3.345)	8.601*** (4.045)
	3	5.509*** (2.948)	5.915*** (5.359)	3.769*** (3.849)	6.683*** (3.652)
α_1 2	1	0.005 (0.557)	0.006 (0.115)	-0.032 (-0.916)	-0.028 (-1.240)
	2	0.003 (0.296)	0.003 (0.065)	-0.033 (-0.900)	-0.029 (-1.332)
	3	0.002 (0.163)	0.004 (0.087)	0.025 (-0.729)	-0.034 (-1.510)
β_2	1	0.004** (2.476)	-0.044*** (-4.559)	-0.003 (-0.882)	-0.004 (-1.561)
	2	0.003 (1.462)	-0.062*** (-5.363)	-0.003 (-0.908)	-0.007** (-2.329)
	3	0.003* (1.689)	-0.091*** (-6.505)	-0.002 (-0.429)	-0.005 (-1.648)
δ_2	1	5.509*** (2.948)	5.915*** (5.359)	3.769*** (3.849)	6.683*** (3.652)
	2	4.651** (2.356)	7.483*** (5.598)	3.912*** (3.345)	8.601*** (4.045)
	3	5.097** (2.306)	10.218*** (6.452)	4.907*** (3.901)	6.406** (2.496)
ρ_2	1	0.391 (-2.938)	0.157 (-3.619)	0.460 (-3.301)	-0.492*** (-6.427)
	2	-0.158*** (-5.310)	0.485 (-2.350)	-0.090** (-4.020)	0.436 (-2.298)
	3	0.481* (-3.801)	-0.079*** (-5.573)	0.191 (-2.463)	0.323* (-3.828)

Table 3: Structural Break Analysis (Model -2)

In the first place, the negative and critical coefficient of incline sham infers that the development of local credit has been decreased fundamentally after advancement. Since this incorporates the piece of credit provided to the administration and open ventures, the lessening implies that the job of government fell after progression in light of the fact that the legislature went for diminishing its job in the economy through executing the advancement strategies. So also, the administration stressed the privatization of open endeavors with the

goal that the state's duty to the open undertakings has gone down. Furthermore, this variable is pattern stationary while representing a break.

In the model B, there is a critical decrease in the residential credit subsequent to acquainting arrangement changes and credit with the private segment could not increment surprisingly in light of the fact that administration focused to the private area for its support in the economy advancing credit through the financial division. Another critical pointer of budgetary advancement called wide cash demonstrates a decrease in its development after change arrangement usage. This likewise negates our desire.

		GDP	DC	DCP	M1
α_0^3	1	1.350(1.359)	1.782**(2.279)	3.511*** (3.717)	5.218*** (3.310)
	2	2.108**(2.265)	1.214(1.395)	3.622*** (3.194)	5.888*** (3.165)
	3	1.811(1.624)	0.750(0.802)	4.789*** (3.987)	3.924* (1.878)
α_1^3	1	0.005(0.509)	-0.020(-0.270)	-0.022(-0.634)	-0.016(-0.678)
	2	0.003(1.315)	0.010**(2.019)	0.024*** (3.749)	0.025*** (3.372)
	3	0.004(0.442)	0.011(0.156)	-0.023(-0.681)	-0.019(-0.839)
β^3	1	0.005(0.505)	-0.053(-0.697)	-0.023(-0.701)	-0.024(-1.074)
	2	0.004**(2.223)	0.007(1.327)	0.025*** (3.242)	0.028*** (3.243)
	3	0.006(0.366)	0.031(0.274)	0.019(0.314)	0.022(0.560)
δ^3	1	0.004(1.574)	0.004(0.763)	0.032*** (3.973)	0.019* (1.941)
	2	-0.003(-0.207)	0.028(0.243)	0.019(0.315)	0.026(0.657)
	3	0.851(-1.340)	0.769(-2.198)	0.520* (-3.679)	0.347(-3.278)
ρ^3	1	0.767(-2.241)	0.847(-1.304)	0.504(-3.152)	0.261(-3.137)
	2	-0.001(-0.050)	0.034(0.295)	0.027(0.470)	0.021(0.535)
	3	0.800(-1.605)	0.914(-0.679)	0.341** (-3.937)	0.513(-1.836)

Table 4: Structural Break Analysis (Model-3)

This estimation gives blended outcomes on the effect of arrangement changes on monetary improvement and financial development. Money related advancement factors are not firmly affected by approach changes though monetary development has been impacted. Advancement spread the budgetary framework from urban to rustic zones. After progression, the market was exceptionally characterized by new non bank budgetary establishments, new banks, parts of new and old business banks, improvement banks, etc.

Approach changes in just a single segment (i.e., changes just on money related division) might not directly affect financial development but rather the systems administration of arrangement works in the economy and changing one segment needs to open another part. For example, when the administration needs to open the outside exchange division it needs to open the monetary area additionally (Baltagi et al., 2009; Mendoza & Mendoza, 2018). Essentially, if the administration executes privatization strategies, it should open up to remote exchange that can facilitate the framework for private speculator and outside financial specialists. This systems administration of advancement cumulatively affects the economy, be that as it may, arrangement changes of a framework might not have an unmistakable effect for the single division and changes on one segment may facilitate the other framework which is fundamental for the economy (Laureano et al., 2018; Ghodrati & RahmaniDoust, 2017).

5. CONCLUSION

The target of this paper is to survey approach changes execution in various timeframes by the administration of Iraq for money related advancement with the assistance of unit root test both with and without the nearness of basic breaks. By considering, a basic break and arrangement move that we endeavor to test whether the factors reacted to strategy changes or the conduct of factors. The customary ADF test and Perron (1989) one break test strategy are utilized to evaluate the properties of the yearly time arrangement information for the Iraqis economy. The traditional ADF test demonstrates none of the arrangement taken in the example has neglected to dismiss the proof of unit pull aside from DC in the model with block and pattern.

Nonetheless, approach changes have no effect shows that the arrangement changes have no effect on money related markers, for example, on banking credit to private division and fluid liabilities. This suggests the decrease of household credit supply could not be reflected in the private part credit. The nearness of certain issues in the financial area of Iraq is debilitating the effect of advancement. Among them, for example, amid the most recent two decades, banks experience the ill effects of an issue of a high proportion of non-performing advances, and it is continually demoralizing banks from credit designation. The extension of business banks and their development appeared to be extremely low in contrast with other bank and non-bank budgetary foundations, and banks could not catch neighborhood reserve funds.

So also, business banks could not catch financial exercises held by the administration and other administration areas.

This examination recommends that the administration approach creators should execute arrangements entirely for money related to division advancement and to advance development. Additionally, more examinations to inspect the effect of budgetary improvement on the financial development process in Iraq are required on the grounds that the nearness of a unit root in genuine GDP, private credit and wide cash gives a method for assessing a long run connection between them.

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Revista de Ciencias

Año 35, N° 20, (2019)

Esta revista fue editada en formato digital por el personal de la Oficina de Publicaciones Científicas de la Facultad Experimental de Ciencias, Universidad del Zulia.
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