



## Analysis of Fiscal Policy in Achieving Economic Growth in Iraq after 2003

تحليل السياسة المالية في تحقيق النمو الاقتصادي في العراق ما بعد عام 2003

Assistant Lecturer

Mohsin Owaid Othman

Ministry of Education – Wasit Education Directorate

مدرس مساعد. محسن عويد عثمان الزركاني

وزارة التربية / مديرية تربية واسط

[mohsinowaid@gmail.com](mailto:mohsinowaid@gmail.com)

### **Abstract :**

Fiscal policy is a major and important part of economic policy and is used as a key tool in implementing the government's economic policy and in order to achieve the planned goals and achieve economic growth and raise its rates through the use of public revenues and public expenditures. In Iraq, the researcher seeks to verify the ability of fiscal policy in Iraq to achieve economic growth through the optimal use of fiscal policy tools by the Iraqi government, especially after 2003, knowing that Iraq after 2003 faced abnormal conditions such as wars, regime change, ISIS and other harsh and difficult conditions that Iraq went through.

**Keywords:** Iraq, Fiscal Policy, Economic Growth, Iraqi Economy, Public Revenues, and Public Expenditures.

### **Introduction:**

Fiscal policy has an exceptional role through its instruments of revenue policy and expenditure policy in influencing the achievement of economic growth in Iraq by achieving higher rates of economic welfare and raising the country's economic growth rates.

The Iraqi economy has been exposed to many economic problems and economic and non-economic crises that have negatively affected the stability of Iraq and the achievement of economic growth rates in the country. Fiscal policy has the ability to stimulate the productive sectors in Iraq, and thus stimulate investment, raise productive capacities and increase rates. Gross Domestic Product (GDP) and Income in Iraq, which is an indicator of the country's stability and economic growth.

### **Importance of Research**

The importance of the research comes in shedding light on the most important developments in fiscal policy in Iraq and the effectiveness of fiscal policy in achieving economic growth in Iraq, especially after 2003

### **The research problem**

The real sector, except for the oil sector in Iraq, suffers from many problems, the most important of which is the decline in its production capacities and its low contribution to the formation of GDP, which has made government spending bear a great responsibility in



supporting and financing these sectors and achieving somewhat increasing economic growth rates .

### **Research Objective**

The research aims to determine the effectiveness of fiscal policy tools in stimulating economic sectors in Iraq and increasing their productivity, thus achieving economic growth in Iraq and knowing the tools of fiscal policy after 2003.

### **Research Hypothesis**

The research is based on the basic hypothesis that fiscal policy and its tools play an important role in influencing the economic sectors in Iraq and achieving the increasing rates of economic growth in Iraq, especially after 2003.

### **Research Limits**

**Spatial Limits: Iraq and Temporal Limits: After 2003**

#### **First : The Concept and Tools of Fiscal Policy in Iraq :**

There are many concepts of fiscal policy, according to the views of economists and intellectuals, and due to the economic phase that it is going through at that time, some of them have defined it as "directing the public authorities of a country to public revenues and expenditures in a way that ensures the necessary balance in the general budget of the government during a period of time and usually its age." It is also defined as "the procedures followed in the field of spending on government procurement and taxes to achieve general economic goals" and is also defined as "the means followed by the state in determining the sources of income and how to spend this income" in order for the state to achieve its general goals in the success of its economic policies.

. )Josepnzo, 2001,90(

From this, it can be said that fiscal policy is the use of public revenues and public expenditures , which include increasing and decreasing aggregate demand according to what the economic situation requires , as well as achieving the goals of economic growth and reducing unemployment rates, in addition to redistributing income fairly and as much as possible.

).G. L. Bach. 1990.p8(

#### **Second: Fiscal Policy Tools:**

**There are financial instruments used by fiscal policy to achieve a set of objectives and thus achieve economic growth, especially in Iraq after 2003.**

#### **Overheads.1**

It is a sum of money that is spent by the state or one of its institutions in order to achieve public benefits for all segments of society, as well as sums of money that are estimated by the legislative authority and spent in order to provide public goods and services to achieve social, political and economic goals (Mithani. 2000.200).

Public expenditures are divided into two types: operational expenses and investment expenses.

Operational expenses are those expenses that work to redistribute the national income from one sector to another and from one side to another in order to achieve the maximum possible benefit to society, and that investment expenditures are those expenses that achieve an increase in the composition of the country's national product, as well as an



increase in their per capita share, as well as lead to an increase in productive capacity and an increase in national income.(Nizar Saad al-Din et al. 2006: 299)..

2- Public revenues \_ : These are the financial revenues that the state receives from various sources in order to finance public expenditures and satisfy public needs , and divide the revenues into regular revenues, which the state can obtain on a regular basis , which is represented in fees, subsidies, taxes, etc., and that the extraordinary revenues It is the one that the state receives irregularly , which is represented by loans and the issuance of new money.(Mahmoud Hussein Al-Wadi 2009: 121)).

### **Third : Concepts of Economic Growth in Iraq**

Economic growth in Iraq is represented by the increase in GDP, which is measured by the increase in income, but it depends entirely on the oil sector, i.e., it depends 95% on the exports of the oil sector, and this makes growth unused and exposed to many external shocks on economic growth in Iraq, subject to fluctuations in global oil prices, so studies indicate the need to enhance financial sustainability through the development of non-productive sectors. Economic growth is defined as "the sum of the values added to the production units operating in the different branches of production for a particular economy" and that economic growth works to achieve high rates of macro changes. Such as the GDP, which achieved high rates of well-being for members of society (Al-Hamdani, 2020). 100) .

The trends of fiscal policy in Iraq, especially after 2003, were related to the economic and political conditions and even the problems that Iraq went through, as it witnessed a continuous financial deficit during the duration of the economic sanctions, and this misled all the joints of the Iraqi economy and did not work to achieve the social and economic goals and even the planned political goals. Fiscal policy in Iraq in achieving economic growth through economic growth indicators and by studying some of these indicators, which are represented by GDP, its growth rate, unemployment rates , and inflation rate, as well as analyzing the financial policy tools and indicators that work to achieve economic growth in Iraq ((Jon20000. 180)) (((Abdalia.Arabik.2014.45).

### **Fourth: Analysis of the relationship between fiscal policy and economic growth rates in Iraq after 2003:**

Fiscal policy plays a fundamental and direct role in influencing some indicators and focuses on three main indicators, which are as follows: a. Gross Domestic Product (GDP) b. Unemployment rate c. Inflation rate

The relationship between fiscal policy and the mentioned economic growth rates is analyzed through the following key points:

1. Analysis of the relationship between public expenditures and GDP
2. Analysis of the Relationship between Public Revenues and Gross Domestic Product
3. Analyze the relationship between public expenditures, public revenues and unemployment rates.
4. Analysis of the relationship between fiscal policy instruments and inflation rates

#### **1. Analysis of the relationship between public expenditure and GDP:**

Public expenditures are the main tool that enables the State and its public bodies to achieve its general goals and thus achieve economic stability, as well as public





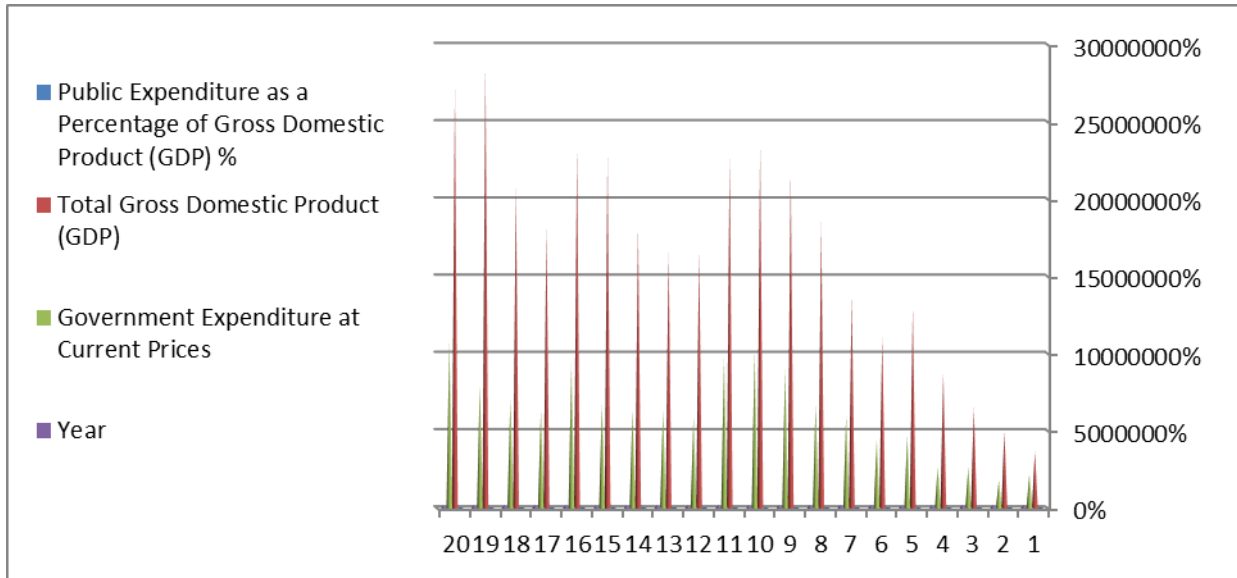
external crises that affect the reality of the Iraqi economy, such as low oil prices, interruption of imports, and other matters that directly affect the Iraqi economy, and that these crises call for the readjustment of public expenditures in Iraq, the use of appropriate fiscal policy, and work to reduce public expenditures, increase public revenues, diversify sources of income, increase GDP, and achieve financial reforms. Because of its role in achieving economic growth and thus achieving economic stability in Iraq. ( Muhannad Hamid Yasser , 2018: 25)).

**Table (1) Percentage of Public Expenditures to Gross Domestic Product in Iraq for the Period 2004-2023**

Percentage of Public Expenditure to GDP %	Gross Domestic Product (GDP)	Overhead at current rates	Sunnah
60%	36638	22104	2004
36%	50057	17955	2005
41%	65159	26453	2006
30%	88038	26606	2007
36%	130204	47333	2008
40%	111300	44063	2009
43%	138517	59944	2010
36%	185750	67314	2011
41%	218032	90171	2012
44%	234638	102168	2013
43%	228491	97591	2014
36%	166822	59158	2015
38%	166321	63072	2016
34%	182455	63437	2017
30%	227512	67961	2018
40%	233636	93885	2019
35%	182455	63402	2020
34%	209692	70445	2021
28%	287372	80109	2022
40%	272139	107580	2023

Source: Prepared by the researcher using the data of the Central Bank of Iraq, Statistical Bulletin for Different Years.

**Figure (1) Percentage of Public Expenditures to Gross Domestic Product in Iraq for the Period 2004-2023**



**Excel Source: By the researcher using the data of Table (1) and using the Analyze the relationship between public revenues and GDP.2 .**

The fiscal policy, through the use of its tools, which are represented in expenditures and revenues, is a major source of achieving economic growth and thus achieving economic stability for the country, and this indicates the efficiency of the government in using the fiscal policy effectively and efficiently, by controlling the level of revenues and expenditures, which works to achieve balance in the general budget of the Iraqi government, and since Iraq is a rentier country that depends on oil revenues for its revenues, as we mentioned earlier in the research, this reflects the instability of the fiscal policy tools. It is related to the fluctuation of oil prices, especially in the international markets.

Through Table No. 2, we can see that the value of public revenues was low, which is equal to 22700 million dollars compared to the following years, for example, its value increased during the years 2005, 2006, 2007, and 2008, as mentioned in Table No. 2, and the reason for this increase in public revenues during those years mentioned above is due to the rise in oil prices globally and the fact that revenues depend very heavily on oil revenues, so the increase in oil prices means the increase in revenues. The Iraqi government, while the percentage of public revenues to GDP during the period 2004 to 2008, was the highest value of the highest percentage during 2004, which is equal to 62%, it began to decline during 2007, which is equal to 42%, and equal to 49% during 2008. This is because of the global financial crisis that occurred at that time, but only in terms of the value of the GDP for the same period from 2004 to 2008, it started to increase and rise from 2004 to 366 million dollars. 7500559516583088402031 And during the years 2005 to 2006, 2007 and 2008 respectively, as for the ratio of public revenues to GDP, it started to rise and increase until it reached about 47% during 2012, due to the decline in oil prices globally, which led to a decrease in public revenues, in 2018, public revenues increased to about 21572 million dollars, and then began to decline during the years 2019. 2020, which was equal to 2333 million dollars 182455 million dollars respectively, due to the Corona crisis, which negatively affected the reality



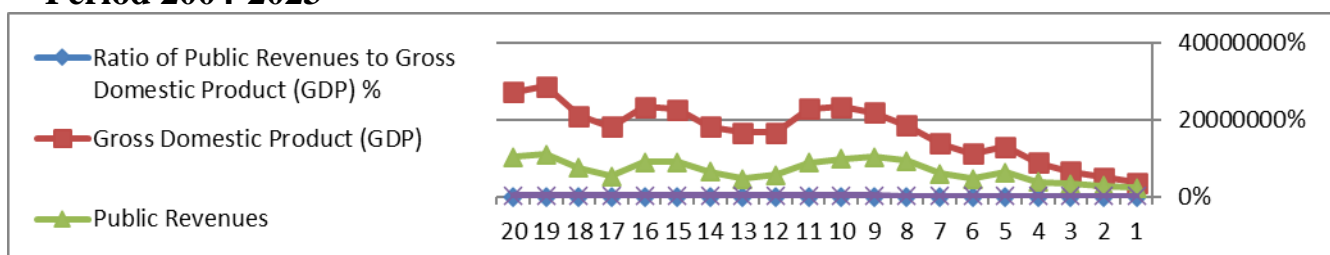
of the global economy in general and the Iraqi economy in particular due to the decline in oil prices globally during 2015 and 2016. This led to a decrease in the percentage of public revenues from GDP, and as a result of the country's exposure to the crisis of the Corona pandemic, which led to a decline in oil prices globally and affected public revenues, the percentage of public revenues to GDP also remained low until 2022 and 2023, which began to rise gradually due to the rise in oil prices after the end of the Corona crisis gradually and the country got rid of that global epidemic crisis.

**Table 2 Percentage of Public Revenues to Gross Domestic Product in Iraq for the Period 2004-2023**

Percentage of General Revenues to GDP %	Gross Domestic Product (GDP)	General Revenues	Sunnah
62%	36638	22700	2004
55%	50057	27572	2005
51%	65159	33439	2006
42%	88038	37218	2007
49%	130204	63946	2008
42%	111300	46278	2009
43%	138517	59981	2010
50%	185750	92998	2011
47%	218032	102759	2012
42%	234638	97633	2013
39%	228491	88690	2014
33%	166822	55857	2015
28%	166321	46083	2016
35%	182455	65061	2017
39%	227512	89554	2018
39%	233636	90392	2019
29%	182455	52666	2020
36%	209692	74713	2021
39%	287372	110752	2022
38%	272139	102478	2023

Source: Prepared by the researcher using the data of the Central Bank of Iraq, Statistical Bulletin for Different Years.

**Figure 2 Percentage of General Revenues to Gross Domestic Product in Iraq for the Period 2004-2023**





### **Excel Source: By the researcher using the data of Table (2) and using the**

While the percentage of the public sectors in the GDP reached nearly 40% during the same year, and the revenues of that year also decreased, because oil prices decreased during that year, because Iraq is a rentier country and depends for its revenues on the revenues of the oil sector, as we mentioned earlier in the research, and from the table, we note that public expenditures in Iraq were high in many years, especially after 2003. This indicates a clear and tangible weakness in the role of fiscal policy in Iraq, nor in that period in achieving economic growth in Iraq by influencing rates of economic growth in a positive rather than negative way, and this reflects Iraq's dependence on oil revenues only and significant increases in public expenditures without recourse and reliance on appropriate fiscal policies to solve these economic crises, and thus not raising the rates of GDP, i.e. not raising the rates of economic growth and that this is what calls for the readjustment of public expenditures and the strengthening of the role of fiscal policy in order to achieve economic stability and economic growth, and to face external crises that affect the reality of the Iraqi economy, such as the decline in oil prices, the interruption of imports, and other matters that directly affect the Iraqi economy, and that these crises call for the restoration of public expenditures in Iraq, the use of appropriate fiscal policy, and work to reduce public expenditures, increase public revenues, diversify sources of income, increase the gross domestic product and achieve Financial reforms because of their role in achieving economic growth and thus achieving economic stability in Iraq. ((Muhannad Hamid Yasser 2018: 25)).

### **3. Analysis of the relationship between public expenditures, public revenues and unemployment rates:**

The problem of unemployment is one of the problems that has received great attention from economists and intellectuals, as it has a great impact on the reality of the economy after 2003 and the wars that the Iraqi economy has been exposed to, regime change, terrorism and ISIS, which led to a significant increase in unemployment rates, which negatively affected the reality of the Iraqi economy.

The unemployment rate through Table No. 3 in 2004 reached approximately 27%, which is a record high rate in other countries, and remained high as a result of the abnormal conditions that the country went through, and the percentages shown in Table 3, as well as in 2014, Iraq was exposed to the terrorist groups Daesh, and unemployment rates were also high, and these rates or percentages began to increase gradually, especially after 2019 and 2020. This is due to the Corona pandemic, which led to an increase in unemployment rates, as it was equal to 13% during 2019, to 14% during 2020, to 17% during 2021, and then to 17% during 2021, and then to the employment that occurred in recent years, especially in 2023. And the subsequent years were convincing, as the number of employees increased without increasing real production, and this means an increase in government spending, especially in providing wages and salaries to employees and workers, but this was not matched by a real increase in the level of production, and therefore it means low economic growth rates, and this means not achieving economic stability by not increasing the value of the country's GDP, thus meeting the country's domestic needs and paying abroad.



**Table 3 Analysis of the Relationship between Public Revenues and Unemployment Rates for the Period 2004-2023**

Unemployment rates %	Sunnah
27%	2004
18%	2005
18%	2006
12%	2007
15%	2008
14%	2009
12%	2010
11%	2011
12%	2012
12%	2013
11%	2014
11%	2015
11%	2016
13%	2017
13%	2018
14%	2019
17%	2020
16%	2021
16%	2022
16%	2023

**Source:** Prepared by the researcher using the data of the Central Bureau of Statistics, Statistical Bulletin for Different Years.

As a result of the increase in employment without increasing production, one of the important things that economists emphasize is to increase the diversity of sources of revenues of various types in order to support the revenues of the general budget and thus reduce the deficit in the general and basic budget after 2003, since Iraq is a sponsoring country that depends on more than 90%. In its revenues, it is only on oil revenues and other revenues do not constitute or are less than that or almost less than that.

#### **4. Analysis of the relationship between fiscal policy and inflation rates**

Inflation is one of the most important economic phenomena that has a great impact and role on the reality of the Iraqi economy, as inflation is defined as the continuous rise in the general level of prices, i.e. the prices of goods and services during a certain period of time, and this means a decrease in the purchasing power of individuals, and this has an important negative impact on the investment and consumption of individuals in society, so it is necessary to use the appropriate and appropriate financial policy to achieve high economic growth rates and thus achieve economic stability. Since Iraq depends only on oil revenues, so if it finds other productive sectors, we note from Table Four that the inflation rate during 2004 was equal to 27%, then it increased during 2005 to reach 37%,



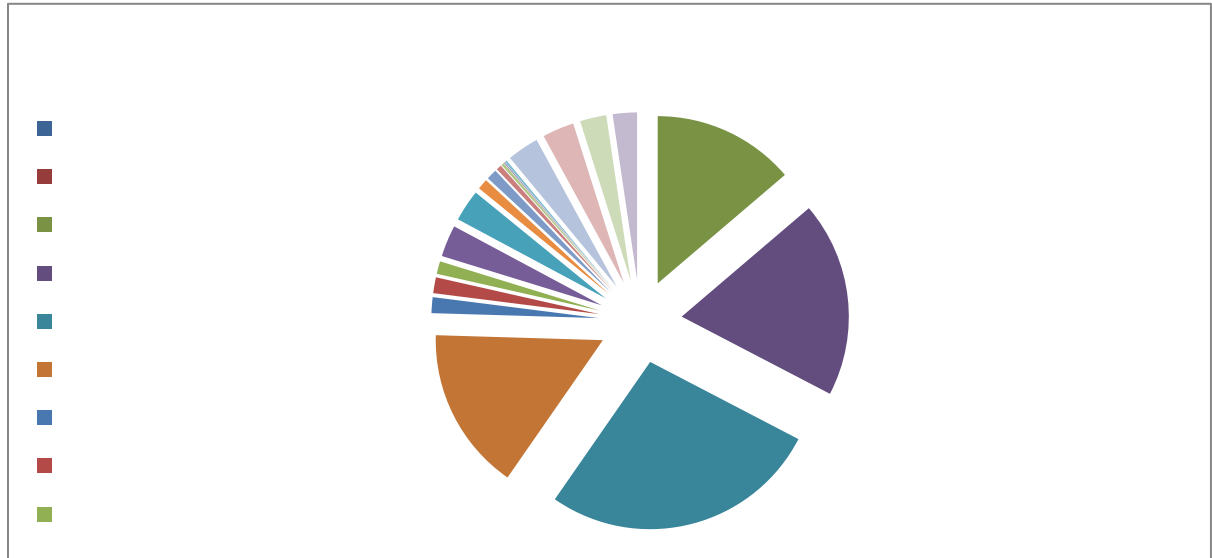
and also increased during 2006 to about 53%, due to the change in the system after the 2003 and the increase in government public expenditure and as a result of the deteriorating conditions that Iraq went through, especially after 2003, and then it began to decline during the years 2008 to reach about 3% after it was equal to 31% during 2007, and also means that it decreased during the years 2009 and 2010. As shown in table IV, the situation in Iraq has gradually improved during those years.

**Table 4 Inflation Rates in Iraq for the Period 2004-2023**

Inflation rates %	Sunnah
27%	2004
37%	2005
53%	2006
31%	2007
3%	2008
-3%	2009
2.4%	2010
6%	2011
6%	2012
2%	2013
2%	2014
1%	2015
0.5%	2016
0.2%	2017
0.4%	2018
0.2-%	2019
6%	2020
6%	2021
5%	2022
4.6%	2023

**Source:** Prepared by the researcher based on the data of the Central Bank of Iraq The statistical bulletin for different years.

**Figure 4 Inflation Rates in Iraq for the Period 2004-2023**



**Excel Source: By the researcher using the data of Table (4) and using the Conclusions and recommendations:**

### **First: Conclusions**

1- Fiscal policy, through the use of its instruments, which are represented in expenditures and revenues, is a major source of achieving economic growth and thus achieving economic stability of the country.

2- The inflation rate during 2004 was equal to 27%, then it increased during 2005 to reach 37%, and also increased during 2006 to about 53%, due to the change in the system after 2003.

3- Despite the employment that occurred in recent years, especially in 2023 and other years that followed, unemployment was convincing, as the number of employees increased without increasing real production, which means an increase in government spending, especially in providing wages and salaries to employees and workers, but this was not matched by a real increase in the level of production, and thus it means economic growth.

4- The trends of fiscal policy in Iraq, especially after 2003, were related to the economic and political conditions and even the problems that Iraq went through, as it witnessed a continuous financial deficit during the duration of the economic sanctions, which led to its misguidance on all aspects of the Iraqi economy and did not work to achieve the social and economic goals and even the planned political goals.

5- The reason for this increase in public revenues during those years mentioned above is due to the rise in oil prices globally and the fact that revenues depend very heavily on oil revenues, so the increase in oil prices means an increase in revenues for the Iraqi government.

### **Second: Recommendations:**

The recommendations are represented by the following points:

1- The need to pay attention to the adoption of a fiscal policy that works to reduce unemployment rates and reduce inflation rates, which began to increase, especially after 2003 in Iraq.



- 2- The necessity of paying attention to the infrastructure in Iraq and increasing investment, especially in the field of the private sector, in order to increase the rates of economic growth in the country and thus achieve economic stability.
- 3- The need to diversify the sources of revenue for the Iraqi government and not rely on oil revenues only.
4. Finding appropriate and quick solutions to the economic, financial and political crises facing the country, which have a negative impact on the economic reality in Iraq.
5. Highlighting the role of fiscal policy through investment spending, providing the appropriate investment environment, and providing incentives and encouragement to investors through tax exemptions and others in order to encourage them and attract investment within Iraq.
6. Fiscal and economic policies should be supportive of economic growth and development programs and programs for economic and financial reform in Iraq.

#### References:

1. G.I.Bach . Making and fiscal policy Brooking Inc washing , 1990
- 2.Mithani, modern public finance theory and practice . Himalaya house newyourk 2000.
3. Dr. Nizar Saad Al-Din Al-Issa and Ibrahim Suleiman, Macroeconomics, Principles and Applications, Amman, Dar Al-Hamid for Publishing and Distribution, First Edition, 2006.
4. Saad Nouri Al-Hamdani, The Challenges of Economic Growth in Iraq in Light of Rentier Domination, Current and Future Reality, Tikrit Journal of Administrative and Economic Sciences, Vol. 16, No. 50.
5. The Central Bank of Iraq Statistical Bulletin for Different Years.
6. Muhannad Humaid Yasser Al-Atwi, Employing Sustainable Growth Financing Indicators in Reducing Financial Vulnerability, A Comparative Study between Iraqi and Emirati Insurance Companies, Al-Muthanna Journal of Administrative and Economic Sciences, Vol. 8, No. 2. , 2018.
- 7.Abdalia S. Arabik 2013 the impact of human capital on economic growth : Evidence from research in world economy vol. 4 no 2.
- 8.Gegory man kiw ,principle of macroeconomics 2 nd edition ,oxford university press 2000.
- 9.Jan R . Krgel , source flows – globalization of production and financing Development unclad review , Genera ,1994..
10. Jonathan m. Harris Basic principles of substainable Development Tufts university, USA ,2000.
- 11.Joseph cortight, new Growth Theory , Technology and learning Review of Economics Development No 4, 2001.