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FISCAL POLICY AND ITS ROLE IN ECONOMIC DEVELOPMENT

[1*]Alaa Haidar Jallawi, [2]Saja Abbas Mohsen

Corresponding Author:
nlecdiw41@iku.edu.iq

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ABSTRACT

This study highlights the impact of fiscal policy through its tools (expenditures and revenues) on economic development, and how these tools can be utilized to achieve an appropriate level of development that aligns with essential requirements and the urgent increase in meeting needs that reflect intellectual progress and keep pace with current and future global conditions. The research aims to analyze the role, scope, and impact of fiscal policy through its various tools on economic development, as well as to define and examine these tools and their influence on development. It also seeks to demonstrate the importance of economic development and its impact on the economic reality, which aspires to meet growing needs and demands in order to achieve economic well-being for society. This goal is achieved through the prudent use of expenditures and revenues. Therefore, the study reviews the impact of these tools on development in Iraq.

Keywords: *Fiscal policy, economic development, Iraqi economy, economic growth, public revenues, government spending*

INTRODUCTION

Fiscal policy is one of the main economic tools that governments rely on to achieve their economic and social objectives, especially in developing countries like Iraq, which face numerous challenges in their development path. Fiscal policy consists of decisions related to increasing public revenues through taxes and fees, and directing public spending in ways that promote economic stability and stimulate growth.The Iraqi economy has undergone significant transformations over the past decades, influenced by political, security, and economic factors, making fiscal policy a central pillar in supporting economic development. Given the heavy reliance on oil revenues, the country faces challenges in diversifying income sources, achieving social justice, and providing essential services in sectors such as education, health, and infrastructure.This research aims to examine the relationship between fiscal policy and economic development in Iraq and analyze how fiscal policy tools can be used to achieve sustainable growth, reduce social inequality, and stimulate investment. The study also explores the challenges facing policymakers in Iraq and proposes a number of recommendations to enhance the effectiveness of fiscal policy in supporting development goals.

RESEARCH OBJECTIVE

The research aims to clarify the role and importance of economic development, and the aspiration to achieve sustained and substantial growth rates through the use of fiscal policy and its various tools. The goal is to continuously and proportionately increase economic development rates in a manner that efficiently meets those aspirations.

SIGNIFICANCE OF THE RESEARCH

The significance of this research stems from the importance of both fiscal policy and economic development and their role in enhancing social welfare and advancing society on all levels. It also lies in the importance of effectively employing fiscal policy tools in a way that supports economic development.

RESEARCH HYPOTHESES

1. Increasing public expenditures directed toward investment leads to higher economic development rates.
2. An increase in oil exports, along with rising oil prices, contributes to achieving development.
3. The appreciation of the exchange rate has a positive effect on economic development.
4. Increased public spending leads to a higher per capita share of GDP.
5. To what extent does public spending contribute to achieving economic diversification?

DEFINITION OF FISCAL POLICY

Fiscal policy is an economic strategy aimed at improving economic conditions by adjusting government revenues and expenditures. Its general objective is to influence aggregate demand in the short term. Additionally, fiscal policy can also impact the supply side of the economy in the longer term, for example, by enhancing the economy's productive capacity.

Fiscal policy refers to the measures a government uses to modify its spending levels and tax rates to influence and monitor the nation's economy. However, its effects are not uniform across all groups—it depends on political objectives and the direction taken by policymakers. For instance, lowering tax rates may negatively impact the middle class, which represents the largest economic group. During periods of high taxation and economic downturns, this group often ends up bearing a greater tax burden compared to wealthier groups.

When the government considers altering spending levels, fiscal policy may affect specific social groups. One of the critical challenges policymakers face is deciding the degree of government involvement.

Some scholars define fiscal policy as: governmental interventions through the mobilization and efficient allocation of financial resources to achieve economic and social growth goals and promote sustainable economic development. Therefore, fiscal policy can be defined as the state’s interventions using available financial tools to positively influence the economic cycle and steer the economy toward desired objectives, taking into account the economy’s capacity to achieve a balanced level of economic development.

OBJECTIVES OF FISCAL POLICY

1. **Achieving Price Stability:** Fiscal policy plays a vital role in stabilizing the general price level, especially during periods of recession or recovery, by influencing employment, prices, and national income. The government may adopt a contractionary fiscal policy to counter inflation by reducing public (especially consumption) spending, or an expansionary policy during recession by increasing spending or cutting taxes—or both.

2. **Redistribution of Income:** One of the noblest goals of fiscal policy is income redistribution. Reducing inequality in income and wealth distribution enhances social welfare. This can be achieved by adjusting the types and proportions of government spending in favor of lower-income groups, helping to ensure social justice.

3. **Achieving Economic Development and Social Justice:** Fiscal policy aims to promote economic development, social equity, and political stability by using public revenues and expenditures. Economic, social, and political conditions significantly influence the goals of fiscal policy. While the core objectives of fiscal policy are similar across developed and developing nations, the means to achieve them differ due to varying levels of advancement.

4. **Controlling Inflation and Stimulating the Economy During Recession:** Another key objective is to control inflation and stimulate economic activity during times of contraction, thereby maintaining economic stability.

TYPES OF FISCAL POLICY

A. Deficit-Financed Fiscal Policy: This type of policy involves increasing government spending or reducing revenues to stimulate economic activity and is divided as follows:

1. **Reducing Tax Revenues:** This is achieved by lowering taxes, which increases individuals' net income and purchasing power, thus encouraging consumer spending and boosting aggregate demand.
2. **Expanding Government Spending:** The government increases spending on public services and infrastructure projects, including transfer payments like subsidies or support to low-income individuals and the unemployed. This leads to increased individual spending and helps raise employment levels by stimulating demand for goods and services.
3. **Accelerated Repayment of Public Debt:** When the state repays its debts before maturity, it injects liquidity into the economy by replacing securities with cash in banks, thereby increasing bank reserves and enabling greater credit expansion.

B. Surplus-Financed Fiscal Policy: This approach aims to absorb excess liquidity from the economy to combat inflation, and includes:

1. **Restricting Bank Credit:** By following central bank policies such as raising the reserve requirement and selling government securities in open market operations, the money supply is tightened, which can dampen investment.
2. **Increasing Tax Revenues:** Higher taxes are implemented during periods of inflation to reduce consumer purchasing power and limit excessive demand.
3. **Expanding Public Borrowing:** Governments issue securities and borrow from the public via banks to absorb excess money from the economy, reducing inflationary pressures.

FISCAL POLICY TOOLS

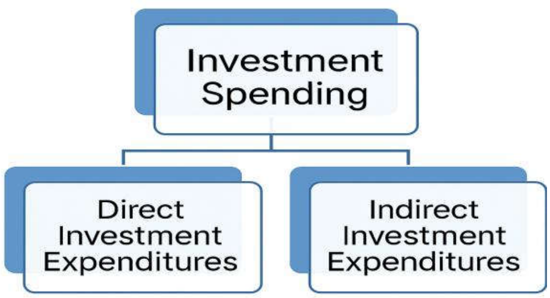
Fiscal policy is the tool by which the government adjusts its budget balance—through changes in spending and revenue—to influence broader economic conditions. According to mainstream economic theory, governments can influence the level of economic activity, generally measured by GDP, in the short term by altering spending and tax levels.

- **Expansionary Fiscal Policy:** Involves increased government spending, lower tax revenues, or a mix of both to stimulate economic activity.
- **Contractionary Fiscal Policy:** Involves decreased government spending, increased tax revenues, or both, to slow down economic activity.
- A budget deficit indicates an expansionary fiscal policy, while a budget surplus reflects a contractionary policy.

GOVERNMENT SPENDING (PUBLIC EXPENDITURE)

This refers to the monetary resources spent by the state or its public institutions to meet public needs and achieve social benefits. It is divided into:

1. **Consumption Expenditures:** These are operational expenses related to running public administration, such as salaries and wages, and purchasing goods and services needed for government functions.
2. **Investment Expenditures:** These are development-oriented expenses, such as funding and supporting industrial and agricultural projects aimed at long-term economic growth.



INVESTMENT SPENDING CAN BE DIVIDED INTO TWO MAIN TYPES

1. **Direct Investment Expenditures:** These refer to the funds allocated directly by the government for the establishment of industrial, agricultural, and other productive projects. Such projects result in the production of goods and services that contribute to increasing the gross national product (GNP), mitigating inflationary pressures by expanding aggregate supply, meeting domestic consumption needs, increasing exports, and strengthening the balance of payments.
2. **Indirect Investment Expenditures:** These involve government spending on infrastructure projects that support and stimulate economic activity and enhance production. These projects typically require long periods to complete and entail high financing costs, making them a burden primarily borne by the government rather than the private sector.

PUBLIC REVENUES

Public revenues are considered one of the primary tools of a state's fiscal policy. Their role has evolved from simply a means of providing funds to the public treasury, to an instrument for influencing economic policy and stimulating national economic growth.

There are different views regarding the definition of public revenues. Some define them as financial deductions imposed on individuals by the state, regardless of any direct personal benefit, and the proceeds are used to cover public expenditures that serve the goals of fiscal policy. Others see them as mandatory tax obligations imposed by the state, to be paid by individuals without any specific benefit in return.

TYPES OF REVENUES

A. **Taxes**: Taxes are compulsory levies imposed by the state or one of its public bodies on the income or assets of economic units with the aim of covering public expenses, in accordance with the taxpayer's ability to pay. Taxes are considered a form of mandatory financial contribution from individuals to help bear public burdens and government spending, without providing a specific return benefit.

Iraq's tax system suffers from clear shortcomings due to complex structural, administrative, organizational, and legislative issues. As a result, tax evasion is extremely widespread.

MAIN TYPES OF TAXES

1. **Consumption Taxes:** Imposed on consumed goods and services, such as value-added tax (VAT) or sales tax. These taxes aim to generate revenue, encourage savings, and direct spending.
2. **Property Taxes:** Levied on real estate and high-value property. These taxes are used to collect revenues and encourage real estate investment.
3. **Corporate Taxes:** Imposed on the profits earned by companies and businesses.

THE DOMAIN (PUBLIC AND PRIVATE STATE PROPERTY)

1. **Public Domain (Non-revenue-generating):** This includes assets designated for public use and owned collectively by the government and its entities, such as roads, bridges, tunnels, and parks. Although these assets do not generate direct revenues, their value and volume increase as the state expands free public services.
2. **Private Domain (Revenue-generating):** Refers to government-owned assets intended for economic exploitation. It is the only category within the domain that produces income for the state, making it a significant source of public revenue.

FEES (SERVICE CHARGES)

A **fee** is defined as a monetary amount collected by state institutions in return for a specific service provided to the payer. With the development of public finance systems, fees are now collected in cash rather than in kind or through labor, which was a practice in the past. Despite being a charge for a service, the fee remains mandatory and enforceable by law.

PUBLIC DEBT

Public debt is considered an important source of public revenue for the state, and it is often relied upon to finance public expenditures when the government is unable to generate sufficient revenues, especially from taxes. In such cases, the state borrows from individuals, financial institutions, or local and international banks, with a commitment to repay the loan and pay interest according to specific terms and a predetermined schedule.

Public debt represents the amount of borrowing accumulated over previous periods, and is thus viewed as a stock (accumulated balance) rather than a flow. In other words, it reflects the cumulative liabilities and financial activities of past fiscal periods. The government may resort to borrowing to manage budget deficits and provide public services, especially when:

1. Taxation has reached its maximum limit, and

2. Further tax increases may provoke strong public backlash.

TYPES OF PUBLIC LOANS

1. **Internal Loans:** These do not increase the overall purchasing power within the country, as they merely transfer part of the purchasing power from individuals and institutions to the state.
2. **External Loans:** Unlike internal loans, external borrowing can increase the country's purchasing power. However, it places a burden on the economy, as the state must repay the principal and interest to foreign creditors. Additionally, it poses risks of foreign interference in domestic affairs.

ROLE OF EXTERNAL BORROWING IN FINANCING ECONOMIC DEVELOPMENT

The effectiveness of external borrowing in financing development projects depends on:

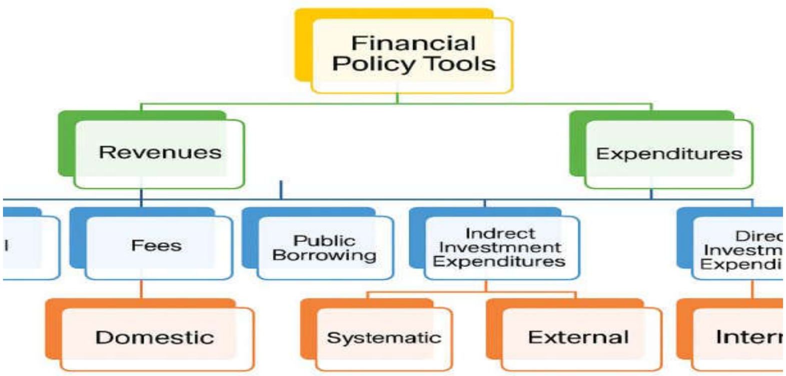
- **How the loan is utilized**: Whether it contributes efficiently to development.
- **The borrowing country's capacity to repay**: The state must be able to meet its repayment obligations (principal and interest) to the lender.
- **Loan terms**: As defined in the loan agreement between the parties.

The primary condition for relying on external borrowing is the country's debt absorption capacity—its ability to manage current and future debt burdens. This standard is essential for any developing economy when considering appropriate external sources to cover its external deficit.

OIL REVENUES

Oil represents the most significant revenue source for Iraq, accounting for about 89% of total revenues. This high dependency is extremely risky and can lead to economic collapse if oil prices fall sharply. Iraq's development process is heavily influenced by fluctuations in oil revenues.

Although Iraq witnessed a rise in development rates up to the third quarter of 2024, this increase was largely due to external factors—namely the war in Eastern Europe and instability in the Middle East—which caused pressure on global energy supplies and led to a surge in oil prices. This underlines the fragile nature of Iraq's economy and the urgent need to diversify its sources of income to ensure sustainable development.



CONCEPT AND IMPORTANCE OF ECONOMIC DEVELOPMENT

Economic development refers to a comprehensive and sustainable process aimed at improving the living and economic standards of society. It involves increasing national income, providing employment opportunities, ensuring fair wealth distribution, and enhancing the efficiency of resource utilization. Economic development is seen as a dynamic transformation that replaces stable equilibrium states with new ones or as a continuous improvement in production methods aligned with the spirit of the modern era, particularly through the adoption of advanced technologies that boost the productivity of all economic sectors.

Gerald Meier defines economic development as *"the process through which real national income rises over time."* It involves structural changes that lead to real income or GDP growth across economic, political, social, and organizational dimensions, all aimed at improving the standard of living.

We can also define economic development as a planned increase in national economic capacity through the use of various economic drivers to meet the growing human needs and desires for greater prosperity. Its importance lies in improving individuals' financial conditions, enabling them to save and invest, and enhancing quality of life through better employment, infrastructure, healthcare, and education—ultimately fostering societal satisfaction, productivity, and industrial growth.

OBJECTIVES OF ECONOMIC DEVELOPMENT

- Reducing poverty and unemployment
- Achieving economic stability
- Improving infrastructure
- Supporting education and healthcare
- Promoting social justice

DIFFERENCES BETWEEN ECONOMIC GROWTH AND ECONOMIC DEVELOPMENT

Economic Growth	Economic Development
Refers to the increase in GDP or real national income over a specific period.	A broader process that includes economic growth along with social and structural transformation.
Quantitatively measured using figures and percentages.	Measured both quantitatively and qualitatively.
Focuses on the quantity of production and income.	Focuses on improving quality of life and sustainable progress.
Does not consider income distribution or living standards.	Aims to reduce poverty, unemployment, and ensure fair wealth distribution.
May occur without public service improvement.	Involves health, education, justice, and infrastructure development.
Indicators: GDP, national income, per capita income.	Includes human development, education, infrastructure, etc.

KEY ELEMENTS OF ECONOMIC DEVELOPMENT

1. **Economic Growth:** The backbone of development, measured by increases in GDP or Gross National Income (GNI).
2. **Wealth Distribution:** Equitable distribution helps reduce economic and social disparities, promoting stability and sustainable development.
3. **Technological Innovation:** A fundamental driver of development, allowing companies and societies to increase production efficiency and offer new goods and services.

KEY ECONOMIC INDICATORS FOR MEASURING ECONOMIC DEVELOPMENT

1. **Gross Domestic Product (GDP):** Represents the total value of goods and services produced within the country during a specific period, using both domestic and foreign resources, across various sectors.

2. **Growth of National Institutional Structures:** Includes the development of governance, structural transformation institutions, and the expansion of financial, monetary, and commercial systems—along with their interconnectivity.
3. **Human Development Index (HDI):** As adopted by the UNDP, this index measures human development by expanding people's choices, focusing on education, health, and income levels.
4. **GDP Per Capita:** A vital measure of individual economic well-being, representing the share of national output per citizen. It reflects the overall economic health and distribution of income within a country.
5. **Quality of Life Index:** The ultimate goal of economic development is improving quality of life, which includes enhancing education, increasing job opportunities, and promoting cultural and environmental sustainability.

PILLARS OF ECONOMIC DEVELOPMENT

1. **Creating a Suitable Framework for Development:** Development depends on various foundational elements, including political and social stability, good governance, and institutional efficiency.
2. **Increasing Capital Accumulation:** Capital accumulation refers to collecting wealth in various forms and transforming it into productive assets like machinery and infrastructure, which are essential to driving development.
3. **Natural Resources:** These play a crucial role in development, as they provide raw materials and energy for industries and export potential for revenue generation.
4. **Industrialization:** Industrial development is considered a core engine of economic growth and a symbol of national strength. It:
    - Expands employment opportunities,
    - Encourages the utilization of national resources,
    - Protects against foreign exploitation,
    - Stimulates other sectors of the economy (due to its strong backward and forward linkages).

Industrialization, therefore, is seen as a key solution to structural imbalances in developing economies and a driver of sustainable national advancement.

5. Technology: The factors of production—land, natural resources, human resources, and capital—require various types of technology that enable the transformation of raw materials into goods and services. Economic growth and increased investment stimulate technological change, which creates new opportunities and markets that push the growth process forward.

Technological advancement also reduces the amount of resources used per unit of production and minimizes waste. The importance of technology can be summarized as follows:

- Introducing or inventing new goods unknown to consumers or producing them with improved quality
- Using new production methods
- Opening new markets
- Discovering new raw material resources
- Establishing new industrial structures

There is no doubt that technology is of utmost importance and has a profound impact on industries and production processes in general.

As Japanese scholar Kenichi Ohmae states: *"The future will be very different when it comes to technology."*

FACTORS INFLUENCING DEVELOPMENT

First: Economic Factors

1. **Capital:** Availability of capital for investment in infrastructure and productive projects.
2. **Investment:** The size and quality of domestic and foreign investments.
3. **Labor:** Availability of skilled labor and efforts to improve productivity.
4. **Infrastructure:** Transport networks, energy, communications, and public utilities.
5. **Technology:** Use of modern technology in production and services.
6. **Private Sector:** The private sector's role in stimulating economic growth.

Second: Social Factors

- **Education:** The quality and accessibility of education and its role in preparing skilled personnel.
- **Health:** The level of healthcare services and their impact on human productivity.
- **Social Stability:** Low levels of poverty, crime, and unemployment support a stable environment.
- **Equality:** Reducing social and economic disparities among different groups.

Third: Political Factors

1. **Political Stability:** A stable political environment encourages investment and development.
2. **Government Policies:** The presence of long-term development strategies and plans.
3. **Combating Corruption:** Good governance and transparency in government institutions.

Fourth: Environmental and Geographical Factors

- **Natural Resources:** Availability of resources such as oil, gas, water, and arable land.
- **Geographic Location:** Proximity to global markets and trade routes.

SUSTAINABLE ENVIRONMENT: Managing resources in a way that does not lead to environmental degradation. Here is the English translation of your text titled: "The Relationship Between Fiscal Policy and Economic Development"

The Relationship Between Fiscal Policy and Economic Development
How Taxes and Public Spending Affect Development

First: The Impact of Taxes on Development
Positive Effects:
1. **Financing Public Services:** Such as education, healthcare, and infrastructure, which enhances both human and physical capital.
2. **Income Redistribution:** Through progressive taxation, which reduces the gap between social classes and promotes social justice.
3. **Encouraging or Discouraging Certain Sectors:** Via exemptions or selective taxes to guide economic activity toward developmental goals.

Negative Effects (when misused):
- **Weakening Investment Incentives:** High taxes reduce investor profits and deter investment.
- **Encouraging Tax Evasion:** This decreases government revenues and limits the state's ability to finance development.
- **Unfair Tax Burden:** May lead to public dissatisfaction and negatively impact productivity.

Second: The Impact of Public Spending on Development
Positive Effects:
1. **Improving Infrastructure:** Such as roads, energy, and water, which attract investments.
2. **Supporting Key Sectors:** Like agriculture and industry, through direct subsidies or soft loans.
3. **Stimulating Aggregate Demand:** Through spending on salaries and social support, boosting consumption and growth.

Negative Effects (if mismanaged):
- **Resource Waste:** In the absence of oversight and transparency.
- **Increased Fiscal Deficit:** When spending far exceeds revenues, leading to inflation or debt accumulation.
- **Overdependence on the State:** Which stifles individual initiative and discourages the private sector.

THE ROLE OF FISCAL POLICY IN SUPPORTING VITAL SECTORS IN IRAQ: HEALTH, EDUCATION, INFRASTRUCTURE

Fiscal policy plays a central role in promoting economic and social development in Iraq, particularly by supporting vital sectors such as health, education, and infrastructure. Below is an overview of how fiscal policy supports these sectors:

1. Health Sector
- **Public Health Spending:** The Iraqi government allocates part of its annual budget to support hospitals, health centers, and provide medicines and medical supplies.
- **Construction and Rehabilitation of Hospitals:** Efforts include funding for building new hospitals and rehabilitating old ones, often through public-private partnership projects.
- **Improving Medical Staff Salaries:** Fiscal tools are used to enhance the pay of doctors and nurses and attract qualified professionals.
- **Crisis Response:** As during the COVID-19 pandemic, fiscal policy was used to provide emergency funding to address health crises.

2. Education Sector
- **Budget Allocations:** A significant portion of public spending goes to schools and universities, as well as curriculum modernization.
- **School Construction:** Funding for building schools in poor and remote areas through investment budgets.
- **Support for Higher Education and Research:** Includes financing scholarships, updating universities, and offering student grants.
- **Adult Literacy and Vocational Programs:** Aimed at combating unemployment and improving skills.

3. Infrastructure
- **Roads and Bridges:** Financing the construction and maintenance of roads and bridges to ease trade and movement between provinces.
- **Electricity and Water:** Supporting energy, water, and sanitation projects as a state budget priority.

- **Housing and Urban Planning:** Budget allocations for large-scale housing projects and better urban planning, especially in major cities.
- **Public-Private Partnerships:** Through investment laws, fiscal policy is used to encourage private investment in infrastructure projects.

Challenges

- **Financial and Administrative Corruption:** Which hinders effective allocation of funds.
- **Heavy Dependence on Oil:** Making public spending vulnerable to price fluctuations.
- **Weak Long-term Planning:** And a general lack of efficiency in project management.

CONCLUSION

Fiscal policy is a strategic tool for supporting vital sectors in Iraq. It has the potential to improve citizens' living standards and achieve sustainable development goals. However, real success requires:

- Structural reforms
- Anti-corruption measures
- Improved public spending efficiency

THE ROLE OF FISCAL POLICY IN REDUCING UNEMPLOYMENT AND ACHIEVING JUSTICE IN IRAQ

Fiscal policy is one of the essential tools the state relies on to achieve its economic and social goals, especially in addressing the issues of unemployment and social injustice. It involves the government's use of public spending and taxation to achieve economic stability and comprehensive development.

First: Reducing Unemployment Through Fiscal Policy

1. **Increasing Public Spending on Investment Projects:**
   - Directing spending toward infrastructure projects (roads, energy, water) creates both direct and indirect job opportunities.
   - Supporting small and medium enterprises (SMEs) to encourage entrepreneurship and youth employment.
2. **Fiscal Stimulus Through Tax Reductions:**
   - Reducing taxes on productive sectors to encourage investment and increase employment.
   - Offering tax exemptions to projects that employ a high percentage of local labor.
3. **Vocational Training and Rehabilitation Programs:**
   - Funding government programs to retrain unemployed individuals to meet market needs.
   - Supporting vocational training centers and technical universities.

Second: Achieving Justice Through Fiscal Policy

1. **Progressive Tax System:**
   - Imposing higher taxes on high-income earners while easing the burden on poorer classes.
   - Reducing tax evasion to ensure a fair distribution of the financial burden.
2. **Redistribution of Income Through Social Spending:**
   - Allocating a significant portion of the budget to support essential services like health and education.
   - Providing cash assistance to vulnerable groups (widows, orphans, persons with disabilities).
3. **Supporting Marginalized and Poor Regions:**
   - Directing public spending toward provinces and regions suffering from marginalization, poverty, and high unemployment.
   - Establishing development projects specifically for these areas.

CHALLENGES IN IRAQ

- Financial and administrative corruption, which hinders the proper allocation of spending.
- Heavy reliance on oil revenues, undermining fiscal policy stability.
- Inequitable distribution of revenues among provinces.
- Weak coordination between fiscal and monetary policies.

RECOMMENDATIONS

- Reform the tax system to make it fairer and more efficient.
- Strengthen oversight of public project implementation to prevent corruption.
- Diversify revenue sources away from oil dependency.
- Enhance vocational training programs and align them with market needs.

FISCAL POLICY IN IRAQ

First: Public Revenues in Iraq

- Heavily reliant on oil revenues (over 90% of the budget).
- Weak diversification of non-oil income sources (such as indirect taxes).

PUBLIC REVENUES AND EXPENDITURES IN IRAQ

Table 1: Public Revenues (in Billion Iraqi Dinars)

Year	Total Public Revenues	Oil Revenues	Non-Oil Revenues
2020	63,000	56,000	7,000
2022	120,000	110,000	10,000

Source: Iraqi Ministry of Finance, Federal Budget Reports

Second: Public Expenditures

- **Operational Spending** (salaries and pensions) accounts for more than 75% of total expenditures.
- **Investment Spending** is **low** relative to the actual infrastructure development needs.

BREAKDOWN OF BUDGET ALLOCATION

Item	Percentage of the Budget
Salaries and Pensions	60–65%
Subsidies and Energy	10–15%
Investment and Infrastructure	15–20%

Third: Fiscal Deficit and Surplus

- Iraq suffers from a structural deficit when oil prices decline.
- In years of high oil prices (such as 2022), the country achieves fiscal surpluses.

Table 2: Fiscal Deficit/Surplus (in Billion Iraqi Dinars)

Year	Deficit/Surplus
2020	-30,000
2022	+25,000

Fourth: The Impact of Fiscal Policy

• Positives:

- Providing salaries for employees and retirees.
- Supporting post-war reconstruction projects (e.g., in Mosul).

• Negatives:

- Weakness in productive investment.
- Excessive reliance on oil.
- Mismanagement of resources and widespread corruption.

CONCLUSIONS

1. **Lack of Revenue Diversification:** Iraq relies heavily on oil revenues, making fiscal policy vulnerable to oil price fluctuations, which negatively affects economic and financial stability.
2. **High Public Spending with Low Efficiency:** Despite high levels of government spending, a large portion is allocated to operational expenses (such as salaries and subsidies) rather than investment in developmental projects.
3. **Weak Developmental Role of Fiscal Policy:** Fiscal policy has failed to stimulate non-oil sectors, resulting in weak comprehensive and sustainable economic development.
4. **Poor Resource Allocation:** There is a clear imbalance in the distribution of spending across provinces and sectors, with evident neglect of critical sectors like health, education, and infrastructure.
5. **Decline in the Role of Taxation as a Fiscal Tool:** Iraq's tax system suffers from inefficiency and poor collection, limiting the state's ability to finance development independent of oil revenues.
6. **Lack of Medium- and Long-Term Financial Planning:** Fiscal policy is often managed based on short-term considerations without a clear strategy linking it to developmental goals.

RECOMMENDATIONS

1. **Diversify Public Revenue Sources:** It is essential to develop a fair and effective tax system and increase non-oil revenues to enhance financial stability and reduce dependency on oil.

2. **Restructure Public Spending:** A larger portion of government expenditure should be directed toward infrastructure, education, and health projects to stimulate long-term development.
3. **Adopt a Development-Oriented Budget:** The general budget should be prepared based on programs and performance, focusing on achieving clear and measurable developmental outcomes.
4. **Enhance Financial Transparency and Oversight:** Strengthen oversight of government spending and combat financial corruption to ensure efficient resource utilization.
5. **Stimulate the Private Sector:** Formulate fiscal policies that support the business environment, offer incentives for local and foreign investment, and contribute to job creation.
6. **Reform the Tax System:** Update tax legislation, expand the tax base, and improve collection and monitoring mechanisms.
7. **Adopt Long-Term Financial Planning:** Link fiscal policy to the goals of the National Development Plan and Iraq Vision 2030 to ensure policy alignment with economic and social objectives.

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