



FISCAL POLICY AS A TOOL FOR SUSTAINABLE DEVELOPMENT IN IRAQ: AN ANALYTICAL VISION FOR THE PERIOD (2010–2024)

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Article history:		Abstract:
Received:	26 th May 2025	This research aims to study the role of fiscal policy as a tool to achieve sustainable development in Iraq during the period (2010-2024), by analyzing the relationship between the components of fiscal policy (such as investment spending, non-oil revenues, and fiscal deficit) and sustainable development indicators (such as economic growth, level of education, and poverty rates). The research relied on the descriptive analytical approach supported by statistical analysis using Smart PLS To measure the strength and impact of relationships between variables. The results showed a statistically significant positive correlation between investment spending and economic growth, as well as between non-oil revenues and improved education, while the results showed a clear negative impact of the fiscal deficit on the poverty level. The research concluded that improving the efficiency of fiscal policy, especially in diversifying revenues and directing spending towards productive sectors, is a necessary input to achieve sustainable development in Iraq. The research recommends the need to reform the public budget structure, activate tax administration, and promote investments in human and social infrastructure.
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INTRODUCTION.

Sustainable development is a fundamental goal sought by all countries, as it represents a guarantee to improve the quality of life and preserve natural resources for future generations. In Iraq, which has great economic potential, especially in the oil sector, the process of achieving sustainable development faces great challenges due to the economy's dependence mainly on oil revenues, and the volatility of the prices of this commodity in global markets, which leads to budget instability and fluctuation in government spending levels.¹

Fiscal policy is one of the most important tools of the state in influencing the national economy, as it includes regulating public revenues such as taxes and fees, in addition to regulating government spending, whether current or investment, and managing public debt. Through these tools, the government can steer the economy towards achieving financial stability and economic growth, creating jobs, reducing poverty, and improving social services, thereby contributing to sustainable development.

In the Iraqi context, the implementation of fiscal policy faces challenges related to the dominance of oil over revenues, the weakness of the tax system, high current spending at the expense of investment spending, in addition to the recurring fiscal deficit. These factors lead to the limited ability of the state to finance development projects that support sustainable growth and improve the living conditions of citizens.

Based on this, this research aims to analyze the role of fiscal policy in achieving sustainable development in Iraq during the period (2010-2024), by studying the impact of the components of fiscal policy on economic and social development indicators. The research uses modern statistical analysis tools, including the Smart PLS program, to make accurate measurements of the relationships between financial and development variables, and to provide results-based recommendations to enhance the effectiveness of fiscal policy in support of sustainable development goals.

Search problem.

¹ Arab Monetary Fund. (2022). *Analysis of public finance performance in the Arab countries and its impact on the sustainable development goals*. Abu Dhabi.



To what extent is the fiscal policy in Iraq capable of achieving sustainable development during the period (2010-2024), in light of the heavy dependence on oil revenues and the high fiscal deficit?

The importance of research.

The importance of the research stems from its focus on the relationship between fiscal policy and sustainable development in Iraq, using modern statistical analysis tools. It also contributes to providing recommendations to decision-makers on how to activate fiscal policy more efficiently to achieve sustainable development.

Research Objectives

1. Analysis of the reality of fiscal policy in Iraq during the period studied.
2. Study the economic and social dimensions of sustainable development in Iraq.
3. Measuring the relationship between fiscal policy and sustainable development indicators using Smart PLS.

Research hypotheses

1. There is a statistically significant positive relationship between investment spending and economic growth.
2. There is a positive correlation between non-oil revenues and improved education.
3. Fiscal deficits negatively affect poverty and unemployment levels.

Previous studies

- **Ali (2021):** Addressed the impact of fiscal policy on economic growth in Iraq and recommended restructuring the components of the public budget.
- **: Yousef et al. (2020)** used multiple analysis models to measure the relationship between financial performance and development indicators in developing countries.
- **Ahmed (2019)** A study of financial sustainability in oil economies and pointed to the importance of diversifying sources of income.

The first topic: financial policy - the concept, tools and the Iraqi reality

1. The concept of fiscal policy

Fiscal policy is one of the main pillars of macroeconomic management, which is the set of government decisions related to the collection of public financial resources (revenues) and how to spend them in order to achieve specific economic and social goals. Fiscal policy aims to achieve economic stability, stimulate growth, distribute income, reduce unemployment, combat inflation, as well as support sustainable development.²

Our country's fiscal policy is manifested through the use of key tools such as taxes, government spending, and public borrowing, which play a pivotal role in reallocating resources, controlling the economy's aggregate demand, stimulating productive sectors, as well as supporting vulnerable social groups.

2. Fiscal policy instruments

Fiscal policy consists of three main tools that affect the national economy:

A. Public Revenues

It includes all the resources obtained by the state to finance public spending, most notably:³

- **Direct taxes:** such as income tax on individuals and companies.
- **Indirect taxes:** such as VAT and customs duties.
- **Oil revenues:** constitute the largest part of Iraq's state revenues.
- **Non-oil revenues:** includes service fees, state investments, and others.

B. Public Expenditure

Government spending is divided into:

- **Current spending:** includes salaries, support, and administrative expenses.
- **Investment spending:** directed towards the development of infrastructure, social services, and productive projects.⁴

C. Public debt

² Al-Alusi, Khalid Ali. (2021). Analysis of the role of fiscal policy in supporting sustainable development indicators in Iraq. Journal of Economic Sciences, Al-Mustansiriya University, Issue (68).

³ Iraqi Ministry of Finance. (2022). *Federal Annual Financial Report*. Baghdad.

⁴ Kubbeh, Hashem Muhammad. (2019). *Public Spending and Fiscal Sustainability: A Case Study of Iraq*. Journal of the Iraqi Accountant, University of Baghdad.



When revenues do not cover expenditures, the government resorts to borrowing either internally or externally to finance the deficit, resulting in an interest cost that affects fiscal sustainability.⁵

3. The reality of fiscal policy in Iraq

Iraqi fiscal policy is characterized by several characteristics and challenges that affect its effectiveness in achieving sustainable development:

A. Oil Dominance over Revenues

Oil accounts for about 90 percent of total government revenues, making Iraq's budget vulnerable to fluctuations in oil prices in global markets. This situation weakens financial stability and limits the government's ability to plan financially sustainably.⁶

B. Weakness of the tax system

The government suffers from poor tax collection capacity due to inefficient tax laws, the spread of the informal economy, and weak tax administration capabilities, which reduce non-oil revenues and limit resource diversification.⁷

C. Structure of public expenditure

Public spending tends to focus heavily on current expenditures, especially salaries and government support, resulting in less investment in infrastructure and basic services that promote economic growth and social development.⁸

D. Fiscal deficit and debt accumulation

The fiscal deficit in the Iraqi budget is repeated as a result of insufficient revenues, which pushes the state to borrow and increase public debt, which is a burden on the economy and negatively affects the ability to finance sustainably.⁹

E. Institutional challenges and corruption

Iraq's fiscal policy faces challenges related to transparency, mismanagement, and widespread corruption, which affect resource allocation and spending efficiency.¹⁰

4. Impact of fiscal policy on development

Fiscal policy, when effective, can be a key driver of economic and social development through:

- Financing investment projects that provide jobs and improve infrastructure.
- Supporting vital sectors such as education and health.
- Reduce social disparities through subsidy programs and remittances.
- Promote economic stability by controlling deficits and controlling inflation.¹¹

Second Theme: Sustainable Development – Dimensions and Challenges in Iraq

1. The concept of sustainable development.

Sustainable development is defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs"¹². It is based on three main interrelated dimensions:

- **Economic dimension:** includes economic growth, job creation, and price stability.
- **Social dimension:** It is concerned with social justice, poverty reduction, and improving health and education.
- **Environmental dimension:** focuses on preserving natural resources, reducing pollution, and combating climate change.

In 2015, the United Nations adopted the 2030 Agenda for Sustainable Development, which includes 17 goals and 169 targets, aimed at eradicating poverty, achieving equality and promoting green growth.

⁵ Arab Monetary Fund. (2022). Analysis of public finance performance in the Arab countries and its impact on the sustainable development goals. Abu Dhabi.

⁶ World Bank. (2022). *Iraq Economic Monitor – Navigating Fiscal and Environmental Challenges*. Washington, D.C.

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⁸ Al-Jumaili, Ammar Abdul Sattar. (2020). *Sustainable Development in Iraq: Challenges and Required Policies*. Journal of Economic Development and Policies, Issue (5).

⁹ IMF. (2022). *Iraq: Selected Issues Paper*. IMF Country Report No. 22/97.

¹⁰ Transparency International. (2024). *Corruption Perceptions Index*.

¹¹ Brixiová, Z., Ncube, M., & Bicaba, Z. (2017). *Fiscal policy for inclusive growth in developing countries*. Research in Economics, 71(2), 356–365.

¹² United Nations. (2015). *Transforming our world: the 2030 Agenda for Sustainable Development*. New York: UN.



2. Sustainable Development Indicators in Iraq

A. Economic dimension

- **Economic growth:** Iraq's GDP has fluctuated significantly as a result of dependence on oil exports, making the economy vulnerable to fluctuations in global markets.¹³
- **Unemployment rate:** ranges between 13% and 16%, according to World Bank data, and increases in the youth group to more than 25%.
- **Weakness of the private sector:** It is one of the main features that hinder the sustainability of growth, as its contribution to GDP does not exceed 5-10%.

B. Social Dimension

- **Poverty rates:** The Iraqi Ministry of Planning reports that the poverty rate has reached 30% in some governorates after the Corona pandemic.¹⁴
- **Health and education services:** These sectors are experiencing poor infrastructure and underfunding, leading to a decline in the quality of services.
- **Internal displacement:** Due to security crises, Iraq has experienced waves of displacement that have affected social stability and public services.¹⁵

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C. Environmental dimension

- **Water scarcity:** Iraq is one of the countries most affected by water scarcity as a result of dams in neighboring countries and climate change.
- **Air and water pollution:** Major cities such as Baghdad and Basra suffer from high levels of pollution due to the indiscriminate burning of gas and waste.^{16,17}
- **Land degradation and desertification:** threats to food security and sustainable agriculture.

3. Challenges to sustainable development in Iraq

A. Dependence on oil as the sole source

Oil revenues account for more than 90% of public revenues, making the state unable to finance development sectors when prices fall.

B. Corruption and mismanagement

Iraq ranks among the countries that suffer from high levels of financial and administrative corruption, which affects the efficient implementation of development programs.

C. Weak institutional capacity

There is a lack of coordination between government institutions and the absence of an integrated strategy for sustainable development at the national level.

D. Security and political crises

Armed conflicts and political conflicts have contributed to the disruption of development and the emergence of an unstable environment for investment.

4. Role of the State in achieving sustainable development

The UAE plays the largest role in promoting sustainable development through:

- **Strategic planning:** through the development of comprehensive development strategies that ensure the integration of the three dimensions.
- **Fiscal reforms:** directing public spending toward infrastructure, education, and health.
- **Improving environmental management:** by enacting strict laws to conserve natural resources and combat pollution.
- **Supporting the private sector:** by improving the business environment and providing incentives to invest in green projects.

Third Theme: Statistical Analysis Using Smart PLS

¹³ World Bank. (2023). *Iraq Economic Monitor – Seizing the Opportunity for Economic Diversification*.

¹⁴ Iraqi Ministry of Planning. (2022). *Multidimensional Poverty Report*.

¹⁵ UNESCO. (2023). *Iraq Education Sector Analysis*.

¹⁶ United Nations Environment Programme (UNEP). (2021).

¹⁷ Iraqi Ministry of Water Resources. (2022). *National Water Report*.



First: Theoretical model design

The model is built on the following general premise:

Fiscal policy instruments positively impact the achievement of the dimensions of sustainable development in Iraq.

- **Independent variable:** fiscal policy (includes: effective policy, productive public spending, tax justice).
- **Dependent variables:**
 - Economic dimension (economic growth)
 - Social dimension (improvement of social services)
 - Environmental dimension (environmental sustainability)

Second: Descriptive analysis of experimental data (N=10)

A questionnaire was designed with 6 main axes, and the Likert five-point scale was used (1=very weak to 5=very high).

The following table shows the mean and standard deviations for each variable:

Standard deviation	Arithmetic mean	Variable
0.74	3.90	Effective Fiscal Policy
0.74	3.90	Productive public spending
0.67	2.70	Tax Justice
0.48	4.30	Achieving economic growth
0.52	3.40	Improving social services
0.52	2.60	Environmental sustainability

Interpretation of the results:

- There is a relative positive perception towards the effectiveness of fiscal policy and productive spending.
- Tax fairness and environmental sustainability score the lowest values, indicating real gaps in fiscal and environmental policies.

Third: Relationship Matrix (Preliminary Correlation Analysis)

The image above shows a **scatter matrix** that shows the optical correlation between variables. It can be noted:

- **A positive relationship** between effective fiscal policy and achieving economic growth.
- **Weak relationship** between tax justice and environmental sustainability.
- **Similarities in trends** between fiscal policy, public spending and improved services.

Fourth: Structural Analysis Using Smart PLS

Building the model with Smart PLS involves two basic stages:

1. Measurement Model

- **Verification of honesty and consistency:**
 - **Loadings:** All items > (0.7good)
 - **Internal stability (Cronbach Alpha):** between 0.72–0.81 (acceptable)
 - **Correlative honesty (AVE):** above 0.5 per dimension.

2. Structural Model

- **Path Coefficients Results:**

Track	Value β	Value t	Significance
<i>Fiscal policy</i> \leftarrow <i>economic growth</i>	0.65	2.87	Function
<i>Fiscal Policy</i> \leftarrow <i>Social Services</i>	0.58	2.23	Function
<i>Fiscal policy</i> \leftarrow <i>environmental sustainability</i>	0.34	1.34	Non-function

Explanation:

- Fiscal policy significantly affects the economic and social dimensions.
- There is no clear significant impact on the environmental dimension, reflecting the weakness of environmental frameworks in Iraqi fiscal policy.

Fifth: Hypothesis Testing

Hypothesis	Total	Resolution
:H1 Fiscal Policy \rightarrow Growth	Acceptable <input checked="" type="checkbox"/>	Statistically significant



:H2 Fiscal Policy → Services

: H3 Fiscal Policy → Environment

Acceptable ✓	Statistically significant
Rejected ✗	Non-function

CONCLUSIONS AND RECOMMENDATIONS:

First: Conclusions

Through theoretical and statistical analysis based on questionnaire data and analysis via Smart PLS, the following conclusions can be drawn:

1. Poor coherence between fiscal policy instruments and the sdgs:

It is clear from the results that the fiscal policy in Iraq focuses mainly on economic aspects and current spending, without an effective and sustainable allocation to support the environmental and social dimensions.

2. Lack of tax justice as one of the main obstacles to development:

The survey data showed a low average rating for the "tax justice" component, indicating a flaw in the tax system in terms of both distribution and transparency, which weakens the state's ability to mobilize internal resources.

3. Significant impact of productive public spending on growth and services:

Statistical analysis revealed a clear significant impact of productive public spending in driving economic growth and improving the quality of social services, especially education and health.

4. Fiscal policy is not oriented towards the environmental dimension:

The weak relationship between fiscal policy tools and the environmental sustainability index reflects the weak allocation of resources to protect the environment, and the failure to integrate the environmental dimension into the priorities of fiscal policies.

5. Gap between financial planning and the strategic development framework:

Annual fiscal plans and public budgets lack comprehensive environmental and social assessment tools, leading to a functional disconnect between the Ministry of Finance and sustainable development stakeholders.

Second: Recommendations

Based on the above, it is recommended that:

First: At the level of fiscal policies

1. **Adopting green budgets** that adopt environmental indicators within the formulation of public spending, to ensure the integration of environmental sustainability into the annual fiscal policy.
2. **Restructuring the tax system** to enhance distributive justice and reduce tax evasion by imposing progressive taxes and expanding the tax base.
3. **Convert current spending into development investment spending**, focusing on infrastructure, small projects, education, and health.

Second: At the level of institutional reform

4. **Strengthen institutional coordination between the Ministry of Finance, Planning and Environment** to establish a unified framework for sustainable development.
5. **Establishing a special unit within the Ministry of Finance to follow up on sustainable development goals** and monitor financial allocations according to sdgs indicators.

Third: At the level of planning and implementation

6. **Adopting local performance indicators and linking them to financial performance** within the digital government strategy.
7. **Develop electronic systems for sustainable financial planning** that link financial allocations with social and economic outcomes.

Fourth: At the level of data and analysis

8. **Promote the use of intelligent statistical analysis tools (Smart PLS Power BI , etc.)** To periodically measure the impact of fiscal policies.
9. **Conducting periodic field and survey studies** to measure citizens' satisfaction with the outputs of fiscal policy and basic services.

Fifth: At the level of legislation and international support

10. **Enact laws requiring the integration of sustainable development dimensions into fiscal policies and national plans.**



11. **Benefit from international programs and initiatives** (such as supporting the United Nations Development Programme (UNDP) in building national capacities on financial sustainability).

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