



# Measuring the Impact of Revenues on the GDP Growth Rate in Iraq for The Period 2004-2022

Bassam Mailk Sarhan

Imam AL-Kadum College (IKC), Iraq

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**Abstract:** Exploring the actual impact of public revenues on the gross domestic product (GDP) is one of the most important topics in the economic context. As a result of the extensive studies and research that have addressed the general budget and its components, as well as public spending and its distribution and disbursement mechanisms, this research constitutes a unique research study that addresses the importance of the actual impact of the development of public revenues and the actual impact they have on the performance of the GDP. Given that the Iraqi economy is a single-rent economy in terms of collecting public revenues, the researcher emphasized the importance of identifying the growth of revenues supporting the oil sector, given that most local economic activities suffer from structural distortions. Based on this, the research hypothesis was based on the importance of supporting the GDP with other revenues, despite the significant growth rates it has recorded, as demonstrated by the researcher in the research results. Therefore, the researcher recommends adopting modern mechanisms to diversify public revenues in the Iraqi economy.

**Keywords:** - public revenues - gross domestic product - impact measurement.

**Introduction:** The issue of collecting public revenues is one of the basic pillars for the economy to take realistic steps towards economic development that reflects government trends. In order to understand the mechanisms through which these revenues are dealt with, which sometimes face many problems, many of which are internal, represented by the failure to approve the general budget or the delay in its approval by Parliament, in addition to the insufficiency of these revenues to meet the actual needs of public spending and government direction. However, it is noted that

these revenues have contributed significantly to strengthening the gross domestic product, despite their heavy reliance on oil revenues, which constituted, throughout the study period, up to 90% of the size of the gross domestic product. This matter constitutes an important issue represented by studying the structure of public revenues and the importance of introducing modern mechanisms to diversify sources of income for the Iraqi economy. In addition, there are external variables with large dimensions that influence the performance of the revenue side of the general budget, represented by political variables, as well as wars and crises that indirectly affect the growth of public revenues. On this basis, the researcher decided to delve into this vital field.

### Significance of the Research

The research is based on the historical importance of revenue collection and income sources for the economy. This importance brings many benefits, as it clarifies the types and types of revenues, their collection methods, and the mechanisms for directing them by economic planners.

### Research Objective

The research aims to measure the importance of public revenues and their impact on the growth rate of the gross domestic product (GDP) in the Iraqi economy, as well as the fluctuations affecting these revenues, the types of revenues, and the factors affecting them.

### Research Problem

The research problem lies in the fact that most previous economic studies focused specifically on clarifying the aspects of general government spending and the role the government plays in directing these expenditures, without addressing the importance of public revenues, their types, and the methods of their collection.

### Research Hypothesis

The research is based on the hypothesis that GDP growth is closely linked to the growth of public revenues, in addition to its link to the growth of these types of revenues.

## Chapter One: The development of public revenues in Iraq

### Evolution of Public Revenues:

The structure of public revenues shows the proportions of funding sources contributing to the general budget and the relative importance of each source. However, these contribution ratios and their importance vary from one country to another depending on the level of economic development. The

nature of the revenue structure and the proportions of each one's impact on providing revenues to the general budget in Iraq can be clarified. Table (1) shows that public revenues increased in 2005 to 40,502,890 million dinars compared to 2004, with an annual growth rate of 22.80%, while the percentage of public revenues from the gross domestic product decreased from 61.95% in 2004 to 55.08% in 2005. The reason for this is the increase in the gross domestic product at a higher rate than the increase in public revenues. These increases in public revenues continued at positive growth rates, especially in 2008, which achieved 80,252,182 million dinars, due to the increase in oil revenues. Until 2009, it achieved a decrease in public revenues to 55,209,353 million dinars compared to 2008, with a negative growth rate of -31.20%, while the percentage of public revenues from the gross domestic product decreased to 42.25% compared to 2008. (2008) as it reached (51.10%) and the reason for that was the global financial crisis during that period. In 2010, public revenues rose again to 70,178,223 million dinars due to the return of crude oil prices to rise to \$75.61 per barrel, while the percentage of public revenues from the gross domestic product rose to 43.30% of what it was in 2009. These increases continued until 2013, which saw a decline in public revenues to 113,840,076 million dinars compared to 2012, which amounted to 119,817,224 million dinars, with a negative growth rate of -4.98%. Meanwhile, the percentage of public revenues from the gross domestic product decreased to 41.61% compared to 2012, which amounted to 47.13%. The reason for this was the decline in oil revenues during that period, while public revenues decreased in 2014 to 105,364,301 million dinars, with a negative growth rate of -7.44%, which led to a decline in the percentage of public revenues. Of the GDP to (39.54%), this is attributed to a decrease in crude oil prices to almost half until it reached less than (40) dollars per barrel in the year (2016), in which public revenues amounted to (54,839,219) million dinars, with a negative growth rate of (%). (See Table 7, and Figure 14). As for the year (2017), public revenues rose again to (77,422,173) million dinars due to the return of crude oil prices to rise to (49.3) dollars per barrel, while the percentage of public revenues from the GDP increased The total increased to (34.88%) of what it was in (2016), and these increases continued until (2019). The table below shows that in the year (2020) there was a decrease in public revenues to (63,199,689) million dinars compared to the year (2019), which amounted to (107,566,995) million dinars, with a negative growth rate of (-40.24%), while the percentage of public revenues to the GDP decreased to (31.79%) compared to the year (2019), which amounted to (40.91%). This decrease is attributed to the decline in oil revenues by (-45.12%) as a result of the decline in global demand for

oil due to the Corona pandemic and the decline in global oil prices, in addition to Iraq's commitment to reduce production according to OPEC+ decisions, as oil revenues constitute the largest proportion of total revenues, with its contribution amounting to (86.15%)

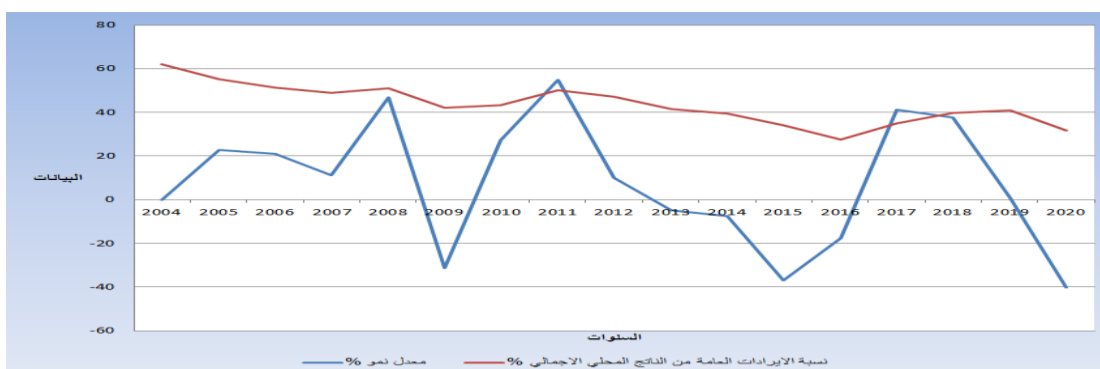
and an amount of (54,448,514) million dinars, in addition to the decrease in capital revenues, transfer revenues, other revenues, commodity taxes and production fees, and fees (Annual Economic Report, 2022

**Table No. 1: Development of public revenues and gross domestic product in Iraq for the period 2004-2022**

Public revenue as a percentage of GDP%	GDP at current prices	growth rate %	Public revenues	year
61.95	53235358	-	32982729	2004
55.08	73533589	22.80	40502890	2005
51.31	95587954	21.11	49055545	2006
48.98	11455813	11.30	80252182	2007
51.10	157026061	46.89	55209352	2008
42.25	130642187	-31.20	70178323	2009
43.30	162064565	27.11	108807392	2010
50.06	217327107	55.04	119817224	2011
47.13	254225490	10.11	113840076	2012
41.61	273587529	-4.98	105364301	2013
39.54	266420384	-7.44	66470253	2014
34.14	194680971	-36.91	54839219	2015
27.62	196924141	-17.49	77422173	2016
34.88	2216657095	41.18	106569834	2017
39.62	2689118874	37.64	107566990	2018
40.91	262917150	0.93	107566995	2019
31.79	19877432504	-40.24	63199689	2020
43.77	201154366110	2.11	877155765	2021
46.18	209965432890	2.81	943231877	2022

Source: Columns (3,1) based on data from the Central Bank of Iraq, Directorate of Statistics and Research, statistical bulletins for the years (2004-2020).

- Columns (4,2) based on the researcher's work



**Figure 1 shows the public revenue curve**

## Section Two: Measuring the impact of public revenues on the growth rate of the gross domestic product.

## Standardization tests and the autocorrelation problem of the GDP growth rate regression model

Test of normality (the problem of heteroscedasticity)

Statistical decision	) Sig(	Its value	Test name
H <sub>0</sub>	0.200	0.119	Kolmogorov- Smirnov

Testing the autocorrelation problem

Statistical decision	Du	DI	Its value	Test name
no self-correlation	1.381	1.158	2301.5	DW

Based on the results of Table (1), it is noted that the response variable Y2 (GDP growth rate) is normally distributed and therefore there is no problem of heterogeneity of variance, as well as the absence of the problems of autocorrelation and multicollinearity. This

means proceeding with the regression analysis using the ordinary least squares (OLS) method to estimate the parameters of the regression model for the variable Y2. The variance analysis table for the regression model for the variable Y2 was obtained as follows

## Results of statistical analysis of the regression model for the variable

ANOVA							
Analysis of variance table for Y2 after conducting statistical tests for the regression model problems for the variable							
Model		Sum of Squares	Df	Mean Square	F	Sig.	R <sup>2</sup>
1	Regression	1.715	1	1.715	3.118	0.098 <sup>b</sup>	0.172
	Residual	8.249	15	0.550			
	Total	9.963	16				
a. Dependent Variable: GDP growth rate							
b. Predictors: (Constant), Public revenues							

**Source:** Prepared by the researcher based on the results of the SPSS program.

It is noted from Table (3) according to the statistical analysis that there is a significant effect relationship between the variable X2 (revenues) and the response variable Y2 (GDP growth rate). The value of (Sig = 0.010) for the F test was smaller than the value of (0.05) with a coefficient of determination of (17.2%), which explains the changes in the response variable, and the remaining (82.8%) is explained by random error and indicates other factors that were not included in the model. In light of the t-test for the  $\beta_1$  parameter for the Y2 regression model, the estimated equation is adopted as it is significant, and thus the estimated equation proven in the table above is adopted to predict the GDP growth rate. From the above results, the economic analysis shows that the impact of public revenues in Iraq for the period (2004-

2022) is directly related to the growth rate of the gross domestic product, as the variable (X2) represents public revenues, as it is noted that its marginal slope coefficient showed a positive sign, meaning that the relationship between the rate of public revenues and the growth rate of the gross domestic product is a direct relationship, meaning that whenever public revenues increase by one unit, the growth rate of the gross domestic product increases by (0.894), which is consistent with the economic theory.

**CONCLUSIONS**

1-The Iraqi economy is suffering from real difficulties, as a result of successive years of wars and sanctions imposed on it, as well as the problems that have emerged in the human resource base necessary to operate an effective economic system.

2-The experience of implementing economic reform steps in Iraq has proven their ineffectiveness, as they were initiated by externally imposed environments and frameworks, represented by the United States and international financial and monetary organizations.

3-Economic reform steps in Iraq emerged from the ruins of an economically shattered state, due to the economic blockade and US occupation following 2003. This led to the waste of time, effort, and money in areas unrelated to economic reform, with tens of billions of dollars being spent on military requirements.

4-There is a close relationship between the stability of foreign exchange rates (the dollar) against the local currency in the market and over long periods, with the exception of some times of crisis, such as the emergence of terrorist groups (ISIS) and the health crisis represented by the emergence of the Coronavirus, which disrupted the global economy.

5-Monetary policy in Iraq has faced many obstacles that have contributed to its obstruction, including the increase in the money supply, high inflation rates, a deficit in the balance of payments, and external debt.

6-The Iraqi economy has suffered from political, economic, and social conditions, such as wars, inflation, and unemployment.

7-A significant impact of a number of structural reforms on economic growth has been demonstrated, including trade openness reforms, labor market reforms, and stimulating innovation and finance.

8-A significant impact of macroeconomic reforms on economic growth has been demonstrated, with an inverse relationship; the lower a country's ranking in the macroeconomic environment pillar of the Global Competitiveness Index, the higher its growth levels.

#### Recommendations:

1- Resorting to state involvement alongside market mechanisms would create a sense of balance within the economy, as the Iraqi economy cannot rely on a single mechanism at present.

2-Increasing job opportunities and mitigating the recession that plagues countries experiencing crises.

3-The renter nature of the Iraqi economy, which relies primarily on revenues from the oil extraction industry, creates an imbalance that will persist for several years as long as the country's economic structure remains in its current unbalanced form. Therefore, the importance of advancing economic reforms is highlighted.

4-Adopting well-thought-out development approaches with a comprehensive national character to enable Iraq to transition from the economic system prevalent

under the former regime to a market economy through an economic model appropriate to the nature of the Iraqi economy.

5-The Iraqi economy remains a one-sided economy dependent on oil revenues by 95%. Therefore, the government is today called upon to expand support for other economic sectors, such as agriculture, industry, and tourism, through government support for these sectors.

6-The country continues to suffer from state dominance, which has led to a general loss of control.

7-The Central Bank should continue its monetary measures that contribute, first, to controlling the foreign exchange market and, second, regulating the performance of local banking institutions to increase confidence in these institutions.

8-Address the imbalances Iraq is suffering from, such as inflation, unemployment, poverty, and others.

9-The Monetary Authority should provide a periodic economic database presented in accordance with international methodologies, and cooperate with relevant institutions.

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