

The Mediating Role of Corruption Perceptions in Strengthening the Relationship Between Fiscal Policy and Economic Growth: Iraq as a Case Study for the Period (2004-2024)

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This research aims to analyze the mediating role of perceptions of corruption in enhancing the relationship between fiscal policy and economic growth in Iraq during the period 2004-2024. The research focuses on demonstrating the extent to which fiscal policy tools—namely, public revenues, public expenditures, and the fiscal deficit—affect economic growth. It also clarifies how perceptions of corruption influence the nature of this relationship by either weakening or strengthening the effectiveness of fiscal policy in achieving its economic objectives. To explain the relationship and influence between the research variables, a main hypothesis was formulated. To achieve the research objectives, a descriptive-analytical approach was adopted, utilizing standard methods to analyze the impact of the mediating variable (Path Analysis). The research reached a number of Results, the most important of which is that high levels of corruption weaken the effectiveness of fiscal policy in supporting economic growth. Conversely, lower levels of corruption and improved transparency contribute to enhancing the impact of fiscal policy on GDP and achieving more stable growth rates..

Keywords: Fiscal policy, economic growth, perceptions of corruption, gross domestic product.

1. Introduction:

The introduction should clearly present the research context and define the main problem addressed in the study. It must begin with a concise background that explains the importance of the topic within the field of administrative and economic sciences. The section should identify the research gap by highlighting limitations or inconsistencies in previous studies, leading logically to the formulation of the research problem. The introduction must also state the objectives of the study in a precise and focused manner. Where appropriate, it should briefly indicate the methodological approach and the structure of the paper. All in-text citations must follow the APA style using the author–date format, presented within parentheses as (Author, Year), such as (Smith, 2020) or (Smith & Brown, 2021), and in cases of three or more authors as (Smith et al., 2022). Direct quotations must include page numbers in the format (Author, Year, p. xx). All cited sources must appear in the reference list, and no uncited references should be included. The text should be written in clear academic English, with a logical flow of ideas, avoiding unnecessary details, excessive citations, or repetition of content presented in other sections.

Research Significance

The importance of this research stems from its examination of the relationship between fiscal policy and economic growth within an institutional framework linked to perceptions of corruption. Corruption is one of the most prominent challenges facing developing economies, including the Iraqi economy. The research is also significant in highlighting the impact of corruption on the efficiency of fiscal policy and its ability to achieve economic growth. Furthermore, it provides an analytical framework that can assist policymakers in adopting fiscal policies and institutional reforms that contribute to enhancing transparency and achieving sustainable economic development..

Research Problem

The research problem lies in the relatively weak economic growth rates in Iraq despite the expansion of public spending and high oil revenues over many years. This raises questions about the effectiveness of fiscal policy in achieving economic growth and the extent to which levels of corruption influence this relationship.

Therefore, the research problem can be formulated through the following main question: What mediating role do perceptions of corruption play in enhancing the impact of the relationship between fiscal policy and economic growth in Iraq during the period (2004-2024)?

Research Objectives

1. Clarify the theoretical framework of fiscal policy, economic growth, and perceptions of corruption.
2. Analyze fiscal policy indicators in Iraq during the period (2004-2024) Analyze economic growth trends in Iraq based on GDP.
3. Measure the level of perceptions of corruption in Iraq during the study period Determine the mediating role of perceptions of corruption in the relationship between fiscal policy and economic growth.

Research Hypothesis

There is a significant relationship between fiscal policy and economic growth in Iraq. Perceptions of corruption play a mediating role in this relationship, as high levels of corruption weaken the impact of fiscal policy on achieving economic growth, while low levels of corruption contribute to enhancing the effectiveness of fiscal policy and supporting economic growth.

Section One: The theoretical and conceptual framework of fiscal policy, economic growth, and perceptions of corruption

The first requirement: The theoretical and conceptual framework of fiscal policy

Fiscal policy is a branch of public economics, and it consists of a set of measures taken regarding state revenues and expenditures to achieve a set of desired economic and social goals(Al-Omari, 1988: 34).

It also refers to a set of objectives, orientations, procedures, and activities adopted by the state to influence the national economy and society with the aim of maintaining its overall stability and development, addressing its problems, and confronting all changing circumstances (Al-Wadi, 2015: 190).

First: Fiscal Policy Tools

Fiscal policy tools are among the most important means employed by the state to influence economic activity through the management of public spending and public revenues, with the aim of achieving economic growth and stability. These tools contribute to directing economic resources and addressing economic imbalances in line with the goals of sustainable development. The most prominent tools include the following:

1- Government Spending

Public spending policy is considered one of the most important tools of fiscal policy. Financial literature abounds with definitions of public spending. It is defined as a sum of money disbursed from the state treasury through its various administrations, institutions, agencies, and ministries to satisfy a public need. The importance of public spending has increased with the expansion of the state's role in various economic fields, and its functions have diversified with the evolution of the state's role, from a guardian state to an interventionist state, and finally to a producer state. It is also defined as the sum of money spent by the state to provide public and private services to citizens or to purchase goods, enabling it to provide services for establishing various economic and social projects. In other words, it is a monetary amount released from the state's financial obligations with the aim of achieving a public benefit (Hussein, 2022:24).

-2Government Revenues:

Government revenues refer to the total funds collected by the government from various sources and entities through taxes and related items, such as fees, charges, fines, and capital transfers. It is often viewed as a concise measure of the government's direct or indirect participation in a country's economic activity. Government revenues are defined as the sums of money that a state receives from various sources to cover public expenditures and carry out its responsibilities. They can also be defined as the sums of cash flows that a state receives in its sovereign capacity, such as taxes, or from external sources, such as loans, in order to cover public spending and achieve the state's financial objectives (Al-Amiri & Jaber, 2020: 64).

3-Public Debt:

Public debt is one of the most important tools of fiscal policy and a primary source of financing the state's budget deficit, which in turn affects the structure of economic growth. Therefore, numerous definitions have emerged in the literature of financial and economic thought. Public debt is defined as the sum of money borrowed by the state with a loan term exceeding one year. The borrowed amount is repaid by the national government or its affiliated responsible body. It is of two types: domestic public debt and external public debt. Domestic public debt represents loans obtained by the state from within its territorial borders, meaning the subscription is between the state and its citizens within the country (Al-Waili & Al-Atabi, 2023: 67.) External public debt, on the other hand, represents loans obtained from outside the state's borders, whether from foreign countries, organizations, or banks, and is usually denominated in foreign currency. It is used to cover the budget deficit or to finance economic projects (Al-Husseini, 2024: 37).

The second requirement: The rate of economic growth.

Economic growth constitutes a fundamental part of economic studies because it represents the progress of nations and peoples. Initially, the term "economic growth" overlapped with the concept of economic development; as these two terms were used almost synonymously for the same concept. However, with the end of World War II, a gap began to emerge in distinguishing between advanced and developing economies, leading to the emergence of new, separate studies focusing independently on theories of economic growth and economic development. Thus, economic growth represents the process by which real per capita income rises over a specific period, and this is achieved through increased productivity and output of manufactured goods and services in a given country (Gonzalez, 2018:5).

It is also about achieving a continuous increase in the average per capita share of real national product or real national income over time (Muqallad, Naja: 17).

Economic growth is expressed by Gross Domestic Product (GDP) (Ibrahim, 2020: 65) (), which is the main indicator of economic growth due to the ease of access to its data. Growth is calculated through the percentage of GDP growth, and each percentage or rate of economic growth is compared to the preceding year (Ahmed, Sabrine, 2023: 605).

$$\text{economic growth rate} = \frac{\text{Current year's output value} - \text{Previous year's output value}}{\text{Previous year's output value}} \times 100$$

Per capita GDP is also a crucial indicator and driver of economic growth. An increase in per capita GDP leads to a higher standard of living, increased economic well-being, and improved health and education services for individuals, all of which ultimately contribute to economic growth. Consequently, it has become imperative for governments to raise per capita GDP to achieve prosperity for their societies and join the ranks of developed nations. The state influences per capita GDP and the real economy through the quality and quantity of services provided to individuals as part of its general policy, which addresses human needs hierarchically. This influence is also exerted through the scale of public services necessary to satisfy these needs (Al-Faraji, 2021: 214).

$$\text{Average GDP per capita} = \frac{\text{GDP}}{\text{Population}}$$

Third Requirement: Corruption Perceptions Index (CPI)

The Corruption Perceptions Index has been published by Transparency International since 1995. It aims to rank countries according to their perceived levels of public sector corruption, based on expert assessments and public opinion polls. The index focuses on a range of aspects, including the legislative and procedural environment, the political and economic environment, and levels of governance relying on (31) independent data sources. The 2024 Corruption Perceptions Index shows that corruption is a serious problem worldwide. Corruption in countries is measured on a scale of (0-100), (where 0 represents the highest level of corruption, while (100) represents the highest level of transparency (Transparency International, https://www.transparency.org/en/cpi/2024?qad_source)).

The data for the index is extracted by specialized researchers appointed by Transparency International, based on those sources, and the data includes a range of aspects related to corruption, most notably (Kharisan, 2021: 3).

- Bribery.
- Embezzlement of public funds.
- Exploitation of public office by officials for personal gain without accountability.

Section Two

Economic Analysis of Fiscal Policy Indicators, Corruption Perceptions, and Economic Growth in Iraq during the Period (2004-2024)

First Requirement: Analysis of Fiscal Policy Indicators

Public expenditures represent a fundamental aspect of the state's financial activity and are the means by which it implements its government policies. This activity is inherently linked to government activity and its intervention in that activity, which has led to variations in the state's role in economic life (Kadhim, 2023: 523).

As we can see from the data in Table (1), public expenditures in Iraq were characterized by an increase in line with the rise in oil exports. In 2004, public expenditures reached 32,117.5 billion dinars. However, in 2005, public expenditures decreased by 17.9%, reaching 26,375.2 billion dinars, due to the security challenges Iraq faced, which weakened the government's executive capacity. They then rebounded in 2006, reaching 38,806.7 billion dinars, and continued their significant rise in 2008, reaching 59,403.4 billion dinars, representing a growth rate of 52.2%, due to improved oil revenues. In 2009, public expenditures experienced a slight decrease, reaching 52,567.0 billion dinars, as a result of the global financial crisis. They then resumed their upward trend during the period 2010-2013 following the improvement in oil prices. Oil revenues accounted for a significant portion of public expenditures, which reached 70,134.2 billion dinars in 2010, representing a growth rate of 33.4%. In 2013, this figure rose to 119,127.6 billion dinars, reflecting a growth rate of 13.3%. The period from 2014 to 2016 witnessed a notable decrease in public expenditures following the decline in oil revenues and Iraq's involvement in the war against terrorist groups. Public expenditures in 2015 reached 70,397.5 billion dinars, a negative growth rate of 37.9%. This decline continued into 2016, with a decrease in investment spending and a shift towards military sectors, reaching 67,067.4 billion dinars. Public expenditures then rebounded during the period from 2017 to 2019, driven by improvements in the security situation and a relative stabilization of oil prices. In 2017, public expenditures reached... (80,873.1) billion dinars, with a growth rate of (7.1%), bringing public expenditures in 2019 to (111,723.5) billion dinars, a growth rate of (38.1%). However, 2020 witnessed an exceptional financial shock due to the double blow of the collapse in oil prices and the COVID-19 pandemic, which paralyzed the global economy and impacted the Iraqi economy. Public spending decreased to (76,082.4) billion dinars, a negative growth rate of (-31.9%). A significant portion of public spending was directed towards the health sector through increased current expenditures. This was not achieved through new spending expansion but rather through reallocation within the budget, as most investment projects were reduced or halted. The period (2021-2024) saw a notable increase in the volume of public expenditures. In 2021, public spending reached (102,849.5) billion dinars, with a growth rate of (35.2) This is attributed to the increase in public spending, both investment and current, as a result of the increase in the volume of public revenues. (Central Bank of Iraq, 2021: 46) The increase in public spending continued in 2024, reaching 150,527.3 billion dinars, the highest absolute value for public expenditure, with an annual growth rate of 5.7%. This is attributed to the rise in current and investment expenditures following the expansion of government employment, increased employee compensation, and spending on social welfare programs, thus increasing the percentage of obligations(Central Bank of Iraq, 2024: 39). Thus, as we can see from Table (1), the period (2004-2024) witnessed fluctuations in public expenditures in Iraq, closely linked to the security situation the country experienced, the continued volatility in oil revenue prices, global economic crises and their impact on the Iraqi economy, and health crises. This occurred while current expenditures continued to dominate the largest portion of total public spending at the expense of investment expenditures. Furthermore, public revenues are a key instrument of fiscal policy, exerting a direct influence on overall economic and social conditions, in addition to their function in covering public expenditures(Jabr, 2024: 285) As shown in Table (1), public revenues reached approximately 32,988.9 billion dinars in 2004, a result of the resumption of oil exports following the lifting of international sanctions and restrictions. This upward trend continued, with public revenues reaching 80,064.1 billion dinars in 2008. This increase was attributed to improved oil prices, increased production rates, and higher oil flows. However, revenues subsequently declined sharply in 2009 due to the global financial crisis and its repercussions, including the drop in oil prices and the resulting decrease in oil revenues. Public revenues fell to 55,243.5 billion dinars, representing a negative growth rate of -31.9%. The period from 2014 to 2016 witnessed a significant decline in public revenues due to security challenges, wars with terrorist groups, and the resulting decrease in Iraqi oil prices and the destruction and sabotage of oil infrastructure. In 2014, revenues reached 105,386.6 billion dinars. With a negative growth rate of (-7.4%), the decline continued into 2015, when public revenues reached (66,470.3) billion dinars, representing a negative growth rate of (-36.9%). Following the recapture of most areas previously held by terrorist groups, improved security, and a rise in oil revenues, public revenues witnessed a relative increase during

the period (2017-2019). In 2017, revenues reached (77,335.9) billion dinars, reflecting a growth rate of (42.1%). This increase continued in 2019, reaching (107,566.9) billion dinars, a growth rate of (0.94%). However, in 2020, due to the shock of the COVID-19 pandemic and the decline in oil exports, government revenues decreased. Furthermore, increased public spending to combat the pandemic led to a decline in public revenues, reaching (63,199.6) billion dinars, a negative growth rate of (-41.2%). Revenues then rebounded over the following two years. (2021-2022) The year (2022) represents the peak of public revenues and their highest value during the study period, reaching (161,697.4) billion dinars with a growth rate of (48.2%). This was a result of the significant increase in oil revenue prices and the rise in oil exports, reflecting the deepening of rentierism in the Iraqi economy. Revenues then declined in (2023) to (135,681.20) billion dinars with a negative growth rate of (-16.1%), before rebounding to (140,774.1) billion dinars in (2024) with a growth rate of (3.7%). Thus, during the period (2004-2024), the excessive reliance on oil for public revenues is consistent, and any global fluctuations in oil prices will plunge the Iraqi economy into major financial crises. This reflects the fragility of public finances in Iraq and the Iraqi economy's dependence on rentier revenues without genuine diversification of its public income.

Public debt represents an important source of public revenues, as the state resorts to it to finance its public expenditures when it faces a deficit in other revenues. Despite the sometimes positive impact of public debt, it has not been appropriately utilized to direct it towards investment purposes in Iraq (Sabah, Muhammad, 2023: 63).

Table (1) shows the total public debt. In 2004, Iraq's public debt reached 164,053,328 billion dinars, a high percentage of the debt. This was due to the accumulation of sanctions and debts on Iraq as a result of the wars in the 1980s and 1990s. In 2005, the public debt decreased to 122,710,550 billion dinars and continued to decrease until 2009, when the total public debt reached 57,185,479 billion dinars. This was a result of the decrease in external debt after the lifting of sanctions and the cancellation of part of the external debt under international initiatives (the Heavily Indebted Poor Countries (HIPC) Initiative) and the relief granted to Iraq. The debt then rose again in 2010, reaching 80,905,393 billion dinars, and continued to rise until 2011, reaching the same amount again. This increase was due to continued external borrowing to finance major projects and loans obtained by Iraq from the World Bank. The International Monetary Fund (IMF) was involved in addressing the expansion of expenditures in the general budget. As a result, public debt witnessed a relative decrease in 2012, reaching 77,756,970 billion dinars. This decline continued in 2013, with total public debt reaching 76,655,583 billion dinars, following continued growth in GDP and increased oil revenues. However, the period from 2014 to 2016 saw a significant increase in public debt. In 2014, public debt reached 79,368,909 billion dinars, and this increase continued, reaching 124,226,863 billion dinars in 2016. The period from 2017 to 2019 witnessed a decrease in public debt. In 2017, public debt reached 82,975,536 billion dinars, and this decline continued, reaching 71,347,844 billion dinars in 2019. The period from 2020 to 2021 saw... Public debt rose again, reaching 95,331,741 billion dinars in 2020, and continued to climb to 106,543,309 billion dinars in 2021. This increase was due to the rise in the state's financial obligations following the global economic crisis triggered by the COVID-19 pandemic, which caused a drop in global oil prices. (Central Bank of Iraq, 2021: 50) In 2022, public debt saw a relative decrease to 99,028,829 billion dinars, but with a notable increase in the ratio of domestic debt to 70.17%. This increase was attributed to the Ministry of Finance's failure to repay outstanding debts, as no installments were made during 2022 (Central Bank of Iraq, 2022: 44). However, during the period 2023-2024, public debt resumed its upward trend.

) Table (1

Analysis of fiscal policy indicators in Iraq for the period (2004-2024) (million dinars)

Source/Table compiled by the researcher based on:

Year	Public Expenditures	Public Expenditure Growth Rate%	Public Revenues	Public Revenue Growth Rate%	Total Public Debt	Public Debt Growth Rate %
2004	32117.5	-	32988.9	-	164053328	-----
2005	26375.2	-17.9	40435.5	22.6	122710550	-25.20
2006	38806.7	47.1	49055.5	21.3	95934400	-21.82
2007	39031.2	0.57	54964.9	12.0	68746905	-28.34
2008	59403.4	52.2	80064.1	45.7	66588689	-3.14
2009	52567.0	-11.5	55243.5	-31.9	57185479	-14.12
2010	70134.2	33.4	70178.2	27.0	76870431	34.42
2011	78757.7	12.3	108807.4	55.0	80905393	5.25
2012	105139.6	33.5	119466.4	9.8	77756970	-3.89
2013	119127.6	13.3	113767.3	-4.8	76655583	-1.42
2014	113473.5	-4.7	105386.6	-7.4	79368909	3.54
2015	70397.5	-37.9	66470.3	-36.9	102639908	29.32
2016	67067.4	-4.7	54409.3	-18.1	124226863	21.03
2017	75490.1	12.6	77335.9	42.1	82975536	-33.21
2018	80873.1	7.1	106569.8	37.8	75337055	-9.21
2019	111723.5	38.1	107566.9	0.94	71347844	-5.30
2020	76082.4	-31.9	63199.6	-41.2	95331741	33.62
2021	102849.5	35.2	109081.4	72.6	106543309	11.76
2022	116969.6	13.7	161697.4	48.2	99028829	-7.05
2023	142,435.7	21.8	135.681.20	16.1-	110557515	11.70
2024	150,527.3	5.7	140,774.1	3.7	121049860	9.49

-Central Bank of Iraq, General Directorate of Statistics and Research, various years (2004-2022). (

-External debt: World Bank data converted to Iraqi dinars.

- Total public debt = Total domestic debt + Total external debt.

The second requirement: Analysis of the economic growth indicator in Iraq for the period (2004-2024):

The reality of economic growth in Iraq can be analyzed through the size of the Gross Domestic Product (GDP), relying on Table (2), which shows the development of GDP at current and constant prices, as well as the growth rate during the period (2004-2024). (In 2004, the GDP at current prices was 53,235,358.7 million dinars, while at constant prices it reached 101,845,262.5 million dinars. This year reflects an economy suffering from weak productive activity due to security and political instability. In 2005, the GDP at current prices rose to 73,533,598.6 million dinars, registering a high growth rate of 38.1%, while at constant prices it increased to 103,551,403.5 million dinars, a growth rate of 1.6%, as a result of improved global oil prices. In 2009, the GDP at current prices recorded a decrease of 16.8%, reaching 130,643,200.4 million dinars, as a result of the decline in global oil prices due to the impact of the global financial crisis, which affected global economies and negatively impacted the Iraqi economy, leading to a decline. The size of the GDP and the impact on other economic activities and sectors resulted in a budget deficit.

Conversely, the GDP at constant prices rose to (124,702,847.7) million dinars, registering a positive growth rate of (3.4%), due to the effect of the implicit deflator of GDP prices, in addition to the remarkable growth achieved by some economic sectors such as agriculture and industry, especially after the decline in the contribution of the oil sector. (Central Bank of Iraq, 2009: 3) During the period (2010-2012), the GDP at current prices recorded a continuous increase. In 2010, its value at current prices reached 162,064,565.5 million dinars, and in 2011 it reached 217,327,107.4 million dinars. It then rose to 254,225,490.7 million dinars in 2012, achieving growth rates of 27.9%, 30.0%, and 16.9%, respectively. Similarly, the GDP at constant prices witnessed a significant increase, rising from 132,687,028.7 million dinars in 2010 to 142,700,217.1 million dinars in 2011, and then to 162,587,533.2 million dinars in 2012, with growth rates of 6.4% and 7.5%, respectively. (13.9%) respectively. This growth is attributed to increased oil exports resulting from improved oil prices in global markets, as well as the government's adoption of expansionary fiscal policies through increased investment and operational spending, taking advantage of the budget surplus to achieve high growth rates. However, during the period (2014-2015), the GDP at current prices declined as a result of the Iraqi economy entering a state of recession and stagnation in most economic sectors. This was reflected in the negative real growth rate. This decline resulted from the sharp drop in global oil prices and the heavy reliance of the general budget on oil revenues, which began in the second half of (2014). Additionally, the costs of the war against terrorist groups, military spending, and the displacement crisis from the provinces controlled by these groups contributed to the decline. These events led to widespread destruction of infrastructure, negatively impacting oil production, especially in the northern fields, which were relatively damaged, and further hindering economic recovery. The GDP at current prices fell to (266,332,655.1) million dinars in (2014), registering The growth rate was negative at (2.6%), then declined sharply in (2015) to reach (194,680,971.8) million dinars, achieving the highest negative growth rate during the time series period at (26.9%). This decline is attributed to increased military expenditures resulting from the control of three Iraqi governorates by terrorist groups, which led to the destruction of infrastructure, disruption of domestic and foreign trade, and resulted in economic chaos and security deterioration. Furthermore, the sudden drop in global oil prices exacerbated the crisis. In contrast, the GDP at constant prices recorded an increase during the period (2014-2016), reaching (178,951,406.8) million dinars in (2014), (183,616,252.2) million dinars in (2015), and (208,932,109.6) million dinars in (2016), with growth rates of (2.2%), (2.6%), and (13.7%), respectively. This increase is attributed to controlling inflation rates and the decline in the price index, within the framework of the government's efforts to stabilize economic performance and boost growth rates. During the period (2018-2019), GDP at current prices witnessed a remarkable recovery, reflected in positive growth rates, thanks to the government's efforts to revitalize economic sectors to enhance growth rates and improve economic performance. This occurred despite the continued security challenges and the war against terrorist groups, and despite the continued decline in global oil prices. However, increased oil production due to foreign direct investment contributed to gradual growth, with GDP at current prices rising to (268,918,874.0) with a growth rate of (21.3%). This continued to rise in (2019), reaching (276,157,867.6) million dinars with a growth rate of (2.6%). The GDP growth rate at constant prices rose to (2.6%) in (2018) and (5.5%) in (2019), driven by the economic recovery in commodity-related activities. In 2020, the GDP witnessed a significant decline, falling at current prices to 215,661,516.5 million dinars, registering a negative growth rate of 21.9%. At constant prices, the GDP also decreased to 195,402,549.5 million dinars, achieving the highest negative growth rate in the series at 12.0%. This decline is attributed to the double blow to the global economy, namely the drop in global oil prices and the budget deficit following the outbreak of the COVID-19 pandemic. However, during the period 2021-2022, the Iraqi economy witnessed a marked improvement with the easing of COVID-19 restrictions and the increase in monthly quotas stipulated in the OPEC agreement, along with the recovery of global oil prices due to rising global demand. This positively impacted the GDP at current prices, which rose in 2021 to 301,152,818.8 million dinars, registering a high growth rate of (39.6%) and then continued its rise in (2022) to reach (383,064,152.3 million dinars), achieving positive growth of (27.1%), which made Iraq top the list of Arab countries in terms of GDP growth rate and ranked

second according to the classifications of the International Monetary Fund. In (2023), Iraq ranked (54) globally and fourth in the Arab world in terms of GDP size according to World Bank data. GDP at constant prices witnessed a decrease of (2.4%) to reach (207,223,350.0) million dinars as a result of a decrease in mining and transportation activities, personal services, and home ownership. In contrast, non-oil GDP increased by (4.4%), recording (87,800,000) million dinars, driven by growth in manufacturing industries, the construction sector, wholesale and retail trade, and hotels. As for GDP at current prices, it decreased by (13.8%) to reach (330046390.6) million dinars as a result of the decline in global oil prices and its direct impact on the performance of the Iraqi economy. In 2024, Iraq ranked 51st in GDP. It ranks (54) globally in GDP at current prices and (4) and (5) in the Arab world at current and constant prices respectively, as GDP at current prices witnessed an increase of (338911547.5) million dinars with a growth rate of (2.7%), as a result of the growth of wholesale and retail trade activity as a percentage of GDP, in addition to the growth of certain sectors such as agriculture. GDP at constant prices decreased to (204065300.0) million dinars with a negative growth rate of (1.5%), as a result of the decrease in crude oil exports.

Table (2) Analysis of Gross Domestic Product at Current and Constant Prices and Growth Rate in Iraq for the period (2004-2024) (million dinars)

Year	GDP at current prices Year	Growth Rate%	GDP at constant prices % 2007 = 100	Growth Rate %
2004	53235358.7	-	101845262.5	-
2005	73533598.6	38.1	103551403.5	1.6
2006	95587954.8	29.9	109389941.3	5.6
2007	111455813.4	16.6	111455813.3	1.8
2008	157026061.6	40.8	120626517.2	8.2
2009	130643200.4	(16.8)	124702847.7	3.4
2010	162064565.5	27.9	132687028.7	6.4
2011	217327107.4	30.0	142700217.1	7.5
2012	254225490.7	16.9	162587533.2	13.9
2013	273587529.2	7.6	174990175.1	7.6
2014	266332655.1	(2.6)	178951406.8	2.2
2015	194680971.8	(26.9)	183616252.2	2.6
2016	196924141.7	1.1	208932109.6	13.7
2017	221665709.5	12.5	205130066.8	(1.8)
2018	268918874.0	21.3	210532887.3	2.6
2019	277884869.4	2.6	222141229.6	5.5
2020	215661516.5	(21.9)	195402549.5	(12.0)
2021	301152818.8	39.6	198496540.5	3.6
2022	383064152.3	27.1	212408657.3	7
2023	330046390.6	(13.8)	207223350.0	(2.4)
2024	338911547.5	2.7	204065300.0	(1.5)

Source: Central Bank of Iraq, Economic Reports, Various Years (2004-2024)

Third requirement: Analysis of the Corruption Perceptions Index in Iraq for the period (2004-2024)

It is often said that corruption is one of the main challenges the Iraqi government must address to consolidate democracy in the country. This problem has been raised internationally, and the vast majority of Iraqis confirm that corruption is widespread in various institutions and sectors, affecting all political, social, and economic spheres, as is the case in many countries around the world. Corruption in Iraq is a structural phenomenon closely linked to security and political stability (United Nations report, Corruption in the Iraqi Public Sector, https://www.undp.org/iraq/publications/corruption-iraqs-public-sector?utm_source).

Regarding the Corruption Perceptions Index (CPI), published by Transparency International, it ranks 180 countries according to their perceived levels of corruption. The lower the score, the higher the perceived level of corruption, with 0 representing the highest level and 100 the highest. Table 3 shows that in 2004, Iraq scored 20 points on this index, ranking 129th out of 180 countries. Despite its poor institutional situation, the index was not yet at its lowest point because organized corruption networks had not yet fully developed. The year 2005 witnessed a slight improvement due to the holding of elections and international support for institution-building. However, the period 2006-2008 saw a significant and sharp decline in the index values. The index reached its lowest point in 2008 at 13 points, ranking 178th out of 180 countries in terms of corruption. This was due to the absence of effective oversight and integrity institutions, widespread bribery and embezzlement of public funds, and a lack of accountability. The period 2009-2010 saw a relative improvement after the sharp decline, reaching 15 points in 2010. The period 2011-2012 witnessed a significant improvement in the index value, reaching 18 points in 2011, representing a growth rate of 20. The period 2013-2015 saw a significant relative decline in the index value due to the collapse of some state institutions in areas controlled by terrorist groups. In 2014, the index value reached 16, ranking 178th out of 180 countries. (171) out of (180) countries, with a decrease in the index growth rate of (11.11%). Despite Iraq's improved ranking in (2015) to (161) out of (180) countries, this reflects the decline of other countries in the Corruption Perceptions Index more than the improvement in Iraq's position. The period (2016-2018) witnessed a slight improvement, as the year (2016) recorded a value of (17) with a growth rate of (6.25%) as a result of improved security and victories against terrorist groups. In (2019), the relative improvement in the index value continued, reaching (20) with a growth rate of 11.11% and ranking 162 out of 180 countries as a result of popular pressure, partial political reforms, and the government's attempts to restore public confidence in the existing political system. The period (2020-2023) represented the best performance for Iraq in the Corruption Perceptions Index during the time series, reaching (23) in the year (2021) with a growth rate of (9.52%) and ranking (157) out of (180) countries, then reaching (154) out of (180) countries by the year (2023), as a result of financial control measures, activating the role of the Integrity Commission and the Financial Control Bureau, and the relative improvement in institutional performance and relative improvement in political stability.(Transparency International's Annual Report <https://www.transparency.org/en/news/cpi-2023-middle-east-north-africa-dysfunctional-approach-fighting-corruption>) The year 2024 witnessed Iraq's best performance on this index, with Iraq scoring 26 points, a change of 3 points from the previous year. This placed it at 140th out of 180 countries, with a growth rate of 13.04%. Consequently, during the study period from 2004 to 2024, Iraq recorded its highest level of corruption in 2008 with a score of 13 points, while its lowest level was recorded in 2024 with a score of 26 points.

Table (3) Corruption Perceptions Index in Iraq

Years	Corruption Ranking	Corruption Perceptions Index	Index Growth Rate
2004	129	20	-

2005	137	22	4.76%
2006	160	19	-13.64%
2007	178	15	-21.05%
2008	178	13	-13.33%
2009	176	15	15.38%
2010	175	15	0%
2011	175	18	20%
2012	169	18	0%
2013	171	16	-11.11%
2014	170	16	0%
2015	161	16	0%
2016	166	17	6.25%
2017	169	18	5.88%
2018	168	18	0%
2019	162	20	11.11%
2020	160	21	5%
2021	157	23	9.52%
2022	157	23	0%
2023	154	23	0%
2024	140	26	13.04%

Source: Prepared by the researcher based on data from Transparency International <https://www.transparency.org>

Section Three: Measuring and Analyzing the Relationship Between Fiscal Policy and Economic Growth in Iraq Through the Corruption Perceptions Index for the Period (2004-2024)

First Requirement: Model Description

The quantitative expression of economic relationships between variables through econometric models is one of the measurement tools used in economic studies to express relationships using mathematical equations and formulas. Modern econometric methods are employed to address economic problems on the one hand, and to determine the feasibility of economic theory assumptions on the other. These equations reflect the various relationships between the variables included in the model. Path analysis was used to measure the direct and indirect effects of the mediating variable in estimating the relationship. Statistical software such as Eviews 13 and SmartPLS 4 were used to estimate the model. This stage is called the model description and formulation stage. The model included a number of

economic variables related to fiscal policy in Iraq and its impact on economic growth, using the Corruption Perceptions Index, which is one of the indicators of institutional stability. This was based on the tenets of economic theory, the proposals of some schools of thought, and the applications of modern theory. These variables can be described in the following table:

Table (4) Description of Standard Model Variables

Variable	Symbol	Attribute
Government Spending	GS	Independent
Government Revenue	GR	Independent
Public Debt	PD	Independent
Perceptions of Corruption	PC	mediator
Economic Growth	EG	continued

Model equations

1- Corruption Perceptions Index (RC) $PC=b_0+b_1GS+b_2GR+b_3PD+b_4GO+\varepsilon_1$

2- The Economic Growth Equation (EG) $EG=d_0+d_1GS+d_2GR+d_3PD+ d_5PR+ \varepsilon_2$

The second requirement: Stationability tests for the standard model variables.

The stationability of the time series of the model variables was tested using the ADF and PP tests to ensure they were free from the unit root problem. Table (6), which includes the stationability test results using the ADF test, shows that the variables (gs, gr, pd, pc, eg) did not achieve stationability at the graph, but were stationary after taking their first difference at different significance levels (1%, 5%, and 10%). Most of these results were in the absence of a time junction and direction, and in the presence of a junction only. This indicates that they are integrated of order I(1)~I. After confirming the stationability of the time series for all the studied variables, the null hypothesis is accepted, indicating the absence of the unit root problem.

Table (5) ADF Unit Root (Stationarity) Test for the Econometric Model Variables

gs	gr	Pd	pc	eg		
-1.49099	-0.913560	-2.496359	-0.534366	-1.612288	t-Statistic	With Constant
0.5330	0.7787	0.1202	0.878	0.471	Prob.	
n0	n0	n0	n0	n0		
-2.59803	-1.996455	-3.167308	-2.072309	-2.272870	t-Statistic	With Constant & Trend
0.2825	0.5935	0.0987	0.553	0.443	Prob.	
n0	n0	n0	n0	n0		
0.650860	0.923745	-0.199489	0.473585	-1.081459	t-Statistic	Without Constant & Trend

0.8547	0.9037	0.6113	0.815	0.250	Prob.	
n0	n0	n0		n0		
d(gs)	dgr)	d(bd)	d(pc)	d(go)		
-3.13967	-2.930211	-3.019204	-2.641378	-5.184734	t-Statistic	With Constant
0.0277	0.0467	0.0374	0.0892	0.000	Prob.	
***	***	**	*	***		
-3.09526	-2.938455	-3.113508	-3.623556	-5.280251	t-Statistic	With Constant & Trend
0.1147	0.1568	0.1105	0.0342	0.000	Prob.	
n0	n0	n0	**	***		
-2.84973	-2.6367	-3.092694	-2.584824	-5.230438	t-Statistic	Without Constant & Trend
0.0049	0.0090	0.0024	0.0103	0.000	Prob.	
***	***	***	**	***		

Source: Researcher's work using Eviews13 software

Third Requirement: Cointegration Test

We observe from Table (7) the results of the Johanson-Jeslos cointegration test. The results show that there is more than one cointegration vector, as determined by the Trace test. There were four cointegration vectors whose statistical value was greater than the critical value at a significance level of (5%), in addition to the probability value being less than (0.05). However, in the Maximum Eigenvalue test, there were two cointegration vectors whose statistical value was greater than the critical value. This indicates a short-term relationship that tends towards equilibrium in the long run between the model variables.

Table (6) Cointegration Test for Model 1

Sample (adjusted): 2004Q4 2024Q4				
Included observations: 81 after adjustments				
Trend assumption: Linear deterministic trend				
Series: GS GR PD PC				
Lags interval (in first differences): 1 to 2				
Unrestricted Cointegration Rank Test (Trace)				
Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.410466	155.1093	125.6154	0.0002
At most 1 *	0.386687	112.3071	95.75366	0.0022
At most 2 *	0.277300	72.70780	69.81889	0.0289
At most 3	0.240659	46.40210	47.85613	0.0680
At most 4	0.179691	24.10245	29.79707	0.1961
At most 5	0.093991	8.058485	15.49471	0.4592
At most 6	0.000781	0.063312	3.841465	0.8013
Trace test indicates 3 cointegrating eqn(s) at the 0.05 level				
Unrestricted Cointegration Rank Test (Maximum Eigenvalue)				
Hypothesized		Max-Eigen	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**

None *	0.410466	46.23142	42.80222	0.0115
At most 1 *	0.386687	40.07757	39.59932	0.0505
At most 2	0.277300	26.30569	33.87687	0.3024
At most 3	0.240659	22.29966	27.58434	0.2054
At most 4	0.179691	16.04396	21.13162	0.2223
At most 5	0.093991	7.995172	14.26460	0.3792
At most 6	0.000781	0.063312	3.841465	0.8013

Source: Researcher's work using Eviews13 software

Fourth requirement: Assessing the direct and indirect effects of fiscal policy variables on economic performance indicators using the Corruption Perceptions Index.

Table (8) illustrates the direct and indirect effects of fiscal policy variables on economic performance indicators using the mediating variable, which is the Corruption Perceptions Index.

Table (7): Direct and indirect effects of independent variables on dependent variables using the Corruption Perceptions Index

$\begin{bmatrix} gs \\ gr \\ pd \end{bmatrix} \rightarrow pr \rightarrow eg$	EG = 0.108166581033*GS + 0.00824354082217*GR + 0.0263963807549*PD + 0.0320076880743*PR - 2.55292008783			
	EG = 0.110960821338*GS + 2.2543558271 Indirect Effect=0.110960821338-0.10931083998=0.0028 Total Effect= 0.22	EG = 0.0575828232718*GR + 2.85669725619 Indirect Effect=0.0575828232718-0.00874528128316=0.0496 Total Effect= 0.07	EG = -0.0275206422145*PD + 3.60366465378 Indirect Effect=-0.0275206422145-0.0210128178022=-0.0538 Total Effect=-0.001	
$\begin{bmatrix} gs \\ gr \\ pd \end{bmatrix} \rightarrow pr \rightarrow une$	UNE = 0.0232499104729*GS - 0.00520377580993*GR - 0.0325720559056*PD + 0.00345308197494*PR + 13.5143409414			
	UNE = 0.0277914674692*GS + 13.8927313953 Indirect Effect=0.0277914674692-0.0308112792762=0.0045 Total Effect= 0.05	UNE = 0.0148197513358*GR + 14.0384975322 Indirect Effect==0.0148197513358--0.00808508454042= 0.020 Total Effect= 0.01	UNE = -0.0390894552594*PD + 14.2405402475 Indirect Effect=-0.0390894552594-0.0278943782813= -0.0065 Total Effect=-0.07	
$\begin{bmatrix} gs \\ gr \\ pd \end{bmatrix} \rightarrow pr \rightarrow inf$	INF = 0.309568998564*GS - 0.208935354895*GR - 0.41316349387*PD + 0.0451105681082*PR + 4.35828523028			
	INF = 0.236452819078*GS + 8.62067853999 Indirect Effect=0.236452819078-0.327012734246 =-0.0731 Total Effect= 0.55	INF = 0.0620209266602*GR + 10.4628751804 Indirect Effect==0.0620209266602-(-0.151918664235 =0.2708 Total Effect=-0.15	INF = -0.404221830746*PD + 11.5373987786 Indirect Effect=-0.404221830746-(-0.216328812665 = 0.0089 Total Effect=-0.82	

Source: Researcher's work based on the results of the Eviews 13 program.

From Table (8), we observe the following:

- *The effect of government spending on economic growth was positive, and an increase in spending by one unit leads to an increase in economic growth by (0.108) units. We also note that the value of the spending parameter in the multiple regression is smaller than in the simple regression, which reached (0.11). Despite the positive mediation role of perceptions of corruption in enhancing the positive effect of government spending on raising economic growth rates, the effect of spending without mediation was more significant. This effect is logical, given that spending is the driver of economic growth. Furthermore, the positive indirect effect (0.0028) and overall effect (0.22) reinforce this result. Public revenues had a direct positive but very weak impact (0.0082), smaller than the indirect impact (0.057). This indicates the weak mediating role of corruption perceptions in enhancing the effect of public revenues. The overall impact (0.07), while positive, is very limited due to its indirect role through its conversion into spending. Public debt also had a positive impact, reaching approximately 0.026, while the indirect impact was negative (-0.0538). The overall impact was also negative and very weak (-0.001), indicating the limited direct mediating role of corruption perceptions in enhancing the effect of public debt on economic growth, as it causes negative indirect effects. The impact of the Corruption Perceptions Index on economic growth was positive, despite its weakness, indicating that addressing corruption leads to increased productive investments, thus increasing economic activity and ultimately economic growth.*

Conclusions

- 1- *The results show that Iraq is heavily dependent on oil revenues and therefore remains among the countries with a rentier economy.*
- 2- *Corruption in Iraq exhibits a persistent structural character, as financial and administrative corruption has remained one of the most significant challenges facing the Iraqi economy since 2003, adversely affecting the efficiency of public institutions and the effectiveness of economic policies..*
- 3- *Iraq does not suffer from a lack of resources, as many resources are available. However, the problem stems from the mismanagement of these resources and the lack of clear and serious mechanisms for institutional reform. This is compounded by a lack of discipline, transparency, and planning in government spending mechanisms, as well as significant waste of public funds.*
- 4- *Mobilizing government resources is essential for supporting sustainable development and financing public services. In developed countries, tax revenues typically represent about 35% of GDP, while in many developing countries, including Iraq, they do not exceed 15%.*
- 5- *The results show that the relationship between fiscal policy variables and Economic growth is not entirely direct, but rather a complex relationship mediated by institutional stability. This indicates that the effectiveness of fiscal policy depends largely on the surrounding institutional environment.*
- 6- *The strength of the independent variables' impact varied. Some variables, such as gr, showed a strong and stable positive effect on Economic growth, while others, such as pd, exhibited weak or fluctuating effects, reflecting the instability of their impact over time.*
- 7- *The results indicate that the overall impact of fiscal policy on economic performance is greater than the direct impact in many cases, suggesting partial mediation through institutional variables.*

Recommendations:

- 1- *The Iraqi government should focus on building strong and effective institutions. This includes developing clear anti-corruption policies, improving the business environment, and providing a robust legal and regulatory framework that protects economic rights and enhances confidence in the economic system, while guiding economic decisions effectively.*

- 2- It is essential to intensify efforts to combat corruption in all state institutions and implement good governance policies that ensure integrity, transparency, and accountability, as these are key factors in enhancing investor and citizen confidence and stimulating economic growth.
- 3- Clear mechanisms for government spending must be established, and flexible fiscal policies adaptable to economic fluctuations must be adopted. A comprehensive framework for fiscal reform should be implemented, focusing on improving the accuracy of budget preparation through modern revenue and expenditure forecasting methods, increasing transparency and accountability, reducing financial waste, and strengthening the role of planning in resource allocation to serve sustainable development and enhance the government's ability to finance public services.
- 4- Fiscal policies should not be designed in isolation from the institutional environment. Governance and stability indicators must be integrated into the economic decision-making process. The importance of shifting from short-term to more stable long-term fiscal policies must be emphasized to ensure the sustainability of economic growth.
- 5- Institutional stability must be strengthened, and the quality of economic and political institutions must be enhanced, given their pivotal role in amplifying the impact and effectiveness of fiscal policy.

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