East African Scholars Journal of Economics, Business and Management
Abbreviated Key Title: East African Scholars J Econ Bus Manag
ISSN 2617-4464 (Print) | ISSN 2617-7269 (Online)
Published By East African Scholars Publisher, Kenya

Volume-7 | Issue-12 | Dec-2024 | DOI: https://doi.org/10.36349/easjebm.2024.v07i12.003

OPEN ACCESS

Original Research Article

The Fiscal Deficit and its Impact on Economic Growth in Iraq's for the Period (2004-2021)

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Article History
Received: 04.11.2024
Accepted: 09.12.2024
Published: 10.12.2024

Journal homepage:
https://www.easpublisher.com

Quick Response Code

Abstract: The present study seeks to evaluate the significance of Iraq's deficit, fiscal policies, and economic development, along with the impact of the fiscal deficit on economic growth as indicated by Iraq's GDP index from 2004 to 2021. Time chains have been employed to elucidate the connection between the examined variables. An assessment utilizing the ARDL model has determined that a long-term equilibrium exists between the fiscal deficit and economic growth in Iraq, indicating that the fiscal deficit influences Iraq's economic growth. The findings indicate an inverse link between the examined variables throughout the research period, suggesting that the fiscal deficit adversely affects economic growth in Iraq.

Keywords: (fiscal deficit, economic growth, Dickie Fuller test, ARDL model).

INTRODUCTION

Fiscal management is a crucial economic strategy influencing growth due to its diverse tools and impact on macroeconomic indicators. Public budgeting serves as a primary mechanism for implementing fiscal policy, utilized by both developed and developing nations to assess their fiscal conditionss.

So any budget deficit would be a burden on the country's economy. Thus, economic stability is a target for many countries because of the absence of significant fluctuations in economic growth rates, operating levels and price levels. More precisely, work carefully to maintain the economic status quo. in order to create the conditions for improving that situation through a package of actions, notably fiscal and other policy instruments.

As Iraq is one of the countries whose economy has suffered from a general budget imbalance, the budget deficit is due to the fact that the budget's revenues depend on single sector revenues that exceeded the budget composition ratio (90%). That made Iraq's economy rentier almost entirely dependent on the sector's revenue for budget financing which has made Iraq's budget dependent on fluctuations in the prices of the sector's products in global markets, making it vulnerable to external shocks, Moreover, this deficit is also the result of higher public expenditure, with a large proportion of this expenditure being directed towards consumption. income ", which resulted in inadequate expenditure income.

Importance of the Research:

The significance of this study lies in its examination of the budget deficit issue in Iraq, stemming from the reliance on a singular rentier sector for revenue generation. Consequently, the budget estimates have become contingent upon the price volatility of the sector's products in global markets, hindering its ability to cover expenditures and adversely impacting Iraq's economic growth rates. Additionally, it involves monitoring and analyzing the effect of the budget deficit on Iraq's economic development by examining the link between the research indicators throughout the analyzed time.

Research Problem:

The issue regarding study is that Iraq's overall budget relies predominantly on the earnings from a single industry as its primary source of income. The variation in those revenues, in one manner or another, impacts the overall budget. Due to the volatility of product pricing in this area, revenue fails to meet expenses. This resulted in a substantial budget imbalance, impacting Iraq's economic development and activity levels. Consequently, the issue might be articulated in relation to the subsequent inquiry: The

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impact of a fiscal imbalance on Iraq's economic growth over the research period.

The Aim of the Research:

The Investigation Aims to Accomplish the Subsequent Purposes:

- Statement and analysis of the relative importance of Iraq's fiscal deficit and economic growth and identification of strengths and weaknesses in both situations.
- Assessing and evaluating the influence of the general budget deficit on Iraq's economic growth through the examined period.

Research Hypothesis:

The analysis posits that an imbalanced output structure, stemming from reliance on a singular field, renders the economy susceptible to external shocks. This vulnerability is evident in state revenues, consequently exacerbating the fiscal deficit and negatively impacting economic growth. Thus, a long-term inverse relationship exists between Iraq's budget deficit and economic growth throughout the research period.

RESEARCH METHODOLOGY

Research relies on the use of inductive and extractive methodologies by studying the fiscal deficit and its impact on economic growth and following its developments over different periods of time and thus devising the arranged effects thereon, as well as using the standard method to know the results of the relationship between the variables used.

Research Structure:

To validate the study hypothesis and accomplish its aims, the study is separated into two topics:

The first addressed the conceptual dimension of the budget deficit and economic growth, whilst the second concentrated on quantifying and examining the correlation between the budget deficit and economic growth in Iraq. The investigation culminated in several results and suggestions.

First Topic: Conceptual and Theoretical Framework of Budget Deficit and Economic Growth

I. The Concept of Fiscal Deficits

The fiscal deficit is an economic condition where total government expenditure surpasses generated revenue. When overheads surpass general receipts over a specific timeframe, typically a year, a deficit arises, which is a significant and prevalent economic concern in both emerging and wealthy nations. The fiscal deficit may arise from various macroeconomic factors, including inflation, interest rates, public debt, savings gap, investment, exchange rates, GDP growth rate, and current account deficit, with interrelated influences among these components. (Fouzdar, 2017:8).

The fiscal deficit is also defined as an imbalance in the structure of the economy as a result of the imbalance in the structure of the resource stream and production structure, which leads to the use of borrowing to finance public expenditure resulting in the further imbalance (Da 'as, 2019: 20). This notion posits that deficits in the budget result in a reduction of public savings, elevated real interest costs, the crowding out of private investment, and impediments to the creation of capital, all of which adversely impact economic growth and performance.

It is also defined as the difference between the total income and the total expenditure of the government in a given year, that is, the negative balance of the balance due to excess public expenditure over public revenues, which makes the government obliged to find other means to fill this deficit (Lamichhane, 2018: 12) This concept indicates that the fiscal deficit represents a gap between total government revenues and total consumption. This gap arises from elevated costs of commodities, leading to increased expenditure on revenues and necessitating borrowing to address the imbalance. The deficit is usually financed by borrowing from internal sources such as the central bank, commercial banks, non-banking sector enterprises or external sources of financing Financing this gap from abroad will lead to a balance between savings and investment, together with the current account deficit indicating that the financial balance (Nwanna & Nkiruka, 2019:29).

There are those who consider that the budget deficit may be the result of increased current expenditure on current revenues, which is known as the current deficit. Another type of deficit is known as the total deficit. This type of deficit focuses on gross public revenues and public expenditures. This type is based on the total deficit index and its ratio to GDP. financial deficit ", while the structural deficit refers to the state of persistent and continuous fiscal deficits for years in succession as well as systematic and temporary deficits and weaknesses, as well as the power deficit, which in turn refers to the State's assistance to others in the form of economic and social subsidies to achieve certain objectives (Al-Hadithi and Salem, 2010:181).

From the foregoing, it can be said that the fiscal deficit takes one of the first two forms that is structural due to excess expenditure on income. The second is temporary and is the result of one of the policies adopted for deficit events. Overall, reducing the fiscal deficit can be seen as one of the key pillars in achieving short-term stability and medium-term adjustment programmes, particularly in developing countries, specifically in Iraq.

II. Types of Fiscal Deficits

The budget deficit has many types, which can be represented by the following (Nasir and Kamal, 2019:248) and (Noal and Halimi, 2018:41)

1- **Basic Deficit:** This concept focuses on excluding interest on debts due to be paid, as this debt is not for the current period but for previous periods.
2- **Overall Deficit:** Also called traditional, this type of deficit measures the difference between total government expenditures including interest payments and government revenues including tax and non-tax revenues.
3- **Current Deficit:** This type is shown due to the increase in current expenditure over current income. This type is limited to the current general budget.
4- **Accumulated Deficit:** The budget deficit in times of recession is normal. When public expenditure increases on public revenues, the deficit occurs, so the accumulated deficit gets automatically and can be accepted to occur believably when the surplus occurs, the state can cover this deficit.
5- **Periodic Deficits:** This type of deficit is associated with the level of economic activity and the economic fluctuations affecting it. Low incomes may generate a fiscal deficit. This type of deficit is acceptable because it is time and can be addressed by increasing public revenues or by reducing public spending or both situations.
6- **Operating Deficit:** A deficit that measures general income and expenditure in inflation conditions, whereby the deficit is equal to public sector borrowing less interest paid to address inflation.
7- **Structural Deficit:** This type of deficit is caused by the unbalanced financial machinery of the State as a result of the inability of the national income to bear the burden of the State in its various forms, which indicates disruptions in the economic structure of the State.

III. Concept of Economic Growth

The notion of economic growth differs among academics and scholars, resulting in numerous definitions; yet, all these definitions convey a similar essence. In this context, we shall discuss concepts related to economic growth. Economic growth encompasses alterations in the manufacturing process during a specified duration, often one year. According to economic theory, growth denotes an augmentation in material production quantified in value, the national income growth rate, or GDP (Awad *et al.*, 2020:186).

The concept of economic growth also signalled an increase in GDP or national income, which contributes to an increase in the average per capita GDP or national income (Awad *et al.*, 2020 : 376) According to this concept, the concept of economic growth considers itself the concept of economic well-being as one of the most important economic indicators because it is the nearest indicator to give a real picture of economic performance, as well as the engine that improves the standard of living and further well-being.

While economic growth is defined as a quantitative variable expressed in the quantitative changes in the availability of productive capacities and the extent to which these capacities are exploited. The higher the utilization of these capacities, the greater the production of goods and services to meet individuals' needs for such goods and services (Dagher, 2018: 50), in any case the situation in which the production of goods and services in a state increases is called economic growth.

A sustainable quantitative rise in per capita national income or domestic product combined with a widening of the labor force, capital, consumption, and trade volume is another definition of economic growth. Therefore, economic growth is one of the most important macroeconomic objectives because it promotes the well-being of individuals through increased revenues (Al-Sreiti and Naja, 2013: 390) This concept indicates that economic growth is an important economic objective, pursued by States for the purpose of developing their economies which contributes to high levels of economic well-being, and economic growth can be measured through an increase in GDP.

Based on the foregoing, economic growth in the simplest form can be said to be the population's desire for an increase in national income or GDP over a period of time usually a year, resulting in an increase in their average per capita, provided that this increase is real rather than monetary, which contributes to the economic well-being of individuals.

IV. Types of Economic Growth

Economists use the factors that follow to differentiate between different forms of economic growth: (Poliduts & Kapkaev, 2015:64) and (Awad *et al.*, 2020:185)

- **Expanded Economic Growth:** This type of growth is that income growth is equivalent to the population growth rate, i.e. the per capita income is still.
- **Intensive Economic Growth:** This type of income growth exceeds population growth and individual income therefore rises, and it has to go from expanded growth to intensive growth, that is, society completely transforms and social conditions improve.
- **Potential Economic Growth:** The maximum growth rate of economic indicators given the available materials, as all equipment is utilized and optimized productivity is achieved through the qualification of human resources.
- **Balanced Growth:** Indicates growth achieved under traditional economic balances of balance of payments and general balance, with the absence of inflationary pressures.
- **Natural Growth:** This kind of growth has occurred historically through the transition from the feudal society to the community of capitalism, and this kind of growth occurs naturally without any economic scheme and without the intervention of the state, but rather stems from subjective forces.

- **Unstable Growth**: This growth occurs as a result of emergency temporary factors that are usually external as they quickly disappear. And with Zullan the factors go away with the growth that it created, that is, it does not have the character of consistency and continuity that it takes place under a rigid cultural and social structure. Which makes him unable to create a lot of accelerator and multiplier effects, or that would perpetuate the phenomenon of growth without development, which generally prevails in most developing countries, especially Arab countries.
- **Planned growth:** By creating a thorough planning procedure for the needs and finances of society, the government can expand its intervention. Effective follow-up and implementation in the planning process and at all levels are strongly related to the strength and efficacy of this pattern, as are the planners' skills and the realistic nature of the planned plans. Economic planning is a relatively new field of study. as well as developing efficient demand strategies and attaining full employment in line with Keynesian theory to deal with future crises at economic activity levels.

V. Intellectual Debate between Fiscal Deficits and Economic Growth

Although economic theory emphasizes the connection between spending cuts and economic growth, several opinions have been created regarding how fiscal deficits impact economic growth and the efficiency of factors of manufacturing. However, these opinions differ in a number of ways, including (Kasabeh & Alzoub, 2019:715) and (Genevieve, 2020:4)

1- **Keynesian Theory:** Fiscal deficits ought to be used as a way to improve the economy and as a suitable policy that allows politicians to improve social well-being, according to Keynesian macroeconomic theory.) In this view, governments deal with the factors of unemployment and production growth, and they additionally carry out policies that lower the gap between real unemployment and the normal level of unemployment. According to this idea, fiscal deficits are favorably correlated with the actual growth rate of the economy and negatively correlated with unemployment. In order to test this idea, the economic growth rate variable is added as variations in GDP growth. Consequently, the fluctuating coefficients demonstrate that fiscal policies need to be implemented in a manner that raises economic output.

2- **Ricardi Parity:** According to this hypothesis, the law of falling yields, capital accumulation, and population expansion all influence economic growth. Ricardo insisted on population reduction and placed a high value on population growth. In this way, he developed the hypothesis in the population, which Robert J. Barrow later supported. He proposed that current taxes or a different time arrangement would have an equal effect on total demand in place of the budget deficit, and that, in his opinion, spending with deficits was both good and evil. This theory is predicated on the rational expectation that decision-makers must draw lessons from the past and utilize all available data to construct a future model of the phenomenon. If taxes decline and borrowing causes fiscal deficits to rise, the government will be forced to raise taxes in the future to cover debt and interest. According to Ricardo, people have learned throughout the years that more government bonds, which are issued because taxes are cheaper, give people temporary income now, while more government debt forces people to save more money in order to pay higher taxes later. Consequently, greater public savings allow families and financial institutions to extend more credit. Therefore, the budget deficit policy's tax cuts have no effect on investment or consumption. From Ricardo's point of view, economic growth and other economic factors remain unchanged.

3- **Modern Classical School Theory:** According to the Neo-Classical School, budget shortfalls discourage investment because they push out the private sector, which slows growth. They also believed that when tax dollars fund government spending, the deficit will rise, which will raise consumption, which will lower savings and raise real interest rates to balance the capital market. This will push out private investment and slow growth. In another way, if rising private savings do not wholly offset falling government savings, then declining national savings may have a detrimental effect on economic growth.

Second Topic: Measuring and Analysing the Relationship between Iraq's Fiscal Deficit and Economic Growth for the Period 2004-2021

Based to the ARDL approach, the Eviews12 statistical program is used to quantify the impact of the fiscal deficit on Iraq's economic growth. The data used in the present research spans the years 2004–2021, as indicated in table.

Table 1: GDP and fiscal deficit expressed in net (deficit/surplus) of Iraq's general budget During the study period (1 million dinars)

Year	GDP	General budget deficit/surplus
2005	53235358.7	865248
2006	73533598.6	14127716
2007	95587954.8	10248868
2008	111455813.4	15568219

Year	GDP	General budget deficit/surplus
2009	157026061.6	20848808
2010	130643200.4	(380368)
2011	162064565.5	(613084)
2012	217327107.4	21352110
2013	254225490.7	14303855
2014	273587529.2	855927
2015	266332655.1	(18091968)
2016	194680971.8	(10809594)
2017	196924141.7	(24876290)
2018	221665708.5	1143889
2019	254870184.6	20768988
2020	276117000.0	(4156587)
2021	219774000.0	(12882754)

Source: Prepared by researchers based on CBI data, statistical website, various annual bulletins.
- Parentheses refer to negative reference.

Due to the short time range of variables utilized, quarterly annual data was converted using the following (Diz Approach) equations:

$X_1 = Z_{t-1} + 7.5/12(Z_t - Z_{t-1})$
$X_2 = Z_{t-1} + 10.5/12(Z_t - Z_{t-1})$
$X_3 = Z_t + 1.5/12(Z_{t+1} - Z_{t-1})$
$X_4 = Z_t + 4.5/12(Z_{t+1} - Z_{t-1})$

Here, the independent variable and the dependent variable must be identified within the standard economic model, since the independent variable of the fiscal deficit and the dependent variable of economic growth is represented by the GDP index and as in table (2):

Table 2: Study variables

Indication	variable	Description
fiscal deficit	X	Independent
GDP	Y	Independent

Source: Researchers' work

After identifying the independent variable and the follower can formulate the dual relationship of the model variables that take their form as follows:

$$Y = f(X)$$

The symbol (F) states that economic growth and through gross domestic product (Y) is a function of the fiscal deficit (X). Modern benchmarking tools will also be used to measure the fiscal deficit and its impact on Iraq's economic growth in the light of the analysis of time chains by measuring common integration according to the ARDL model. With a view to achieving more realistic results that reflect the nature of the relationship between the study's variables.

I. Static Test: First of all, we must ensure that the variables of the model are dormant, as follows:

- ✓ **Dickie-Fuller Extended Test (ADF)**: To verify the staticity of time chains tested according to Dickie-Fuller test and as indicated in the following table outputs:

Table 3: Dickie-Fuller Expanded Test (ADF)

Variable	Level			First Difference		
	Fixed limit only	Fixed limit and direction	No fixed limit and no general direction	Fixed limit only	Fixed limit and direction	No fixed limit and no general direction
	Prob	Prob	Prob	Prob	Prob	Prob
X	0.8124	0.2067	0.9030	0.0566	0.1991	0.0000
Y	0.0271	0.1017	0.0029	0.0026	0.0150	0.0001

Source: Researchers' preparation based on programme outputs (12 Eviews)

- ✓ **Flips Test - Peron (PP):** Until Time Series Staticity is Verified. Tested according to the Dickie-Fuller test and as indicated in the table outputs below:-

Table 4: Phelps Perone Test (PP)

Variable	Level			First difference		
	Fixed limit only	Fixed limit and direction	No fixed limit and no general direction	Fixed limit only	Fixed limit and direction	No fixed limit and no general direction
	Prob	Prob	Prob	Prob	Prob	Prob
X	**0.7518**	**0.4912**	**0.9376**	**0.0354**	**0.1439**	0.0068
Y	0.1188	0.2491	0.0177	0.0021	0.0132	0.0001

Source: Researchers' preparation based on programme outputs (12Eviews).

The fiscal deficit variable has stabilized at the first difference with a fixed limit and at the same difference but without a fixed limit and temporal direction, based on the static testing of the model variables mentioned above. According to the Prob value, which was less than 5%, we find that the economic growth variable is stable at the level and the first difference in the case of a fixed limit, as well as in the case of a fixed limit and direction, and also without them. This would explain the possibility of using a model to find the long-term ARDL balance between study variables.

II. Boundary Test for Joint Integration: According to the F-Bounds Test, which explains whether there is or is no common integration between Iraq's fiscal deficits and economic growth during the duration of the study, It turns out that through table (5) acceptance of the alternative hypothesis that there is a common complementarity, This is proven by F's calculated value of (8.544005) which is greater than the tabular value of the upper limit of the teacher itself. (I_1) and (4.16) and greater than the minimum I (I_0) Bound of (3.62) at a morale level of (5%) The economic interpretation of the existence of a common integration corresponds to economic theory, which explains the balance between the fiscal deficit and Iraq's economic growth. In order to discover the nature of this relationship in terms of being expulsive or reverse, other tests will be carried out to demonstrate that relationship in the short and long term.

Table 5: Test results of boundary tests between study variables

Test Statistic	**Value**	**K**
F-statistic	8.544005	1
Critical Value Bounds		
Significance	**I_0 Bound**	**I_1 Bound**
10%	3.02	3.51
5%	3.62	4.16
2.5%	4.18	4.79
1%	4.94	5.58

Source: Researchers' preparation based on programme outputs (12Eviews).

III. Results of short and long term flexibility assessment and error correction parameter (ECM) according to ARDL model): The short- and long-term capacities of estimated model parameters and error correction parameter should now be acquired to see the character of the relationship between model factors, as shown in table (6), after the boundary test has shown that there is a common integration of factors.

Table 6: Short-term and long-term assessment results among study variables

`Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
D(Y(-1))	0.432297	0.108664	3.978291	0.0002
D(Y(-2))	0.210128	0.113490	1.851509	0.0691
D (X)	0.072221	0.045622	1.583026	0.1188
D(X (-1))	0.035746	0.055661	0.642204	0.5232
D(X (-2))	0.044821	0.056326	0.795740	0.4294
D(X (-3))	0.081874	0.053771	1.522646	0.1332
CointEq(-1)	-0.238719	0.046372	-5.147902	0.0000
R2= 0.57 Adj.R2= 0.53				
Long Run Coefficients				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
X	-0.066444	0.029046	-2.287539	0.0258
C	13008893	6012643	2.163590	0.0346

Source: Researchers' preparation based on programme outputs (12 Eviews)

Table (6) indicates a long-term balance relationship, as shown by the table is a short-term error correction mechanism towards long-term balance, due to the morale of the error correction parameter (λ) in the error correction model (P= 0.0004) , as its value was negative and acceptable as less than the correct one at a morale level (0.05), which shows that (0.0004%) of economic growth imbalances (Y) can be corrected in the short term according to the error correction mechanism towards its long-term balanced values during the period (t) (for each of the year's chapters), this confirms and applies with the boundary test of joint integration that confirmed a long-term balance between study variables (X, Y) and that the parameter (X) is moral and negative reflecting the inverse relationship between the fiscal deficit and economic growth, i.e. that the fiscal deficit adversely affects economic growth and caused its decline in Iraq, in line with the logic of economic theory.

IV. ARDL Model Stabilization Tests: ARDL model structural stillbirth tests are necessary to confirm the accuracy and validity of its previous outputs. This is done

through both the cumulative total test of the following vapors, as well as the cumulative total test of the follow-up oblast boxes. If the curve path of both tests is within the range and extent of the critical boundary at the level (5%) Consequently, the hypothesis of nowhere that the model is stable will be accepted, and it is evident from formats (1) and (2) that both of these tests are within critical limits, so these tests demonstrate the durability of the short and long-term parameters of ARDL's study model.

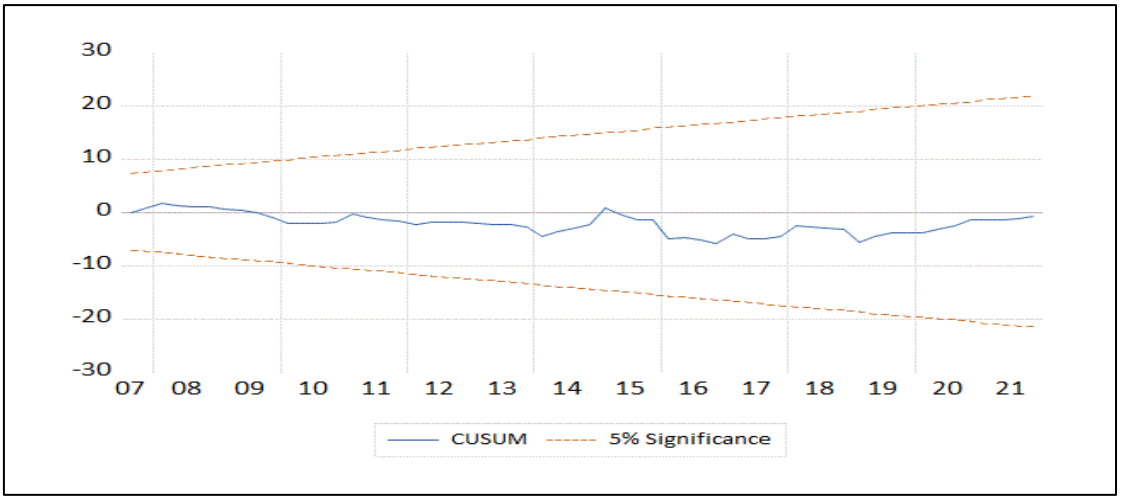

Figure 1: Cumulative gross
Source: Researchers' preparation based on programme outputs (12Eviews)

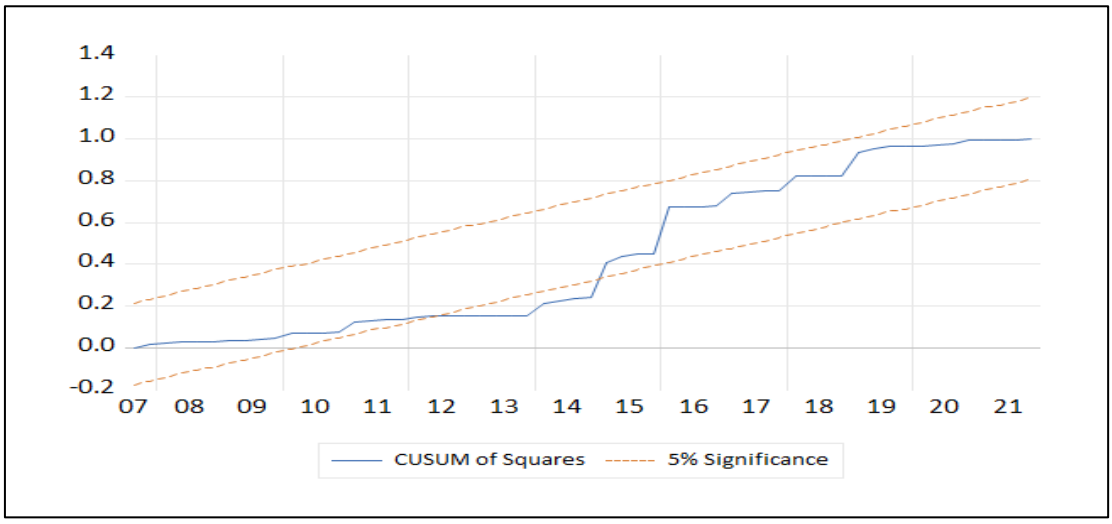

Figure 2: Cumulative SQBs
Source: Researchers' preparation based on programme outputs (12Eviews)

CONCLUSIONS

1- The study's findings show that Iraq's budget deficit and economic growth have a long-term adverse relationship. Thus, a study hypothesis is demonstrated.
2- Rising operational expenditures are one of the most important causes of Iraq's financial deficits during the study period due to weak strategic planning as well as widespread financial and administrative corruption in most of the State's joints.
3- Oil revenues dominate the general budget as the main source, making it vulnerable to external shocks to oil prices.
4- The study factors defined the relationship between the budget deficit and economic growth. This demonstrates how the fiscal imbalance has impacted Iraq's economic development. While the error repair milestone is negative and moral at a level (5%), the analysis demonstrates a long-term inverse balance between Iraq's budget deficit and economic growth.

RECOMMENDATIONS

1- The need to diversify the sources of government revenues, which contributes to mitigating the risks to the revenue of one sector in the composition of the general budget, which helps to address the fiscal deficit.
2- The need to operationalize the Fund's sovereign work as it contributes to economic growth rates and helps overcome shocks by investing financial

benefits and channelling them towards strategic investments that promote economic growth.

3- The general budget should be adapted to balance programmes and performance rather than traditional items that do not focus on objectives, to ensure that public maintenance reaches its entitlement rather than leaving it vulnerable to waste, extravagance and corruption, thereby enhancing financial efforts to support economic growth.

4- Reduce the phenomenon of financial and administrative corruption as it leads to the depletion of national wealth and the decline of national output growth which has played a role in the fiscal deficit through the smuggling of investment project funds outside the country. So this phenomenon needs to be addressed, because addressing it clearly contributes to increasing state revenues. This increases people's incomes and thus economic growth.

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Cite This Article: Muhannad Khalifa Obed, Muhannad Khamis Abed, Khalid Rokan Awad (2024). The Fiscal Deficit and its Impact on Economic Growth in Iraq's for the Period (2004-2021). *East African Scholars J Econ Bus Manag*, *7*(12), N/A.