

Iraq's Public Budget and the Challenges it faces

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The general budget in Iraq is the budget of items, which is a budget since 1921 and this type focuses on the basis of public expenditure and not the purpose of alimony. There is also no commitment to the timing of the preparation and approval of the general budget in accordance with the Financial Management Law and Public Debt No. 95 of 2004. The Financial Management Act of 2004 requires that the federal budget be prepared in accordance with the principles of transparency. However, it is noted that the budget is prepared and discussed without announcing the attached tables and without showing the government's debts for the two years preceding the preparation of the budget, as stated in section / 7/2 / c, of the Financial Management Law. Moreover, the scientific studies that could benefit the financial plan are not from the annual required.

Key words: *Budget, deficit, revenues.*

Introduction

Public budget: It is a detailed statement in which public revenues are met with public expenditures during the next fiscal year, being a financial plan for the plan for the coming fiscal year. The general budget for 2019 suffers from a deficit of 26.7 trillion Iraqi dinars in a plan to rely on the oil sector, which constitutes 88.8%, while non-oil revenues do not constitute only 11.2%, in addition to the non-adoption of real figures in the process of calculating the deficit, both in terms of calculation through the official exchange rate and non-real and the process of issuing oil by the Iraqi state or by the region.

Research Hypothesis

The research starts from the hypothesis that the budget is calculated according to the real figures. It will have the effect of eliminating the deficit.

Research Problem

The numbers of the budget and its approval still suffer from the lack of transparency of the real figures. This generates an exaggeration in showing the deficit on the one hand and the budget's dependence on oil profit significantly and the lack of basic revenue means such as the real sector of agriculture, industry, services and tourism on the other. The heavily burdened state resorted to unjustified loans in financing this deficit.

The General Budget and its Types

The deficit concept is consistent with the concept of the general budget, and it goes to the extent that public expenditures exceed public revenues (**Kamel Allawi Kazem**).

Several studies have defined the concept of budget deficit, including the definition (**Roseni: 1994: 1**).

The amount the government spends each year with more taxes and revenues than it receives.

Disability has Two Forms

- 1- Intentional disability: It is the action the government takes when its economy is in crisis. In a recession due to deteriorating aggregate demand and declining purchasing power, the government has three options. Either to increase spending, reduce taxes, or both. These cases lead to intentional disability (**Hussein Shenawa 2016: 13**).
- 2 - Unintentional Disability: A deficit that occurs automatically without the intervention of States in its occurrence and is divided into:

Supreme deficit, real deficit, periodic deficit, structural deficit, power deficits and weakness deficits.

Table 1: Setting the general budget for 2019 assuming the official exchange rate

Details	Amounts at the official exchange rate
Average oil price (Dollars)	56
Export rate (thousand barrels per day)	3880
Total exports (thousand barrels)	217280
Total oil revenues (thousand dollars)	79, 307,200
Total oil revenues (thousand dinars)	93,741,110,400
Non-oil revenues (thousand dinars)	11,828,576,470
Revenue (thousand dinars)	105,569,686,870
Expenditure (thousand dinars)	132,272,548,292
Disability (thousand dinars)	26, 702,861,422
Disability%	26.7%

Source: Prepared by the researcher on the basis of the general budget for Iraq 2019 data.

The general budget for 2019 was as follows:

- 1- The general budget for 2019 is an extension of the previous disappointing budgets and is like its predecessors in terms of the size and the large figures related to public expenditure and public revenues, but it is free from the relationship between its objectives and tools and its relationship with other economic policies.
- 2- Public revenues amounted to 105,569,686,870.
- 3- The estimated revenues were calculated on a dynamic basis. The price of the barrel (56) dollars per barrel and the export of 388,000 barrels per day per day, including 250,000 barrels per day (two hundred and fifty thousand barrels per day) based on the exchange rate (1182) dinars per dollar.
- 4- Oil revenues from public revenues constitute 93,741,110,400, 88.8%. While the non - oil revenues 11,828,576,470, or 11.2% of the volume of revenues. Which means it is a rural balance and par excellence.
- 5- Expenditures allocated to it amount of 132,272,548,292. Investment expenditures amounted to 34,564,493,466, or 26.1%. This is a low percentage compared to the operating expenses of 97,708,054,826, or 73.9%.
- 6- The total deficit planned for the federal budget was 26,702,861,422.
- 7- Investment allocations to the oil sector accounted for almost half of the investment allocations. While the percentage of the Ministry of Education 0.43%, education 0.18% and the Ministry of Health 0.97% indicators of human development of the country, which requires a review of investment allocations.
- 8- Inequitable distribution of the share of the provinces of the budget, where the highest proportions in the provinces of the Kurdistan region, came Sulaymaniyah 16% and Erbil 15% and Dohuk 10%, assumed by the number of population and needs. Nineveh province is only 1%, the second province after Baghdad in terms of population and affected by terrorism SISI.

- 9- Shameful and unjustified borrowing in financing the deficit means the government borrowed from 49 external and 25 internal bodies and there is no justification for these loans.
- 10- The low shares of the real sectors that will contribute to reducing the phenomenon of unemployment and mitigate growth and development, and this evidence of the deepening suffering and the deterioration of the Iraqi economy.
- 11- There is a problem in calculating some expenses and some revenues such as oil extraction expenses and there is no independent tabulation so that there is a clear on the expenses of companies participating in licensing rounds. Article I estimated the country's revenues from the export of Iraqi oil, but ignored the low oil revenues from sales to the domestic market, which is less than little more than 600 thousand barrels per day and under supervision sold below the budget price of (20) dollars. Its revenues are estimated at about (9) trillion dinars per year, but they do not appear explicitly in the budget and oil revenues are limited to export revenues only without reference to oil sold locally. In addition to the absence of any reference in the table of revenues attached to the budget on the revenues of natural gas (**Nabil Jaafar al-Moussawi**).
- 12- The external variable is still a decisive factor in the budget's numbers as the IMF's opinion is dominant in determining the price of oil, which has been modified more than once and imposing its conditions on the government. We find the budget austerity and the goal of reducing aggregate demand, which is an incentive for the advancement of the economy. However, the question arises whether there is a production base that will ensure effective demand reduction. Moreover, effective demand can be a catalyst for private sector development (**Kamel Allawi: 2017: 40**).

Ways to Reduce the Deficit in the Public Budget

- 1- Reconsidering the calculation of the exchange rate of the Iraqi dinar at the official rate of 1182 dinars per dollar. While the parallel foreign exchange rate is 1250 dinars per dollar and sometimes up to 1300 dinars per dollar. The exchange rate is one of the tools through which the apparent deficit can be reduced in large proportions. If the exchange rate of 1250 dinars per dollar is adopted, the deficit in the general budget would decrease from 26.7% to 21.3%. The adoption of the exchange rate parallel 1300 dinars per dollar to reduce the budget deficit to 17.0% as in Table (2).
- 2- The situation of the region's oil exports, amounting to 393 thousand barrels per day, according to the Ministry of Oil website, an increase of 143 thousand barrels per day from the budgeted figures of 250 thousand barrels. This increase will serve to increase budget revenues and reduce the deficit rate considered (**Adib Qasim: 2019**).

Table 2: Setting the general budget for 2019 assuming the parallel exchange rate 1250 and 1300:

Details	Amounts at the parallel exchange rate 1250	Amounts at the parallel exchange rate 1300
Average oil price (Dollars)	56	56
Export rate (thousand barrels per day)	3880	3880
Total exports (thousand barrels)	217280	217280
Total oil revenues (thousand dollars)	79,307,200	79,307,200
Total oil revenues (thousand dinars)	99,134	103,099,360
Non-oil revenues (thousand dinars)	11,828,576	11,828,576
Revenue (thousand dinars)	110,962,576	1,492,803,647
Expenditure (thousand dinars)	-132,272,548,292	-132,272,548,292
Disability (thousand dinars)	-21,431,972,292	-21,431,972,292
Disability%	21.3%	17.0%

Source: Prepared by the researcher on the basis of the general budget for Iraq 2019 data.

Table 3: Setting the general budget for 2019 in light of the region's real oil exports at the official price

Details	Amounts under the region's oil exports by 393 under the official price
Average oil price (Dollars)	56
Export rate (thousand barrels per day)	4,023
Total exports (thousand barrels)	1,468,395
Total oil revenues (thousand dollars)	8,223,012
Total oil revenues (thousand dinars)	9,719,600,184
Non-oil revenues (thousand dinars)	11,828,576,470
Revenue (thousand dinars)	10,899,757,763
Expenditure (thousand dinars)	-132,272,548,292
Disability (thousand dinars)	-23,277,970,662
Disability%	-23.27%

Source: Prepared by the researcher on the basis of the general budget for Iraq 2019 data.

Table 4: Setting the general budget for 2019 in light of the region's real oil exports at a parallel price

Details	Amounts in light of the region's oil exports by 393 at a price of 1300	Amounts in light of the region's oil exports by 393 at a price equivalent to 1250
Average oil price (Dollars)	56	56
Export rate (thousand barrels per day)	4,023	4,023
Total exports (thousand barrels)	1,468,395	1,468,395
Total oil revenues (thousand dollars)	8,223,012	8,223,012
Total oil revenues (thousand dinars)	106,899,156	10,278,765
Non-oil revenues (thousand dinars)	11,828,576,470	11,828,576,470
Revenue (thousand dinars)	118,727,732,470	11,461,622,647
Expenditure (thousand dinars)	-132,272,548,292	-132,272,548,292
Disability (thousand dinars)	-13,544,815,822	-17,656,321,822
Disability%	-13.5%	-17.6%

Source: Number of researcher based on the 2019 budget.

- 3- Article I estimated the country's revenues from the export of Iraqi oil, but ignored the oil revenues earned from sales to the local market, which is estimated at a little 600 thousand barrels per day, and if we assume that they are sold below the budget price of \$20, its revenues are estimated at about 11 trillion dinars per year. As in Iraq, they do not appear correctly in the budget, which limited oil revenues to export revenues only without reference to oil sold locally.
- 4- The absence of any reference in the table of revenues attached to the general budget of revenues of natural gas, noting that a large part of it is burned and is a loss of approximately 35 billion dollars in addition to the huge amounts of import from abroad, which weighs on the budget and works to increase the budget deficit.

Table 5: Setting the general budget for the year 2019 assuming the official exchange rate and sales revenues to the local market by (600.000) barrels at a price of \$ 36

Details	Amounts at the official rate without sales revenue to the local market	Amounts at official price plus sales revenue to local market	Amounts at a parallel price of 1300 plus sales revenue to the local market	Amounts at a parallel price of 12250 plus sales revenue to the local market
Average oil price (Dollars)	56	56	56	56
Export rate (thousand barrels per day)	3880	3880	3880	3880
Total exports (thousand barrels)	217,280	217,280	217,280	217,280
Total oil revenues (thousand dollars)	79,307,200	83,808,000	83,808,000	83,808,000
Total oil revenues (thousand dinars)	93,741,110,400	99,061,056	1,084,504	14,760
Non-oil revenues (thousand dinars)	11,828,576,470	11,828,576,470	11,828,576,470	11,828,576,470
Revenue (thousand dinars)	105,569,686,870	11,088,963,247	12,077,897,647	11,658,857,647
Expenditure (thousand dinars)	-132,272,548,292	-132,272,548,292	-132,272,548,292	-132,272,548,292
Disability (thousand dinars)	-26,702,861,422	-21,382,915,822	11,483,571,822	15,683,971,822
Disability%	-26.7%	-21.38%	11.5%	-15.68%

Source: Prepared by the researcher on the basis of the general budget for Iraq 2019 data.

- 5- Based on the above and assuming the parallel exchange rate (1250) or (1300) dinars per dollar and revenues from oil sales to the local market and by (600) thousand barrels per day at a price of 36 dollars and the reality of exporting the region's oil of 393 instead of 250 thousand budget exchange will be a surplus. Instead of the apparent budget deficit, 26.7% would be a budget surplus of 7.5% on the basis of the official rate of 1250 and a surplus of 12.6%.

Table 6: The general budget for the year 2019 and assuming the official exchange rate parallel in the region's oil problem by 393 thousand barrels and oil sales revenue to the local market by 600 thousand barrels per day at a price of \$ 36:

Details	Amounts and at the official price as without in the budget	Amounts and official price with the additions of the region and the local market	Amounts and the parallel price 1300 with additions	Amounts and exchange rate 1250 parallel with additions	Notes
Average oil price (Dollars)	56	56	56	56	
Export rate (thousand barrels per day)	3880	4,023	4,023	4,023	
Total exports (thousand barrels)	217280	1,468,395	1,468,395	1,468,395	
Total oil revenues (thousand dollars)	79307200	9,449,412 7,884,000 10,237,812	10,237,812	10,237,812	
Total oil revenues (thousand dinars)	93,741,110,400	12,101,093,784	133,091,556	12,797,265	
Non-oil revenues (thousand dinars)	11,828,576	11,828,576	11,828,576	11,828,576	
Revenue (thousand dinars)	10,556,686,870	13,283,951,384	144,920,132	139,801,226	
Expenditure (thousand dinars)	- 132272548292	- 132272548292	- 132272548292	- 132272548292	
Disability (thousand dinars)	-22873365557	0566963548	12647583708	7528677708	
Disability%	26.7%	0.56%	12.6%	7.5%	

Source: Prepared by the researcher on the basis of the general budget for Iraq 2019 data.

Conclusions and Recommendations

1. The 2019 budget came in the opposite direction of economic logic and developments in the global oil markets by raising the volume of public expenditures from 128 trillion dinars to 133 trillion dinars to become the second largest budget in Iraq after the 2013 budget, and

the second largest Arab budget after Saudi Arabia. It is also the second largest OPEC budget after Saudi Arabia.

2. The large budget deficit, financed mainly from borrowing, especially external, note that the debt of Iraq amounted to 1266 billion dollars of which 70 billion dollars for external debt and the remaining internally.

Indicators on external and internal borrowing:

1. External debt = 16609 trillion dinars.
2. Internal debt = 444 billion dinars.
3. Total debt = 17053 trillion dinars.
4. Interest payments = 4534 trillion dinars.
5. Debt service activity (original instalment + interest rate) = 10792 trillion dinars, of which 3178 trillion dinars external debt service activity.

As the Iraqi economy has gone through economic paradoxes are the results of the four decades that Iraq went through according to the perspective of political economy and was represented by:

- The emergence of a war consumption pattern associated with the requirements of war or economic sanctions, or both, which generated a renewed chain of regional intermediaries to provide goods and services, which led to linking financial warehouses to the foreign market.
- A consumption pattern linked to the budget form and its total dependence on oil based on providing justice at the expense of economic development.
- The efficient use of scarce and available resources and the equitable distribution of income for wealth and then its use for economic growth over time are among the most important objectives of the economic system, in which the basic role of the state in achieving these goals through its public budget tool, which requires reform of the public budget through the following:

- (A) Prepare and approve the budget in accordance with the principles of transparency, which shall show the real figures and be published in the communication and information sites with the appendices, including the debts of the Government for the previous two years.
- (B) Reconsidering the traditional budget pattern and shifting to other budgets such as budget, pension budget or budget control and performance.
- (C) The need to reconsider the almost complete dependence on the oil sector and the adoption of other sources such as taxes and others.
- (D) The adoption of a realistic exchange rate alternative to the use of parallel price entered a parallel market affect the economy and weaken the strength of the Iraqi dinar.



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