



# The Role of the Federal Budget in Iraq of Economic Development for the Period of 2005-2018

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The budget is a major tool for economic and social development. It is a basic tool in the development effort. It is a tool for planning and controlling the public expenditure. The budget thus reflects the strategic plan of the government, and is at the same time a means to control the state's fiscal policy, achieve its objectives, and implement its economic policy. The study found that the Iraqi government has not developed medium and long-term plans and strategies to implement its economic and service policy, which has hindered the development of the public sector in the country. The study recommends the importance of developing a national strategy to diversify revenues of non-oil federal financial budgets to increase economic growth, and the diversification of economic and service activities, to mitigate and address the problem of poverty and rampant unemployment in Iraq.

**Key words:** *Public budget, economical development, Public Revenue.*

## Introduction

The budget has become an effective tool of financial policy to be addressed by the government in achieving the objectives of economic and social policy, especially after the expanded role of the state to include all economic and social aspects. It is no longer important to maintain its financial and accounting balance (balance of the sides of revenue and expenditure). The concern now is to maintain a general balance on the economic and social level.

In the economies of the oil countries, including Iraq, government expenditure is the main engine of most economic sectors and generated employment. Even the private sector coexists indirectly on oil revenues by relying on the salaries of state employees, and contracting with government institutions, which generated economic distortions. The linking of the general



budget with the oil resource linked the fate of economic development to world oil prices, which are difficult to predict. Moreover, the continued dependence on oil revenues to cover public expenditures has weakened the diversification of the economic base in their countries.

### **Research Importance**

The importance of this research is based on the importance of the role played by financial budgets in developing the economic and social level.

### **Research Problem**

The search problem is:

1. Are the possibilities available in Iraq, which are the various economic resources other than oil, capable of reducing the budget deficit?
2. Is the imbalance in the exploitation of these resources and weak strategic planning in Iraq the reason for the low contribution to the public budget?

### **Research Hypothesis**

The research proceeds from the hypothesis that:

1. The weakness of strategic planning in Iraq reflected negatively on the low indicators of economic development and the continued deficit in the general budget.
2. Public budgets in Iraq did not contribute seriously to economic development.

### **Research Goal**

The research aims at identifying the contribution of the Iraqi federal financial budgets to economic development through several key indicators: total revenues, total expenditures, GDP, average per capita income, unemployment rate.

### **Research Methodology**

The researchers adopted the method of analytical approach and descriptive approach to identify the reality of the federal financial budgets in Iraq and the proposed treatments.

### **Structure of Research**

The research was divided into three axes. The first of which dealt with the conceptual framework of the financial budget and economic development. The second part concerned the analysis of the reality of the Iraqi federal financial budgets and the economic development in

Iraq. The third axis focused on setting procedures and solutions to improve the financial budget and economic development, and to raise its indicators to acceptable levels.

## **The First Axis: Theoretical Framework**

### ***First: The Financial Budget***

- 1- **Budget concept:** The development of the concept of the general budget, as it exceeded the traditional concept based on the principle of balance, but it is a financial tool used by States to infer the efficiency of the legislative, executive and regulatory bodies to reach economic stability and economic development. It is a plan aimed at coordinating and organizing economic activity within the limits of the material and human resources available over a period of time using the best means and methods connected to the specific goal. Previously defined as a detailed statement of estimates of state expenditures and revenues for a future period, usually a year that is prepared by the executive and approved by the legislature. (Yunus, 2004: 191)

It is also defined as an annual financial plan submitted to the legislative authority for approval, which includes estimates or forecasts of the state's expenditures and revenues for the coming year in order to achieve economic and social goals. (Obeidi, 2011:186)

From the above we conclude that the general budget is characterized by:

- A. A future plan that includes estimates of general revenues and expenses for the coming year.
- B. Aims to achieve economic and social goals.

- 2- **Classification of public budgets:** General budgets have undergone many developments and transformations, which has led to the emergence of many types, including: (Al-Harashi, 2014: 180)

- A. The traditional budget (budget items): Is one of the oldest budgets used, as it was seen as a means of protection and control, which requires the classification of public revenues and expenditures in a controlled manner.
- B. Budget of programs and performance: Is a modern method in the preparation of budgets. It aims to develop government administration and raise efficiency in the performance of its work, especially in the field of programming. It requires that those responsible for preparing these budgets are specialists in modern management science and cost accounting.
- C. Budget of planning and programming: Is an advanced stage in the development of the budget. Emerging in response to the shortcomings of the Budget of programs and performance, it aims to achieve quantified targets, as well as focus on alternative means to achieve the objectives that allow the comparison of costs with the results. It is a planning budget for the coming years that aims to correct the results of previous years by making the right decisions. (Radusk , 2010: 26)

- D. Zero budgets: It is an advanced stage that combines planning and control, and is designed to eliminate rising expenditure and inflationary effects. This type of budget also assumes that there are no expenses at first, while also taking into account the minimum cost limits. The most important features are that it:
- Encourages the suspension of ineffective programs and focuses on the reallocation of resources in the budget.
  - Enhances the skills of managers and managers at all levels and increases their contact with senior leaders and decision makers.
  - Arranges programs according to priorities and identifies alternative means of implementing the activity.
- E. Contractual budgets: It tends to be a contractual budget between the executive bodies and the relevant government agencies. One of the most important features of this budget is that it provides the root solutions to all the problems facing government departments, as well as linking the components of the budget to the plan of government development.

### ***Second: Economic Development***

Economic development is a fundamental objective that all countries seek to achieve. This requires a lot of effort to realize what is planned, so it depends on the ability of the society to exploit human and material resources, and moments of change in the economic and social structure to achieve an organized increase in real national income by improving its productive capacity. This is reflected in raising per capita income, improving its conditions, and achieving its welfare through changes in the structure of pro-poor income distribution (Ajima, 2007: 78 ( Economic development is a stage of change in societies or systems that aims to create structural transformations that can launch the productive capacity of the individual. This increases the average productivity of the individual in order to provide basic needs, as well as provide security for both the individual and society. Therefore, development means a comprehensive change in the economic, cultural, political and social aspects through Social justice for them.

### **The Second Axis: The Reality of the Iraqi Federal Budgets**

The Financial Budgets consist of total revenues and total expenditure and deficit, which will be dealt with as follows:

#### ***First: Revenues of Financial Budgets***

The Iraqi economy is characterized by the rental economy. Oil is the main source of public revenues, and the estimation of these revenues is linked to the estimation of the quantities expected to be exported from crude oil, as well as the estimates of world oil prices, which is characterized by price fluctuations.

The dominance of oil revenues on public revenues, and the low contribution of non-oil economic and service sectors, reflects the imbalance experienced by Iraqi budgets for many decades. Table (1) shows the size of the Iraqi budget imbalance as follows:

1. The total revenues planned for 2005 amounted to 26931 billion dinars, representing 93% of the total revenues. These revenues increased to 116364 billion dinars in the year 2005, by 98% of the total revenues. However, it fell in 2018 to 77160 billion dinars and 84% of the total revenues as a result of a number of measures taken by the Iraqi government to reduce dependence on oil revenues after 2014.
2. The total non-oil revenues in 2005 amounted to 2028 billion dinars and 7% of the total revenue, which increased in 2013 to 2933 billion dinars. Despite the increase in the amounts, the contribution of total revenues decreased by 2%.
3. The largest proportion of total revenues due to oil revenues ranged between 93% - 98% until 2013, while the proportion of non-oil revenues ranged between (2% -7%), which indicates that the Iraqi economy is one-sided. Non-oil revenues in 2018 rose to 14,843 billion dinars, (16% of total revenues). The reason for this increase was not due to the development of production of productive and service projects, but due to the increase in government fees and taxes. Agencies:
  - A. Increase the revenues generated by mobile phone companies by increasing the tax rate by 2%, as well as paying their fines.
  - B. Deduction of 3.8% of the salaries and allowances of all State employees to cover the salaries of the popular mobilization and the displaced.

**Table 1:** Total revenues of the federal general budgets for the period (2005 - 2018)  
(billion dinars)

Oil Revenue Ratio to Total Revenue	Total Revenue	Non - Oil Revenue	Oil Revenue	Year
93	28959	2028	26931	2005
93	45392	3105	42287	2006
98	42065	962	41103	2007
89	50775	5557	45218	2008
94	50408	3125	47283	2009
94	61735	3704	58031	2010
94	80935	4751	76184	2011
97	102327	2669	99658	2012
98	119297	2933	116364	2013
-	-	-	-	2014
84	94048	15399	78649	2015
85	81701	11928	69773	2016

86	79011	11061	67950	2017
84	91643	14483	77160	2018

**Source:**

- Republic of Iraq, Ministry of Finance, Federal General Budgets for the years 2005-2018
- No federal budget was issued for 2014

***Budget Deficit – Second***

The deficit is inherent to the Iraqi budget, and the concern is that the large deficit is planned to be financed by borrowing, especially from abroad. This will put Iraq in the trap of indebtedness that it has suffered for a long time. Following the table (2), we note that the total revenues do not cover the total expenditure for the duration of the study. The deficit planned 7022 billion dinars for the year 2005 until the planned deficit reached 21660 billion dinars in 2017. This increased the deficit by more than three times. The increase in deficit of planned budget was for the following reasons:

- Increased expenditure planned in the financial budget. The total expenditure in 2005 of 35981 billion dinars increased in 2017 to 100671 billion dinars, which multiplied by 2.8 times.
- Total planned revenues increased from 2895 billion dinars in 2005 to 79011 billion dinars in 2017, which multiplied by 2.7 times.

**Table 2:** Total revenues and total expenditures and deficit of the general budgets period (2005 - 2018) (billion dinars)

Disability to Revenues	Ratio Total	Disability	Total Expenditure	Total Revenues	Year
24		7022	35981	28959	2005
13		5571	50963	45392	2006
23		9663	51728	42065	2007
18		9086	59861	50775	2008
36		18756	69166	50408	2009
37		22922	84657	61735	2010
19		15728	96663	80935	2011
14		14796	117123	102327	2012
16		19128	138425	119297	2013
-		-	-	-	2014
27		25414	119462	94048	2015
30		24195	105896	81701	2016
27		21660	100671	79011	2017
14		12515	104158	91643	2018

**Source:**



- Republic of Iraq, Ministry of Finance, Federal Public Budgets for the years 2005-2018
- The fourth column was done by researchers.

### ***Third: Operating Expenses and Investment Expenses***

By tracking the financial budgets, the magnitude of the total expenditures (current and investment) that weighs the burden of the government stands out, specifically how the financing of these expenditures are dependent on a large proportion of oil revenues. We note from table (3) the following:

1. Total current expenditure 28431 billion dinars in 2005 rose to 79508 billion dinars in 2018, which doubled 2.8 times.
2. Total investment expenditure amounted to 7550 billion dinars in 2005 rose to 24650 billion dinars in 2018, which multiplied 3.3 times.
3. Investment expenditure is the key to the economic development of countries when they are best used. By tracking the financial budgets, we note that the percentage of investment expenditures ranged between (18% - 40%) during the study period. This percentage is significant. However, despite the increase in this percentage, it is noted that:
  - A. A large percentage of oil revenues are allocated to operating expenses. Investment expenditures are usually sacrificed when the government cannot obtain the expected revenues. Therefore, if there is a decline in planned and expected government revenues, the deficit will be met in the operational expenses of investment expenditures.
  - B. Most of the investment expenditure was not allocated to strategic projects but was allocated to marginal projects. Many of these projects have not been implemented because the companies that docked them were not solid companies.
  - C. There was no improvement in the infrastructure, including water, electricity, roads and transportation, despite the large amounts of funds allocated to them, due to the lack of serious follow-up of projects planned by local and central governments.
  - D. Since most countries allocate a high percentage for research and development, it was noted that, as far as we could tell, no portion of the investment expenditure was allocated to research and development.

**Table 3:** Current expenditure and investment expenditures of the federal general budgets for the period (2005 - 2018) billion dinars

Investment expenditure / total expenditure%	Operating expenses / Total expenditure %	Total expenditure	Investment expenditure	Current expenditure	Year
21	79	35981	7550	28431	2005
18	82	50963	9272	41691	2006
24	76	51728	12665	39063	2007
26	74	59861	15671	44190	2008
22	78	69166	15018	54148	2009
28	72	84657	23676	60981	2010
31	69	96663	30069	66594	2011
32	68	117123	37179	79954	2012
40	60	138425	55109	83316	2013
-	-	-	-	-	2014
34	66	119462	41214	78248	2015
24	76	105896	25746	80150	2016
25	75	100671	25454	75217	2017
24	76	104158	24650	79508	2018

**Source:** Republic of Iraq, Ministry of Finance, Federal General Budgets for the years (2003 – 2018).

### Third Axis: Economic Development under the Iraqi Federal Budget and Future Prospects

#### 1. Economic development under the Iraqi federal budget.

Table (4) shows that:

- The GDP increased from 29586 billion dinars in 2003 to 272596 billion dinars in 2013. Doubling (9) times due to the high oil prices as mentioned above, this led to an increase in average per capita income from 1123 thousand in 2003 to 7769 thousand dinars in 2013, which doubled 7 times in 2013, but fell to 203869 billion dinars in 2016, due to the decline in oil prices globally. This led to a decline in average per capita income to 5636 thousand dinars for the same year, but it remains higher than 2003 by 5 times.
- Unemployment and poverty: despite the rise in gross domestic product (9) times for the period 2003 to 2013, it is noted that unemployment has not been addressed seriously. The rate dropped from 28% in 2003 to 11% in 2013 due declining employment in the government sector, especially in the Ministrie of Defence and Interior as a result of the unstable security situation. The unemployment rate returned to 15.2% in 2015 due to a decrease in oil revenue, which came as a result of a decline in international oil prices in mid-2014. This led to the withdrawal of the state from government employment. Another

factor was the government's disinterest in not only encouraging the private sector to absorb the unemployed, especially graduates, but also in taking advantage of the investment expenditures during the period prior to the diversification of budget revenues. Those costs which were employed for marginal projects did not lead to an increase in GDP.

- Average per capita income: Although the average per capita income has doubled from 5-7 times during the study period, there is a difference in living standards. The rich class in Iraq, which constitutes 20% of its society, accounts for 44% of the total income of Iraqi families, which is more than (6) times what poor families receive. (National Human Development Report, 2008: 44)

**Table 4:** Gross domestic product, average per capita income and unemployment rate in Iraq for the period (2003 – 2016)

Unemployment rate %	Average per capita income (Thousand dinars)	Gross Domestic Product Billion dinars)(	Year
28	1123	29586	2003
27	1962	53235	2004
17.9	2630	73533	2005
17.5	3318	95588	2006
17.5	3845	111504	2007
15.4	4880	155636	3008
15.5	4422	139330	2009
15.2	5293	171957	2010
15.1	6338	211310	2011
11.9	7170	245186	2012
11	7769	272596	2013
12.7	7301	262841	2014
15.2	5190	191715	2015
12	5636	203869	2016

**Source:**

-Central Bank of Iraq, Directorate General of Statistics and Research, the Iraqi economic report, years and different pages.

-Central Bank of Iraq, General Directorate of Statistics and Research, annual statistical releases, years and different pages.

-Third Column: Arab Monetary Fund, Unified Arab Economic Report, Abu Dhabi, various years and pages.

2. Strengths and Imbalances in the Budgets of the Iraqi Federal Public and Ways of Address:

A - The strengths and imbalances in the federal financial budgets of Iraq:

The budget is no longer just legislation to legitimize expenditure and revenue in its traditional terms. It has evolved as a concept and in its content over time. It has become an annual plan that reflects medium- and long-term plans and strategies aimed at economic, social and development goals. Its aim is to achieve progress and growth in the economic sectors and to develop the reality of public services and infrastructure through the optimal distribution and effective use of material and human resources as prescribed by the financial strategy of federal agencies. Observations on Iraqi public budgets can be summarized as follows:

- (1) . There are no strength points in the budgets under study. All were prepared with the same pattern of estimated figures in income and expenditure. They differ in numbers and ratios only, and can be described as distributive, and as not leading to qualitative change in the structure of the Iraqi economy. In light of the deep structural imbalances suffered by the Iraqi economy as a result of mismanagement, war, and the inability of the government to secure an alternative to oil, Iraqi federal financial budgets are prepared in a traditional way by estimating revenues and estimating expenditures in the process of budgeting.
- (2). The Iraqi budget raises a lot of controversy and a number of reservations regarding the feasibility of its current strategy, specifically in relation to expenditure. More than a quarter are allocated to the investment budget. And yet, it did not address the structural imbalances suffered by the Iraqi economy, nor was it directed to encourage productive activities and service. This has created problems related to the sustainability of development and Iraq's ability to generate jobs capable of increasing the national income and reduce the unemployment rate.

#### B- Ways to improve the level of financial budgets

Current and future governments must take measures that will guide and regulate economic and social development through the formulation of future goals. In accordance with the models and options capable of creating both opportunities and an environment suitable for the advancement of economic sectors, these measures must be convertible into projects and programs that make optimal use of resources and properly rationalize their consumption of them. Therefore, governments should take measures, including:

- (1). Before the functions and tasks, and then the major programs, the Iraqi government must approve the budgets of programs and performance as they are translated into the budgets of the administrative units.
- (2). Provided that there is accurate and comprehensive knowledge of Iraq's material and human resources, an understanding of how they may be effectively utilized, as well as a clear sense of Iraq's problems in various economic, social, cultural, and educational fields, the Iraqi government must develop a comprehensive and sustainable development strategy.
- (3). Increase the non-oil revenues of the Iraqi financial budgets by giving a distinctive and effective role to the public sector in establishing the importance of manufacturing industries that are difficult for the private sector to promote, as well giving greater attention to infrastructure, including the water and electricity sector. This will also give an important

and planned role to the private sector in the overall economic process, so as to complement the role of the public sector.

- (4). Develop a monetary and monetary policy aimed at activating and implementing the economic and social development projects determined by the government's short- and long-term plan.

## **Conclusions and Recommendations**

### ***Conclusions***

1. There was an absence of forward vision in the federal financial budgets of Iraq on the way to achieving the kind of economic reform sought by the government. It missed the financial budgets, quantitative indicators of growth rates, unemployment and public debt levels, and did not explain the fiscal policy challenges in Iraq.
2. Despite the existence of many different resources and industries in the public sector, the total dependence on oil revenues highlights the tremendous amount of work needed to diversify the economic base, and the present failure to properly invest in non-oil budget revenues.
3. The federal budgets did not take into account the treatment of poverty and unemployment, as the investment expenditures were not purposefully diversified and directed towards the economic and service sectors. More than one quarter of the government expenditure is investment expenditure.
4. Federal financial budgets have planned deficits ranging from 13% to 37% during the study period, but some budgets end with surpluses. This indicates the lack of clarity in the vision of previous governments in setting budgets.

### **Recommendations**

1. Develop a national strategy to diversify the revenues of non-oil federal financial budgets that will increase economic growth and diversify economic and service activities. This will alleviate and address the problem of poverty and unemployment prevailing in Iraq by encouraging the economic and service sectors, such as the industrial and agricultural sectors, and by developing the tourism sector.
2. In addition to the above paragraph, other natural resources found in Iraq in large quantities, such as phosphates, sulphur, minerals and other natural resources, should be invested in purposefully.
3. Enact legislation and develop laws to combat corruption, open the door to domestic and foreign investment, and the participation of ministries governorates with the private sector to generate new jobs.



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